

YOURS

OUR COMMITMENT YOUR SUCCESS

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Registered Name:
NATIONAL DEVELOPMENT BANK PLC

Trade Name:



Company Registration No.:

PQ 27

Rating AA-(LKA) / Stable Outlook

by Fitch Ratings Lanka Ltd.



SCAN TO VIEW

<http://ndbbank2015.annualreports.lk>

**THE BEST BANK IN SRI LANKA – 2015,
AS JUDGED BY THE PRESTIGIOUS
GLOBAL FINANCE MAGAZINE OF USA**



NDB is honoured and proud to be the recipient of this prestigious award.

It is yet another affirmation of the fruits of Our Commitment to Your Success.

We humbly thank all our Customers, Shareholders, the Regulators, Correspondent Banks
and everyone who helped us achieve this honour.

**NDB BANK REVAMPED ITS VISION AND
MISSION STATEMENTS TO BE IN PAR WITH THE BANK'S
STRATEGIC DIRECTION AND ALSO TO SERVE ITS
STAKEHOLDERS BETTER.**

OUR VISION

To be the driving force for a financially
empowered Sri Lanka

OUR MISSION

To be the catalyst in the financial services industry
by creating superior shareholder value and contributing
to the national development through the
empowerment of individuals with innovative financial
solutions delivered by an inspired and dedicated
team committed to excellence.

OUR VALUES

Integrity
Excellence
Creativity
Accountability
Sincerity

ABOUT THIS REPORT

Report Structure

This Annual Report 2015 of National Development Bank PLC ('Bank') is an integrated report, similar in format to the one we had adopted in the previous year. As an integrated report, it communicates coherently the relationships and interdependence of the many aspects of our business – such as governance, risk, strategy, performance and prospects – in the context of creating value over time.

In preparing this report we have drawn on concepts, principles and guidance given in the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines G4 (www.globalreporting.org), The International Integrated Reporting Framework (www.theiirc.org) and the Smart Integrated Reporting Methodology™. The Bank also referred 'A prepare's guide to Integrated Corporate Reporting' issued by The Institute of Chartered Accountants of Sri Lanka, as necessary.

Effective and productive capital allocation of NDB to create value over time for the Bank and its stakeholders is well-explained via the adopted integrated reporting methodology.

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.

Compliance

The Bank's Annual Report 2015 covers the 12-month period from 1 January to 31 December 2015 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.

There are no significant changes from previous reporting periods in the scope and aspect boundaries. The most recent previous Annual Report, dated 13 February 2015, covered the 12-month period ended 31 December 2014. 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 128 to 174), Chief Executive Officer's and the Group Chief Financial Officer's Responsibility Statement (page 209) as well as Independent Assurance Report (page 208) and Independent Auditors' Report (page 296).

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.

Queries

We welcome your comments or questions on this Report. You may contact Dhanan Senathirajah, Vice-President – Finance & Planning at the Head Office of National Development Bank PLC (page 438).



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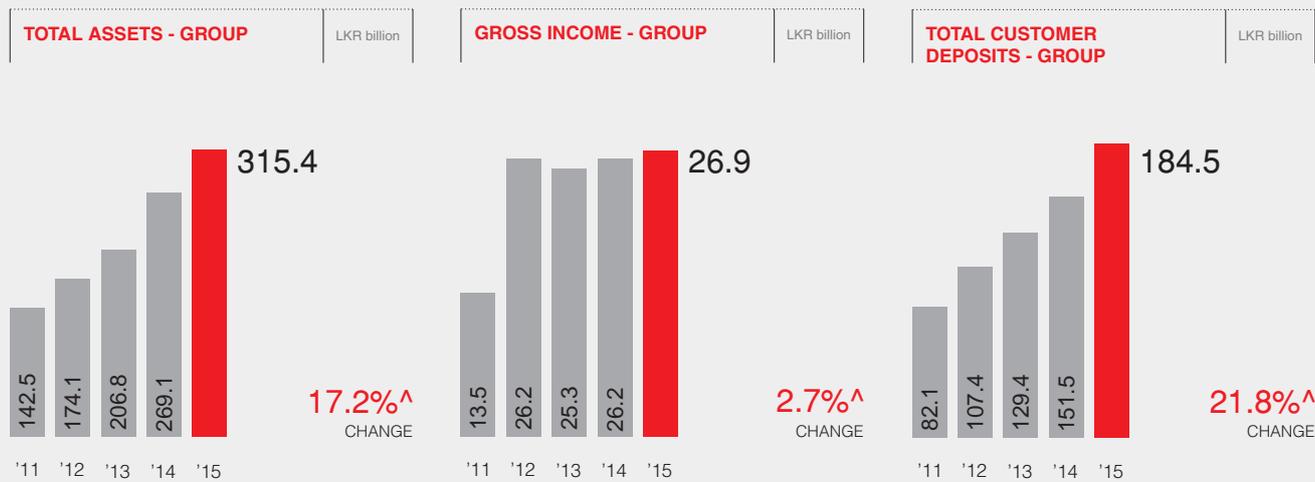
FINANCIAL HIGHLIGHTS

| | BANK | | | GROUP | | |
|---|------------------|------------------|-------------|------------------|------------------|-------------|
| | 2015 LKR '000 | 2014 LKR '000 | Change % | 2015 LKR '000 | 2014 LKR '000 | Change % |
| Operating results for the year | | | | | | |
| Gross income | 25,855,311 | 24,961,945 | 4 | 26,915,863 | 26,204,626 | 3 |
| Operating profit before tax on financial services | 5,447,875 | 5,786,773 | (6) | 5,715,283 | 6,526,732 | (12) |
| Taxation | 1,936,444 | 2,368,709 | (18) | 2,123,006 | 2,378,034 | (11) |
| Profit after tax | 3,511,431 | 3,418,064 | 3 | 3,670,095 | 4,245,972 | (14) |
| Profit attributable to shareholders | 3,511,431 | 3,418,064 | 3 | 3,542,040 | 4,133,932 | (14) |
| Gross dividends for the year | 1,816,841 | 1,814,865 | – | 1,816,841 | 1,814,865 | – |
| Revenue to Government | 2,537,372 | 2,266,237 | 12 | 2,826,548 | 2,297,111 | 23 |
| Assets and liabilities | | | | | | |
| Customer deposits | 184,933,230 | 151,823,715 | 22 | 184,152,280 | 151,485,201 | 22 |
| Loans and receivables | 209,704,701 | 175,486,347 | 19 | 209,768,193 | 175,547,050 | 19 |
| Total assets | 309,157,605 | 262,729,146 | 18 | 315,353,733 | 269,129,605 | 17 |
| Total liabilities | 286,456,747 | 240,490,954 | 19 | 285,953,016 | 240,331,186 | 19 |
| Shareholders' funds | 22,700,858 | 22,238,192 | 2 | 28,382,204 | 27,875,773 | 2 |
| Profitability (%) | | | | | | |
| Net interest margin | 2.63 | 3.31 | (21) | 2.67 | 3.33 | (20) |
| Non-performing loans ratio | 2.43 | 2.51 | (3) | 2.43 | 2.51 | (3) |
| Return on assets | 1.23 | 1.47 | (16) | 1.21 | 1.74 | (30) |
| Return on equity | 15.63 | 16.33 | (4) | 12.59 | 15.78 | (20) |
| Total leverage (times) | 13.62 | 11.81 | 15 | 11.11 | 9.65 | 15 |
| Investor information (LKR) | | | | | | |
| Net asset value per share | 137.44 | 134.70 | 2 | 172.35 | 169.35 | 2 |
| Market value per share - as at 31 December | 194.10 | 250.00 | (22) | NA | NA | – |
| Earnings per share - basic | 21.26 | 20.72 | 3 | 21.51 | 25.14 | (14) |
| Earnings per share - diluted | 21.26 | 20.70 | 3 | 21.51 | 25.11 | (14) |
| Price earnings (times) | 9.13 | 12.07 | (24) | NA | NA | – |
| Dividend per share | 11.00 | 11.00 | – | NA | NA | – |
| Dividend cover (times) | 1.93 | 1.88 | 3 | NA | NA | – |
| Dividend yield (%) | 5.67 | 4.40 | 29 | NA | NA | – |
| Market capitalisation (LKR '000) | 32,058,981 | 41,273,481 | (22) | NA | NA | – |
| Regulatory ratios (%) | | | | | | |
| Capital adequacy ratio | | | | | | |
| Tier I – (minimum ratio of 5%) | 8.51 | 10.09 | (16) | 11.07 | 12.92 | (14) |
| Tier I & II – (minimum ratio of 10%) | 12.59 | 14.68 | (14) | 15.25 | 17.55 | (13) |
| Statutory liquid asset ratio | | | | | | |
| DBU | 22.24 | 23.85 | (7) | – | – | – |
| FCBU | 24.91 | 25.18 | (1) | – | – | – |

FINANCIAL GOALS AND ACHIEVEMENTS

| Financial indicators - Bank | Goals | Achievements | | | | |
|---|-----------|--------------|-------|--------|-------|-------|
| | | 2015 | 2014* | 2013* | 2012 | 2011 |
| Return on assets (%) | Over 1.5% | 1.23 | 1.47 | 1.14 | 1.94 | 1.50 |
| Return on equity (%) | Over 17% | 15.63 | 16.33 | 14.38 | 21.17 | 15.01 |
| Growth in total operating income (%) | Over 20% | 4.69 | 19.00 | 11.55 | 31.00 | 15.45 |
| Growth in profit after taxation (%) | Over 20% | 2.73 | 64.00 | -29.00 | 60.00 | 31.52 |
| Growth in total assets (%) | Over 20% | 17.67 | 31.00 | 23.00 | 18.00 | 31.61 |
| Dividend per share (LKR) | Over 10 | 11.00 | 11.00 | 10.00 | 15.00 | 7.50 |
| Capital adequacy ratios: | | | | | | |
| Tier I (%) - Minimum requirement 5% | Over 8% | 8.51 | 10.09 | 12.05 | 11.14 | 9.98 |
| Tier I & II (%) - Minimum requirement 10% | Over 13% | 12.59 | 14.68 | 17.87 | 12.38 | 11.26 |

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



Operational Highlights

- OUR COMMITMENT. YOUR SUCCESS**
 A fresh tag-line of Our Commitment. Your Success. An affirmation of our pledge for your betterment.
- VISION, MISSION, VALUES**
 Revamping of our vision, mission and corporate values, setting the Bank on a fresh direction.
- LKR 300 BILLION**
 Total Assets base exceeded LKR 300 billion mark.
- 3,832 PERSONS**
 Screened for Chronic Kidney Disease in Anuradhapura, our commitment for your well-being.
- 10 NEW BRANCHES**
 Branch network reached 93 with 10 new branches added during the year.
- 32.4 TRAINING**
 Hours per employee for the year 2015.
- INVESTOR RELATIONS WEB PAGE**
 Revamped and launched the investor relations web page to ensure better connectivity with our investors.
- 2,000 TREES**
 Planted along the Deduru Oya reservoir with employee volunteerism, our commitment for a greener planet.
- LKR 2.8 BILLION**
 Taxes paid to the Government.

LETTER FROM THE CHAIRMAN

WE ARE MOVING AWAY FROM OUR OLD POSITIONING TOWARDS ONE THAT REFLECTS OUR COUNTRY'S RISING PROFILE: BECOMING 'THE DRIVING FORCE FOR A FINANCIALLY EMPOWERED SRI LANKA'

Our strategic planning for the future will reflect the expectations of the Government, which wishes to see the national banking sector play a catalytic role in economic and institutional growth.

Ladies and Gentlemen,

It is my pleasure to address this letter to you as the Chairman of our Company, National Development Bank PLC. 'NDB' is an established group with a strong and highly successful corporate and business culture, which I have been absorbing over the past months. I am deeply impressed by what the Bank has achieved in the years of its service to the Sri Lankan financial sector, and was not at all surprised when *Global Finance*, a prestigious American magazine that covers our industry, named us 'The Best Bank in Sri Lanka - 2015'. I am honoured and elated, as are all of us at NDB Bank, by this news.

A Difficult Year for Bankers

Such recognition was achieved in a year that presented bankers with multiple challenges. Data from the world's key economies confirm that the era of easy money is over. Gradual slowdown was seen in China, where worried investors set off market fluctuations that were picked up in

the trading capitals of the world. America, still enjoying modest growth, was troubled by social and political divisions and several extreme weather events. The first upward adjustment to the federal fund rates after nearly a decade in tandem with the slowdown in the economies of emerging markets, is likely to exacerbate a flight of capital to a safer haven.

Europe struggled with near-flat growth and a vast, destabilizing influx of migrants from the Middle East, where the effects of the confrontation between the rising power of IS and its enemies have created turmoil and misery. Japan recently set its interbank lending rate to negative in an attempt to stave off deflation. Factors such as these combined to create a difficult international financial environment.

At home, Presidential and Parliamentary Elections delivered a new political order and the inevitable realignment of power and influence. People at all levels of society –

including the financial and business communities – are still finding their place. This, too, had its economic consequences.

The Government has done well to manage the economy under these conditions. Inflation has remained in the low single digits. The interest rates also remained in the low single digits throughout the year to support growth. However, to counter excessive liquidity in domestic money markets (an issue in late 2015), the statutory reserve ratio on rupee deposits was raised from 6% to 7.5%, effective from January 2016. The managed exchange-rate regime instituted by the previous administration was replaced by a free float, in September 2015, with immediate consequences for the value of the Rupee.

GDP growth was relatively modest in comparison to figures posted by the Central Bank of Sri Lanka in recent years; and much of the growth, as is often the case, from the services



sector. The banking segment saw a solid increase of 16% in total assets, exceeding LKR 8 trillion – given the difficulties of the year, a very creditable performance.

Financial Performance

Constrained interest margins had a direct effect on the Bank's net interest income, which exhibited negative growth this year. We compensated this effect by focusing on fee-based income, with aggressive cross-selling of fee-based products to borrowers. Revaluation gains on foreign-currency-based assets and investments (a result of the new exchange-rate regime) also helped mitigate the decline in net interest income.

The loans and receivables portfolio of the Bank grew by 19%, while customer deposits increased by 22%, supporting an overall 18% growth in total assets that comfortably crossed the LKR 300 billion mark. However, the squeeze on margins took its toll on profitability. The Bank recorded a profit before tax of LKR 5.45 billion, a decrease of 6% compared with the LKR 5.79 billion of the previous financial year, but reversed the dip with a 3% increase in profit after tax that reached LKR 3.51 billion during the year.

Organic Growth and Financial Inclusion

The Bank and the NDB Group maintained steady organic growth over the year. The mainstream financial services provided by the Bank, together with the financial services offered by other Group companies, continued to be well patronized and profitable. The Bank is now accessible

to customers at 98 branches (covering 22 out of 25 administrative districts) as well as at 106 on and off-site ATMs. The branch network stood at 93, with 101 ATM touch points by the end of 2015. Eight off-site ATMs were added this year. We also strengthened our presence in Bangladesh, where NDB Capital Ltd. offers merchant banking services to entrepreneurs and businesses.

Multiplying customer access points is one way in which we move towards the goal of financial inclusion for all Sri Lankans. In 2015, we simplified our savings accounts by grouping existing savings products into two categories, Easy Saver and Big Saver. Our *Ithuru Karana Maga* marketing campaign and dozens of grassroots financial literacy programmes conducted around the country also helped drive financial inclusion via the savings habit.

Financial inclusion also means making financial resources available to small enterprises and low-income households. Here, our tried-and-tested SME approach continued to yield results. Meanwhile, microfinance initiatives we launched during the year provided farmers in the Mahaweli B Zone with funds to buy seed paddy and supported small entrepreneurs – for example, cultivators of ornamental flora, mushroom farmers and tea smallholders – in other parts of the country.

In 2014, NDB Bank and DFCC Bank issued a memorandum of understanding to mark the commencement of merger negotiations. These discussions were terminated by mutual agreement last year and the accompanying MoU was abrogated.

Brand Building, Corporate Governance and Reputation Management

For years, the Bank has positioned itself, brand-wise, as 'a world-class Sri Lankan'. This slogan was appropriate for a time when many perceived a gap between standards of capability and competence in Sri Lanka and the rest of the world. By and large, this perception is now history. Accordingly, we are moving away from our old positioning towards one that reflects our country's rising profile: becoming 'the driving force for a financially empowered Sri Lanka'. This is reflected in our new tagline: 'Our Commitment. Your Success.'

Our integrated approach to corporate reporting, which began with our 2013 Annual Report, continues with the present one. The Report thus integrates the financial and non-financial aspects of our business strategy, performance and outcomes in the context of sustainable value creation and capital formation.

The Bank augmented its credentials as a model corporate citizen with a number of targeted strategic, operational and philanthropic initiatives in public education, entrepreneurship support, public health, well-being of children and environmental protection. These were carried out with wholehearted participation from our employees.

Validating these improvements to our public profile, we reinforced corporate governance and internal oversight by appointing more Independent Directors to the Bank's Board of Directors, strengthening our risk management framework as well as our disclosure,

valuation, stress testing and other policies and taking steps to improve risk management skills and awareness through training programmes and the circulation of an internal e-newsletter, NDB Risk Analyst.

Looking Forward

The role of financial institutions is changing as Sri Lanka moves up in the international economic and social league tables. While seeding growth and social integration are still important, organizations must also provide support for individuals and groups that have moved beyond the nursery level but have not yet acquired the capabilities to allow them to compete successfully in the free-for-all of the market.

Meanwhile, the need for capital to finance our expanding business operations will lead to several key moves under our capital planning policy in the near future. An area in which substantial changes are due in 2016 is technology, which will shortly revolutionize the NDB banking experience.

Our strategic planning for the future will reflect the expectations of the Government, which wishes to see the national banking sector play a catalytic role in economic and institutional growth.

Conclusion

Many people – far more than can be mentioned here – are due the credit for what the Bank and NDB Group have achieved in the year under review. I extend my grateful thanks to them all – our customers, employees and partners, as well as the staff of the

Central Bank of Sri Lanka and the regulatory authorities – although I cannot thank them individually.

One name, however, must be mentioned: that of B. Asela Jayasinghe, lately Senior Security Officer of Sharp Security Services, who lost his life in the line of duty at our Kekirawa branch. Together with the members of the Board, I express my gratitude and condolences to his family and friends.

I also extend my thanks and bid farewell to my predecessor, Sunil Wijesinha, and three other Board members, Chandra Ekanayake, Anura Siriwardena and Sujeewa Rajapakse who stepped down in 2015. I welcome my fellow Board members Anula Harasgama, Dinal Phillips and Kavan Ratnayaka who joined the Board during the year. I conclude this letter by wishing all NDB Bank stakeholders prosperity and success in 2016.



N G Wickremeratne
Chairman

12 February 2016

CHIEF EXECUTIVE OFFICER'S REVIEW

OUR CONCERNS ARE NATIONAL, BUT THEY ARE BASED IN EVERY CASE ON THE NEEDS AND ASPIRATIONS OF INDIVIDUALS.

Where once we strove to present ourselves as 'a world-class Sri Lankan', we now affirm the belief that every Sri Lankan has the capacity, and the right, to be world-class.

Dear Friends,

The year under review was by no means an easy one for the Bank. The operating environment, events and their implications are discussed by the Chairman in his letter to shareholders. In my review, I will go into a little more detail concerning their consequences for the Bank, as well as discuss some of the other important developments that occurred in the financial year just ended.

Coping with the Margin Squeeze

The margin squeeze of 2015 affected us more than it did many of our peers. The sharp decline in the Bank's net interest margin from 3.31% to 2.63% during the year more than negated the stellar 19% growth in our loans and receivables portfolio; the overall result being a 6% decline in profit before tax, but which was redeemed through a modest 3% increase in profit after tax.

Let's first look at the underlying factors. With interest rates in the single-digit

range and likely to stay there for some time, our interest earnings have come under considerable pressure. The Bank's business model has steadily embraced retail and SME banking over the past decade. By the end of the year, retail and SME accounted for 39% of the total loan book, and provides promising potential to further our involvement in these sectors. In this regard, we have not followed the general trend of the commercial banking industry, which has been to focus increasingly on 'high street' or consumer banking where interest rates are higher. On the deposit side, too, our savings and current account deposit base is relatively small due to a historical concentration on fixed deposits targeted at investors who value security rather than quick returns. What is noteworthy of our deposit base is that, our move to accept public deposits in the capacity of a commercial banking institution is just a decade old, as opposed to many of our mature peers. The encouraging factor about the relatively low current

and savings account (CASA) base is that, this too offers us considerable potential for the future, in driving more favourable interest margins.

With net interest income coming under pressure we considered the options. We ruled out getting into a price war with better established competitors. Instead, it was decided to address the margin squeeze using a three-pronged strategy:

- Bring down the cost of funding by increasing the CASA portfolios until they are proportionally on par with those of our peers
- Aggressively pursue growth in fee-based services
- Manage overheads more effectively through better procurement.

Progress was seen on all three fronts during the course of the year. Between January and December, contributions to total operating income from retail and SME banking grew from 36% to 40%. We plan to increase this further up to 45% during 2016, with an



ultimate target of 50% of total operating income sourced from retail and SME banking operations. However, the Bank will move with caution in this area, maintaining the balance between reward and risk.

Fee based income, too, showed a proportionate increase as the year wore on, from around 20% of net interest income to almost 27% in December. Areas of focus were trade finance, inward remittance handling (an important growth area in retail services) and bancassurance, from which income is earned in the form of insurance fees.

Looking at opportunities for reducing overheads, we found that the Bank had little options at hand. Although the year saw a 14% increase in operating expenses, much of this was due to network expansion and also a one-off operational loss. When the cost of this operational loss of LKR 173 million (net of insurance claim) is subtracted, operating expenses for the year grew by 11%. Rather than cut costs further, with possible negative implications for service quality, customer satisfaction and employee morale, we are attempting to manage costs through better procurement processes. Managing costs is one of the core strategic priorities of the Bank.

These initiatives have shown clear results. While our performance in the year's first two quarters was below expectations, Q3 and Q4 showed a greatly improved picture, bringing our medium-term target of 20-25% annual growth within reach and providing a firm foundation for further growth in 2016.

Supporting Development in Depth

As per-capita income and GDP increase in a growing economy, the rewards of retail or 'consumer' banking become more substantial. People who work harder and make more money have greater need of banking and financial services. As mentioned above, this is an area on which we have traditionally placed less emphasis, although the picture is changing now.

However, our ingrained strengths in corporate and investment banking are sure to serve us well in the new economic and policy environment of today. During the year under review, we further augmented our merchant banking capability by setting up a fully operational private equity fund, value USD 50 million, to offer a third funding option apart from bank loans and equity/debt financing.

Many in the financial sector have decried the loss of business opportunities connected with leasing as a result of some of the provisions of the 2016 National Budget. We, however, see the Budget as offering a number of new opportunities for the Bank. The rush to 'consumerize' financial services in recent years has seen institutions offer easy-to-obtain consumption loans and over-the-counter lease financing for motor cars. Our business model is geared less towards high street finance and increasing consumer indebtedness than towards providing support for productive and sustainable purposes.

While others lament the loss of opportunity in consumer financing, we see a proliferation of opportunities elsewhere. For example, the government plans to develop industrial parks for IT and business process

outsourcing firms present opportunities connected with the development of residential complexes adjacent to these parks: developers, on-site service providers and residents themselves will all require financing to meet their various needs. We are already weighing the prospect of realizing such opportunities – and similar ones that exist in areas such as leisure, tourism, housing and commercial agriculture – through multiparty agreements involving developers, employers, workers, etc. Many of these opportunities lie with participants at different points along the industrial value chain – for example, opportunities in commercial agriculture include capital for produce storage and logistics infrastructure, crop insurance and funding through producer co-ops.

With our considerable experience in capital markets, project and realty financing, investment banking and privatization, the Bank and the Group companies are better suited than most to provide support for the development in depth to which the government has committed itself. As such, our strategies will, as always, be guided by what we deem best for the Bank and its stakeholders, in particular its customers.

Ushering in an IT Revolution

The first quarter of 2016 will see the rollout of the first of a set of integrated IT-based product and service capabilities that, for many customers, will completely change the way they do business with their Bank. More will be introduced during the course of the year. Within a 12-to-15-month window, the transformation will be complete. Following this, customers will enjoy

an integrated and unified banking experience at every virtual touch point from ATMs to mobile devices. We call this new approach to banking the Omni Channel Experience.

The Omni Channel Experience will make ordinary banking easy and intuitive for customers. It will also result in the transformation of our cost structure and the relative contribution from different revenue streams. Essentially, we will move banking with NDB Bank into the digital future, with business implications that will only become fully manifest over a decade or so. What is more, we will achieve this in a way that speaks to even greater financial inclusion – relying on the power of technology to leapfrog barriers of time, distance, education and technology. In effect, we will be helping to bring the farmer in his remote village into close contact with the beating heart of the national economy and financial system.

We anticipate, over time, a substantial rise in fee-based income from this 'IT revolution'. But there are social benefits too: by making mainstream finance available to everyone, we help people stay out of the clutches of informal sector operators and help reduce the wealth and opportunity gap.

Building the Team

As the new leadership of the Bank completes its second full year in office, I am happy to report that the transition has been smooth and the team is now well bonded and integrated. It has happened in a gratifyingly short time. The new members of our Leadership Team are all performing excellently and producing results, bringing to bear their own capabilities and experience to complement our existing skills.

Meanwhile, we continue to build and develop our talent through in-house and external training. Our philosophy is based on a continuous training regime in which staff competency needs are identified on an individual basis and training offered accordingly.

Everybody Can Be World-Class

Today, the Bank can boast of customers from every walk of life. We finance corporates occupying the commanding heights of the national economy, and we also provide working capital to food vendors on Galle Face Green. Our concerns are national, but they are based in every case on the needs and aspirations of individuals. Where once we strove to present ourselves as 'a world-class Sri Lankan', we now affirm the belief that every Sri Lankan has the capacity, and the right, to be world-class. Our job, for the foreseeable future, will be to help them attain that goal, and sustain it. In short, 'Our commitment. **Your success**'.



R Theagarajah
Chief Executive Officer

12 February 2016



**“THIS IS THE STORY OF
WHO WE ARE,
OUR APPROACH TO
BUSINESS, TO CREATE
VALUE TO YOU”**

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SCAN TO VIEW

http://ndbbank2015.annualreports.lk/business_model/index.html



ORGANIZATIONAL PROFILE

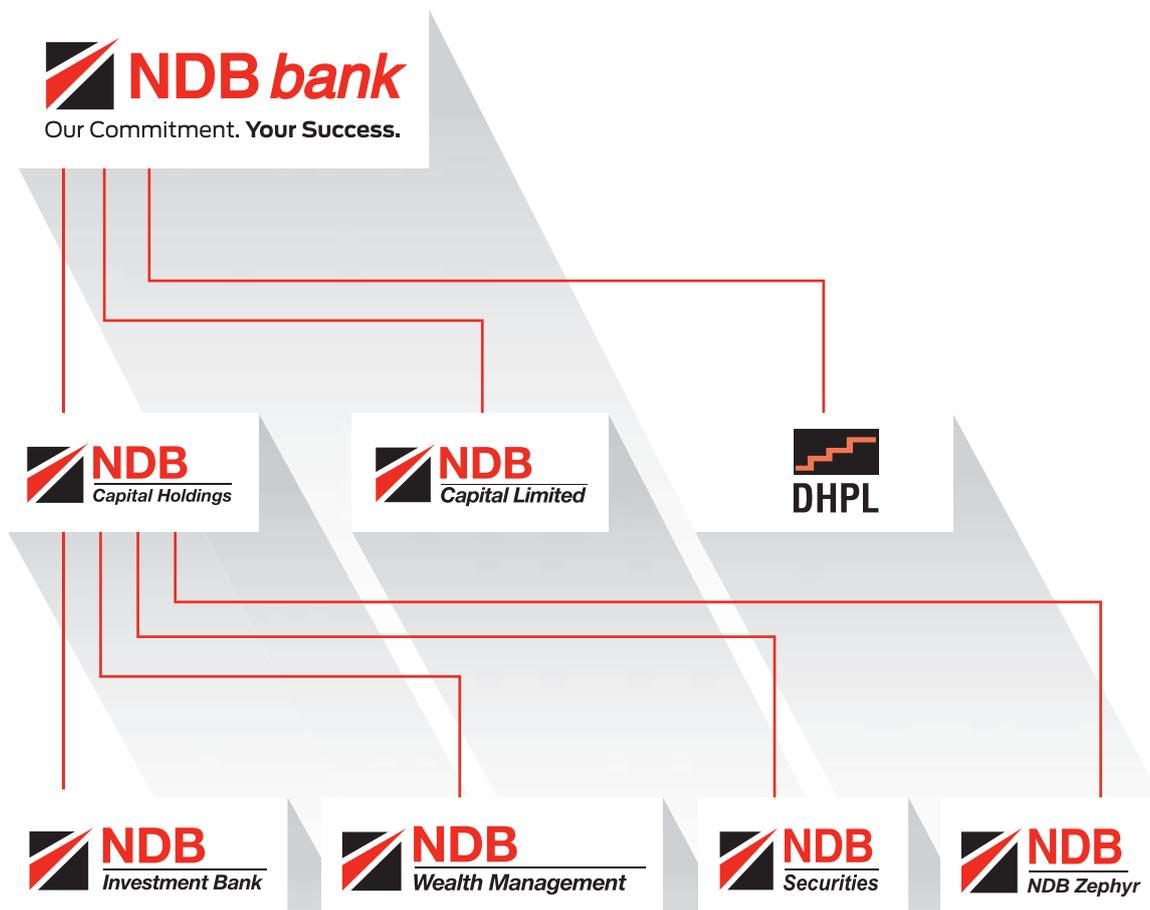
The Bank

Commencing business in 1979 as a state-owned development bank, National Development Bank PLC ('Bank') today operates under the Companies Act No. 07 of 2007, and as a Licensed Commercial Bank it is regulated under the Banking Act No. 30 of 1988, as amended from time to time. The Bank is listed on the Colombo Stock Exchange (stock code: NDB.N0000).

The Bank provides a full spectrum of financial solutions such as 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 Companies

The Bank together with its Group companies are referred to as the 'Group'. The main activities of the Group companies are depicted in the table given on page 21.



Main activities of the Group Companies

| Subsidiary Name | Domicile | Shareholding | Nature of Business |
|--|------------|--------------------------------|--|
| NDB Capital Holdings Ltd. | Sri Lanka | 99.9% Bank's holding, Direct | Full service investment banking |
| NDB Capital Ltd. | Bangladesh | 77.8% Bank's holding, Direct | Investment banking |
| Development Holdings (Pvt) Ltd. | Sri Lanka | 58.7% Bank's holding, Direct | Property management |
| NDB Investment Bank Ltd. | Sri Lanka | 99.9% Bank's holding, Indirect | Investment banking |
| NDB Wealth Management Ltd. | Sri Lanka | 99.9% Bank's holding, Indirect | Wealth management |
| NDB Securities (Pvt) Ltd. | Sri Lanka | 99.9% Bank's holding, Indirect | Investment advisory and securities trading |
| NDB Zephyr Partners Ltd. | Mauritius | 60.0% Bank's holding, Indirect | Management of private equity funds |
| NDB Zephyr Partners Lanka (Private) Ltd. | Sri Lanka | 60.0% Bank's holding, Indirect | Management of private equity funds |
| NDB Venture Investment (Pvt) Ltd. (Under Liquidation) | Sri Lanka | 50.0% Bank's holding, Direct | Venture capital |
| Ayojana Fund (Pvt) Ltd. (Under Liquidation) | Sri Lanka | 50.0% Bank's holding, Direct | Venture capital |

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 in Mauritius through NDB Zephyr Partners Ltd. that was set up in 2014 in partnership with the US-based Zephyr Management LP.

The Bank operates a network of 93 branches (2014: 83) 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 and a unique 'Feet on the Street' sales force. More details are given under Customer Capital, beginning on page 74.

Scale of Operations

Total operating income of the Group increased by 3% during FY 2015 to LKR 13,291 million. Profit attributable to shareholders for the FY 2015 was LKR 3,542 million. Total assets of the Group grew by 17% to LKR 315 billion during the year, largely driven by enhanced volume growth across all business segments.

The Bank's market capitalization stood at LKR 32,059 million as at 31 December 2015, and ranked 21st (2014: 16th) amongst the 294 listed companies on the Colombo bourse.

By end-2015 the Sri Lankan banking industry comprised 25 licensed commercial banks and 7 licensed specialized banks, with 32 players in total (2014: 34 banks). In terms of market share and ranking within the industry, the Bank accounted for:

- 3.8% share of total assets (2014: 3.9%).
- 4.5% of loans and receivables (2014: 4.7%)
- 3.4% share of customer deposits (2014: 3.3%) and

The Bank's staff strength increased by 12.4% to 1,960 persons by end 2015 to support business growth, with 76% employed in the permanent cadre.

OPERATING ENVIRONMENT

The Global Economic Performance*

*Source – World Economic Outlook (January 2016) of the International Monetary Fund (IMF)

In 2015, global economic activity remained largely subdued. Mixed performance was recorded in the emerging and developing economies and advanced economies, where the former declined in growth for the fifth consecutive year, whilst the latter experienced continuation of modest recovery. Despite the continued decline, emerging and developing economies accounted for 70% of the global growth.

The global economic environment is influenced by the following major factors:

1. The gradual slowdown and rebalancing of economic activity in China away from investment and manufacturing, towards consumption and services.

China is evolving in growth as was expected. However, Chinese exports and imports are demonstrating a slowdown which is faster than initially anticipated. These movements in China's macro-economic indicators are a part reflection of weaker investment and manufacturing activities.

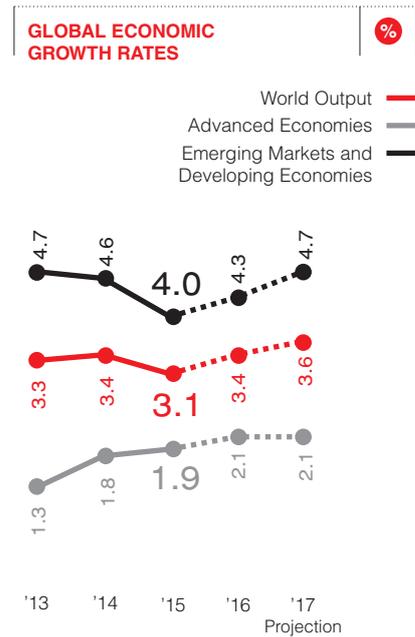
The above mentioned economic behaviour, coupled with market concerns about the future performance of the Chinese economy, are having spillovers to other economies through trade channels and weaker commodity prices, as well as through diminishing confidence and increasing volatility in financial markets.

2. Lower prices for energy and other commodities

Global oil prices recorded significant reductions starting from September 2015. The reduced prices are causing contrasting impact on the oil importers and exporters. Oil exporters are experiencing strained fiscal positions and subdued growth prospects, whereas importing countries are benefited by the reduced energy costs at both household and business level. The full positive impact on the global demand and output stemming from reduced oil prices are yet to be realized, due to several factors diminishing the full impact across the globe.

3. A gradual tightening in monetary policy in the United States in the context of a resilient U.S. recovery as several other major advanced economy central banks continue to ease monetary policy.

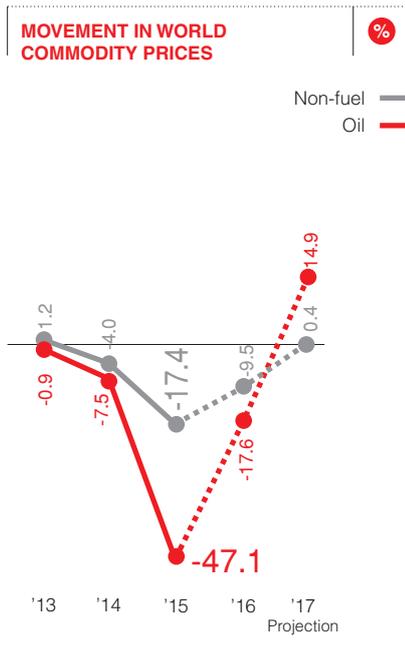
In December 2015, the United States Federal Reserve approved a quarter-point increase in its target funds rate, the first rate increase since 2006. In the meantime, monetary easing in the Euro area and Japan continued broadly as expected.



Sources for data from 2004 - 2017: WEO - Jan. 2016
Sources for data for 2013: WEO - Jan. 2015

Global Economic Growth Rates – Past and Future

| In % | 2013 | 2014 | 2015 | Projections | |
|--|-------|------|------|-------------|------|
| | | | | 2016 | 2017 |
| World output | 3.3 | 3.4 | 3.1 | 3.4 | 3.6 |
| Advanced economies | 1.3 | 1.8 | 1.9 | 2.1 | 2.1 |
| United States | 2.2 | 2.4 | 2.5 | 2.6 | 2.6 |
| Euro area | (0.5) | 0.9 | 1.5 | 1.7 | 1.7 |
| Japan | 1.6 | 0.0 | 0.6 | 1.0 | 0.3 |
| Emerging market and developing economies | 4.7 | 4.6 | 4.0 | 4.3 | 4.7 |
| China | 7.8 | 7.3 | 6.9 | 6.3 | 6.0 |
| India | 5.0 | 7.3 | 7.3 | 7.5 | 7.5 |
| ASEAN | 5.2 | 4.6 | 4.7 | 4.8 | 5.1 |



Industry-related activities grew by 3.6% with a contribution of 26.8% to the overall GDP. Service-related activities recorded a growth of 5.2%, and was the highest contributor to GDP with a contribution of 58.4%.

Inflation

Inflation remained at single digit levels during 2015, a continuation of the same trend for seven consecutive years. Prudent demand management policies of the Central Bank of Sri Lanka (CBSL) improved domestic supply conditions and low international commodity prices were the key contributors towards the low inflation levels that were recorded during the year.

Year on year headline inflation dipped to negative territories during the latter half of the year, resulting from the sharp downward adjustments to domestic administered prices of fuel, energy and reduction of prices of selected essential food items by the Government. Core inflation remained below 5% during the year, albeit demonstrating a continued upward trend in its year on year change since early 2015.

External Sector Performance

The country saw moderated external sector performance during the first half of 2015 with a widening current account deficit. Trade deficit expanded due to high domestic demand for imported goods such as vehicles and consumer durables. Trade account inflows related to services increased due to the thriving tourism sector in the country.

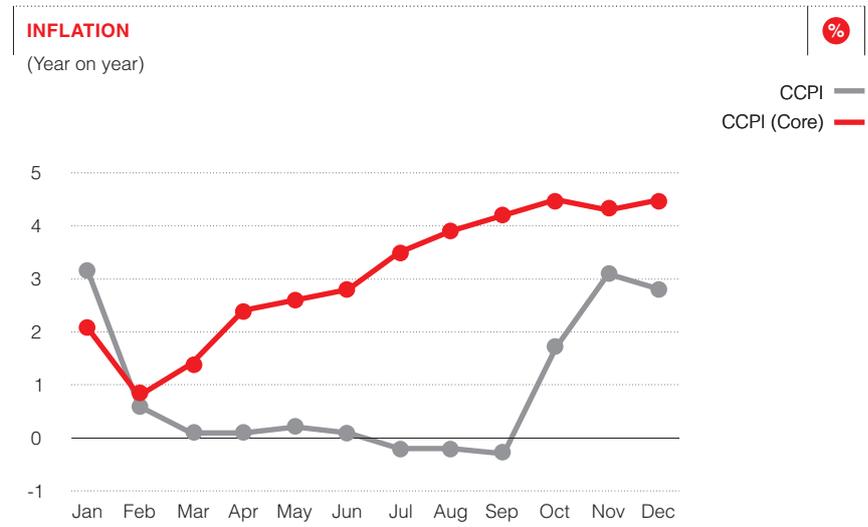
The widening current account deficit coupled with the decline in the receipt of foreign direct investment (FDI), portfolio investments and the reversal of foreign investments in Government Securities led to a Balance of Payment (BOP) deficit of USD 792 million by end June 2015, which further widened to USD 2,316 million by end September 2015.

The gross official reserves of Sri Lanka closed at USD 6.8 billion in September 2015, an equivalent of 4.2 months of imports, which increased to around USD 7.3 billion by end 2015.

Sri Lankan Economy*

*Source: Central Bank of Sri Lanka publications.

The Sri Lankan economy grew by 5.2% in the first nine months of 2015 in real Gross Domestic Product (GDP) terms, strengthened by the performance of agriculture, industry and service-related activities. During the said period agriculture, forestry and fishing recorded a growth of 6.1% with a contribution of 7.5% to the overall GDP.



Exchange Rates

In September 2015, the CBSL decided to limit its intervention in the domestic foreign exchange market, allowing the exchange rate to be largely determined by market forces. Prior to the CBSL's decision, the Sri Lankan Rupee remained broadly stable. The CBSL supplied USD 1,870 million to the domestic foreign exchange market on a net basis prior to September 2015 to prevent the Rupee from large depreciation, which was under pressure due to several factors. The Sri Lankan Rupee depreciated by 9.0% against the US Dollar during the 2015. The Rupee also depreciated against the Pound Sterling, Japanese Yen and the Indian Rupee and appreciated against the Euro during the same period.

Fiscal Sector

The overall fiscal deficit was LKR 573.0 billion for the first nine months of 2015. This was 5.1% of the GDP and compares with 4.8% in the corresponding period of 2014.

The overall fiscal deficit of the first seven months of 2015 was entirely financed through domestic sources, as net foreign financing recorded a repayment during the period.

Monetary Sector

The CBSL maintained a relaxed monetary policy during the the year, to support the domestic economic activities against the backdrop of benign interest rate and inflation expectations. Listed below are few key monetary policy measures adopted by the CBSL during the year:

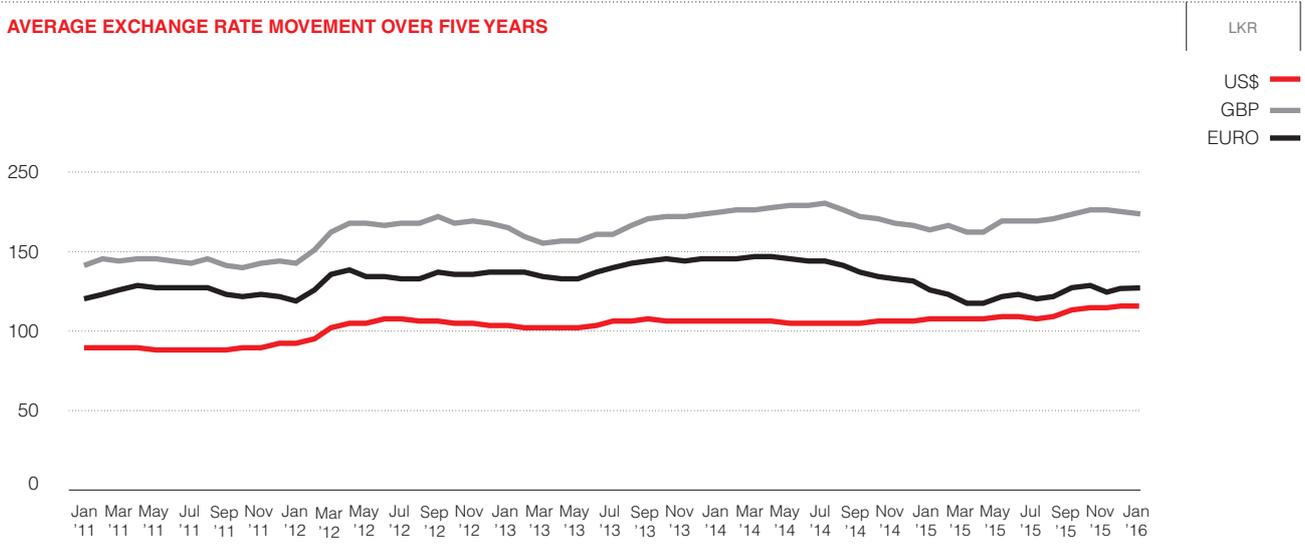
- March 2015 – Removal of the temporary restriction placed in September 2014 on access to the Standard Deposit Facility (SDF) under open market operations.

- April 2015 – Reduction of the Standard Deposit Facility Rate (SDFR) and the Standard Lending Facility Rate (SLFR) by 50 basis points each. Subsequent to this revision, the SDFR and the SLFR remained at 6.0% and 7.5% respectively, throughout the year.
- December 2015 – Increased the Statutory Reserve Ratio (SRR) applicable to all rupee deposit liabilities of commercial banks by 1.50% points to 7.50% which was effective from the reserve week commencing 16 January 2016.

In addition to the above monetary policy measures, the CBSL also Imposed the following macro-prudential measures:

- A minimum cash margin requirement of 100% against Letters of Credit opened with commercial banks for the importation of motor vehicles – which was effective from 30 October 2015 – 01 December 2015.

AVERAGE EXCHANGE RATE MOVEMENT OVER FIVE YEARS



- A maximum loan to value (LTV) ratio of 70% in respect of loans and advances granted for the purpose of purchase or utilization of motor vehicles by banks and financial institutions supervised by the CBSL – which was effective from 1 December 2015.

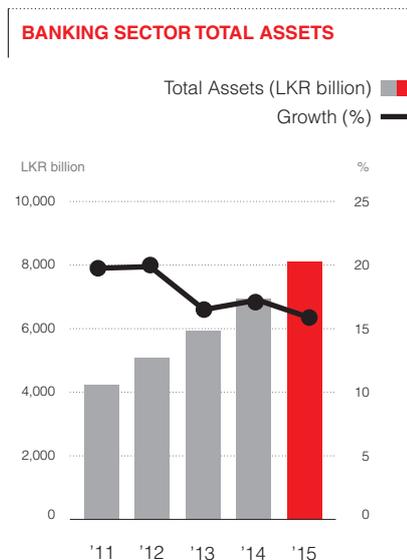
Sri Lankan Banking Sector Performance

Source: Central Bank of Sri Lanka publications.

During 2015, the banking sector of Sri Lanka recorded accelerated growth in assets and profitability. Liquidity was maintained at satisfactory levels with more skewness towards short-term funding. Non-performing loan (NPL) ratio remained relatively low, albeit an increase in volumes of NPLs, with adequate provision coverage. The banking sector also was in compliance with the new capital requirements introduced by BASEL III.

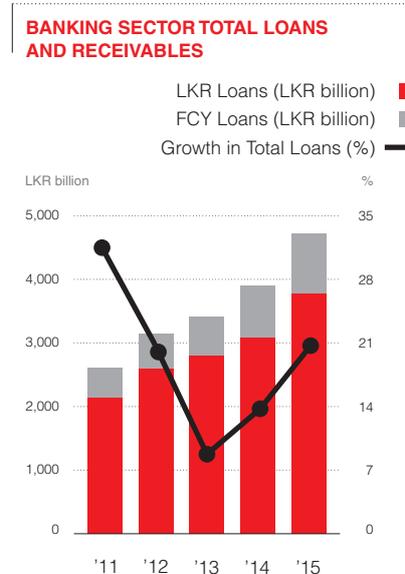
Total Assets

Banking sector total assets exceeded LKR 8 trillion and stood at LKR 8,077 billion by end 2015. Increased demand for credit from both the state and the private sector stimulated this asset growth.



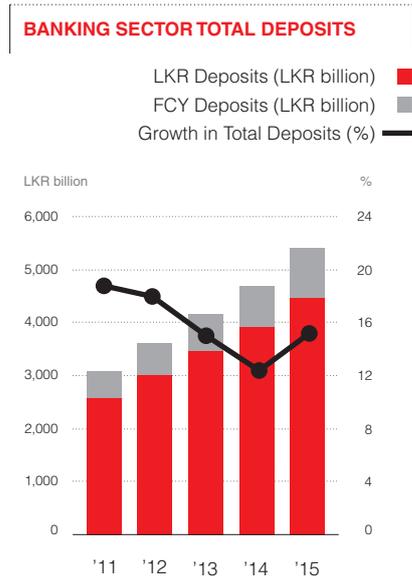
Total Loans and Receivables

Total loans and receivables reached LKR 4,715 billion by end 2015, which was a 21% year on year growth for the period. Growth in loans and advances were driven by higher demand for credit coupled with lower interest rates. Main sectorial contributors towards the increase were construction, infrastructure, trading and financial and business services sectors.



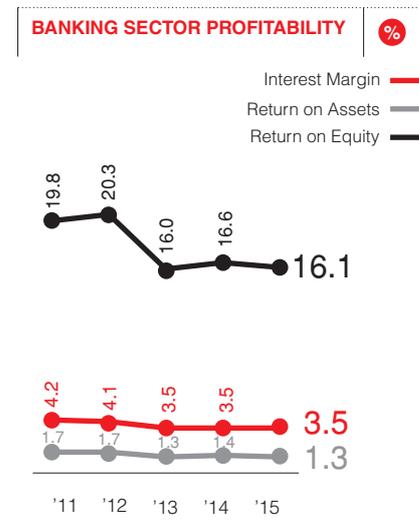
Total Deposits

Total deposits of the banking sector grew by LKR 717 billion to reach LKR 5,403 billion by end of 2015 which translates to a YoY growth of 15%. 83% of total deposits were rupee deposits.



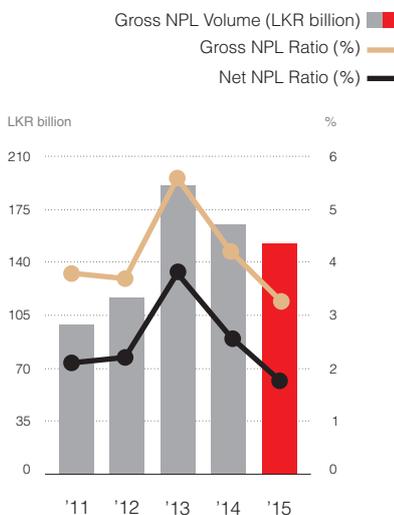
Banking Sector Profitability

Banking sector recorded increased profitability during the year with Profit After Taxes (PAT) reaching LKR 95.8 billion by end 2015. The main driver of profitability during the period was higher Net Interest Income (NII), which was a results of lower interest expense due to the impact of declining interest rates on deposits. Profitability ratios however, declined marginally by end 2015, in comparison to 2014.

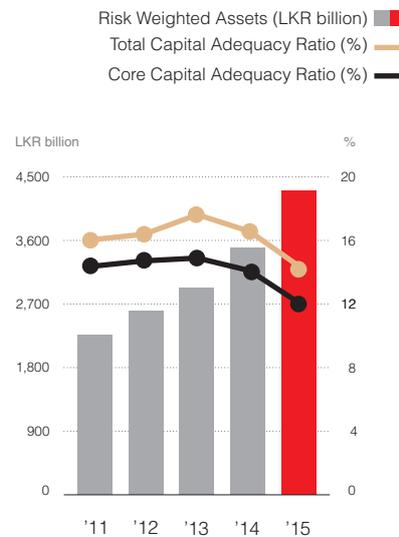


**BANKING SECTOR
EFFICIENCY INDICATORS****Asset Quality**

Total gross non-performing loans (NPL) of the banking sector stood at LKR 153 billion by end 2015, a decrease of LKR 12.7 billion from 2014. The gross NPL ratio improved from 4.2% in 2014 to 3.2% by end 2015. NPLs in all major products decreased, except for NPLs of overdrafts. During December 2015, there was rapid decline in NPLs due to aggressive recovery policies carried out towards the end of the year.

**TREND IN NON-PERFORMING
LOANS - BANKING SECTOR****Capital Adequacy**

Core capital adequacy ratio and the total capital adequacy ratio (provisional) of the banking sector by end 2015 were 11.9% and 14.2% respectively. Total risk weighted assets stood at LKR 4,297 billion (provisional). Provisional capital adequacy measurements are expected to improve with retained audited profits.

CAPITAL ADEQUACY**Credit Extended to Private Sector**

Credit extended to private sector by commercial banks also increased largely during the year at a year on year growth rate of 21.3% by end August 2015, compared to 8.8% of end 2014. The key drivers of this growth were low market lending rates, increased real wages and increased import demand. The growth is also attributable to the relatively lower levels of credit extended to the private sector in the corresponding period in 2014. The rupee equivalent of increase in credit to the private sector was LKR 310.5 billion denoting a strong demand for banking sector funds.

Expansion of Banking Institutions

Accessibility to banks also improved during the year with an increase in the branch and ATM networks within the country.

| | 2015 | 2014 |
|---|--------|-------|
| Total Number of banks | 32 | 34 |
| Number of Licensed Commercial Banks (LCBs) | 25 | 25 |
| Number of Licensed Specialized Banks (LSBs) | 7 | 9 |
| Total number of bank branches | 3,538* | 3,535 |
| Total number of bank ATMs | 3,509* | 3,344 |

* As at September 2015

Banking Sector Consolidation

During 2014, as a step in working towards the then proposed amalgamation between National Development Bank PLC and DFCC Bank, the two banks entered in to a Memorandum of Understanding (MoU) in March 2014. However, the banking sector consolidation initiatives which were pursued in 2014 took a different direction in 2015.

Accordingly, the MoU entered in to by and amongst the two banks was jointly terminated by the two banks in May 2015 with the intention of enabling the two banks to pursue their respective business and expansion strategies unfettered.

In terms of banking sector consolidations, the incumbent Government has encouraged same on a voluntary basis, as a proposal of the 2016 Fiscal Budget. It is expected that, such consolidation will result in stronger balance sheets within the industry, which in turn will enable better ratings and wider access to both domestic and foreign markets.

STAKEHOLDERS

OUR STAKEHOLDERS ARE THE PARTNERS OF OUR SUCCESS, FOR WHOSE WELL-BEING, WE ARE COMMITTED!

Stakeholder Engagement

Our stakeholders are entities or individuals who are expected to be significantly affected by the Bank's activities, products, and services; and whose actions may be expected to affect the ability of the Bank to successfully implement its strategies and achieve its objectives.

In this context, our primary stakeholders are investors, customers, employees, suppliers, society and environment in which we operate as well as regulators and Government Authorities.

In the tables that follow we provide insights on the nature and quality of the Bank's relationships with its key stakeholders, the extent to which the Bank understands, takes into account and responds to their legitimate needs and interests followed by highlights of key initiatives rolled out during the year.

Investors

In the context of investor relations, our target stakeholders encompass a wide group of present shareholders, potential investors, investment/research analysts, stock brokers, fund managers, multilateral donor agencies, rating institutions, media and the like.

Strategic Objectives

To attract and maintain a best in class relationship with investors, and to deliver superior and sustainable value to our shareholders.

| Method of Engagement | Frequency of Engagement | Key Topics and Concerns Raised | How the Bank Responded to Such Topics and Concerns |
|---|-------------------------|---|---|
| Annual Report | Annually | Macroeconomic and political developments and their impact on the performance of the Bank. | We are open to investors and their requests for periodic meetings and reviews. We maintain a high level of accessibility to the Senior Management of the Bank in investor relations. Investor engagements are always hosted by the Chief Executive Officer, the Group Chief Financial Officer or the Vice-President – Finance & Planning. |
| Annual General Meeting | Annually | Financial performance of the Bank and the Group. | |
| SMS alert to investors on the release of the Annual Report, along with a short video brief from the CEO | Annually | Business overview, business strategy and challenges. | |
| Interim Financial Statements | Quarterly | Business growth targets and sources of growth. | |
| Press release on financial performance | Quarterly | The Bank's expectations and estimations about the behaviour of key economic indicators such as interest rates, exchange rates, etc. | Our investor relations are driven on the principles of consistency, transparency, clarity and openness to scrutiny. |
| Investor presentations on financial performance | Quarterly | Asset quality of the Bank. | |
| Email notifications on quarterly result releases | Quarterly | Operational strategy of the Bank and operational efficiencies. | We are consistently fair in our disclosures and at no times do we treat any party with preference. We do not engage in selective disclosures. |
| Investor fora/investor webinars | Quarterly | Strategic focus and the activities carried out by Group companies. | |
| One to one investor meetings | As and when required | The Bank's openness to and opportunities in inorganic growth. | More details on individual engagement activities are given under Investor Relations commencing on page 268. |
| Extraordinary General Meeting | As and when required | Governance and risk management framework. | |
| Participation in international investor fora | As and when required | | |
| Earnings calls | As and when required | | |
| Announcements made to the Colombo Stock Exchange | As and when required | | |
| Investor Road shows | As and when required | | |
| Prospectus | As and when required | | |
| Investor relations web page within the Bank corporate website | Ongoing | | |



Silver award winner in 2015 for Best Investor Relations as judged by CFA Sri Lanka - Capital Market Awards



SMS alert/video on the release of the 2014 Annual Report



Revamped the investor relations web page

LKR 10 billion

Raised via a listed debenture in June 2015

Over 100

One to one investor meetings held in 2015

Customers

Our customers are individuals (including minors and senior citizens), micro business ventures, SMEs, and large corporate entities incorporated in Sri Lanka or overseas.

Strategic Objectives

To build and maintain long-term relationships with our customers through superior value creation and thereby enhance our corporate reputation and image.

| Method of Engagement | Frequency of Engagement | Key topics and Concerns Raised | How the Bank Responded to Such Topics and Concerns |
|---|-------------------------|--|--|
| Customer feedback scores to measure customer satisfaction level across the branch network | Periodic | Types of products and services Product pricing (interest rates, other fees and charges) | A dedicated 24-hour call centre and a Customer Relationship Management Unit promptly attend to customer enquiries and concerns. |
| Customer interaction through visits, get-togethers and workshops | Periodic | Level of customer service and quality of customer interactions through key touch points. | 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@ndb.com or by writing to the Manager Customer Relationship Management, National Development Bank PLC, No 40, Navam Mawatha, Colombo 02. |
| Extended banking hours | 24/7 x 365 days | Availability of branches, ATMs and other physical touch points | Customer feedback is taken into consideration when simplifying Bank's processes and developing new products and services. |
| Corporate website | 24/7 x 365 days | Appearance of the Bank in leading social media sites | The Bank maintains a transparent complaints handling procedure and tracking system, with set service levels and timelines which are published on the corporate website. It includes the escalation process for redress through the Financial Ombudsman. |
| Online Messages (NDB Bank Online) | 24/7 x 365 days | Efficiency of relationship staff | |
| Social media interactions | 24/7 x 365 days | | |
| Contact@ndb.com | 24/7 x 365 days | | |
| Contact Centre | 24/7 x 365 days | | |
| Print and electronic media | 24/7 x 365 days | | |

100%

Customer complaints resolution

10

New Branches

101

ATMs



e-statements introduced to customers

> 80%

Customer feedback scores for 90% of Branches

Employees

Our employees comprise management, executives, non-executives as well as contract staff.

Strategic Objectives

To create an environment conducive for the employees to develop and reach their potential both professionally and personally while ensuring a high performance work culture to succeed in the competitive market that the Bank operate in.

| Method of Engagement | Frequency of Engagement | Key topics and Concerns Raised | How the Bank Responded to Such Topics and Concerns | |
|--|-------------------------|---|--|--|
| Employee Surveys | | | | |
| Employee Satisfaction Survey | Annually | Inducting staff to the Bank's values and culture. | The employees are provided ongoing training in order to enhance skills. They are also duly rewarded for their performance. | |
| HR ISO Survey | Annually | Responsibility of retaining existing talent of the Bank. | | |
| Internal Department Survey | Annually | Providing staff with the correct blend of skills, competencies and knowledge. | | |
| Cultural Induction Programme | | | | |
| Employee Induction Programme | Quarterly | Responsibility of increasing productivity levels to maximize business efficiency. | Further, specific activities are undertaken to bring about work-life balance and maintain a high degree of engagement within the organization. | |
| 'In Retrospect' Programme | Quarterly | Attaining work-life balance across all the levels. | | |
| Soft Skills Training Programme | Ongoing | Regional engagement in the context of rapid expansion. | Maintaining information flow within the organization. | |
| Periodic Staff Meetings | | | | |
| Town Hall meetings | As required | Maximizing emotional engagement of staff with the workplace. | | |
| The Leadership Team meetings | Weekly | | | |
| Business Review meetings | Monthly | | | |
| Network Management National Conference | Annually | | | |
| Regional Managers meetings | Monthly | | | |
| Branch Manager meetings | Quarterly | | | |
| Department meetings | Ongoing | | | |
| Staff Societies | | | | |
| Recreation Club | Ongoing | | | |
| Toastmasters Club | Ongoing | | | |
| Cross Functional Staff Committees | Ongoing | | | |
| Technologically Driven Platforms | | | | |
| Performance Development System | Ongoing | | | |
| Human Resource Information System (HRIS) | Ongoing | | | |



32.4 training hours per employee



Plant a tree-Save the planet employee volunteerism programme



Innovative recruitment initiatives for rapid growth



Record number of awards for NDB Toastmasters



Engagement activities for NDB family

Employees Contd.

| Method of Engagement | Frequency of Engagement | Key topics and Concerns Raised | How the Bank Responded to Such Topics and Concerns |
|--|-------------------------|--------------------------------|--|
| Bank Policies | | | |
| Whistle-blowing policy | Ongoing | | |
| Open door management policy | Ongoing | | |
| Recognition Schemes | | | |
| Retail Banking Awards | Annually | | |
| Staff talent recognition programmes | Ongoing | | |
| Welfare Agenda | | | |
| Employee Volunteerism Programmes (Sustainability and CSR Agenda) | Ongoing | | |
| HR Welfare Programmes (covering staff and their family members) | Ongoing | | |

Suppliers

Suppliers are persons or organizations that provide goods and services required for running the Bank's business.

Strategic Objectives

To ensure timely supply of goods and services of the required quality at a reasonable price to ensure business continuity.

| Method of Engagement | Frequency of Engagement | Key Topics and Concerns Raised | How the Bank Responded to Such Topics and Concerns |
|--|-------------------------|---|--|
| Supplier reviews and assessments | Annually | Fair pricing. | The Procurement Policy of the Bank ensures transparency and fairness in procurement processes. |
| Supplier visits | As required | Quality of the goods and services provided. | |
| Supplier meetings | As required | Operational efficiencies in the procurement process. | Regular engagement with suppliers to identify and resolve issues and ways for improvement. |
| Corporate website | As required | Transparency and equal opportunity in the selection process. | |
| Press advertisements | As required | Treating suppliers as a strategic stakeholder group. | |
| Emails, circulars and other modes of communication | Ongoing | Acceptability of the supplier's labour and environmental practices. | |



Board approved Procurement Policy governing fair procurement processes

ZERO COMPLAINTS

For unfair treatment by Bidders

Society and Environment

This encompasses the social systems as well as the living and non-living natural systems including land, air, water and ecosystems in which the Bank operates.

Strategic Objectives

To be an exemplary corporate citizen through a structured approach to CSR while being mindful of the symbiotic relationship between the Bank, its local communities and the physical environment in which it does business.

| Method of Engagement | Frequency of Engagement | Key Topics and Concerns Raised | How the Bank Responded to Such Topics and Concerns |
|---|-------------------------|--|--|
| Sustainability aspects integrated within the Annual Report | Annually | | The Bank is concerned about sustainability and has taken steps to integrate it into every aspect of the business. This best practice generates benefits for all stakeholders including the customers and suppliers. Society grievances are addressed as and when required. However, there were no grievances in 2015. |
| Capacity building seminars for customers | Monthly | The Bank follows a practice of appraising loan applications for environmental and social safeguards in addition to the general economic aspects. | |
| Capacity building seminars for potential customers of the community | Monthly | | |
| Procurement Committee for Suppliers | As and when required | The Bank's procurement guidelines include an assessment of environmental and social practices of suppliers. | |
| Community Projects | Ongoing | | |
| Environmental Projects | Ongoing | | |



Planted 2000 trees



Conducted over 17 programmes to screen for chronic kidney disease (CKD)

Aa

Trained 196 teachers on their skills in English



Educated customers on the financial, social and environmental aspects related to business operations



Introduced a supplier rating scheme to ensure social and environmental responsibility

Regulators and Government Authorities

The primary stakeholders are the Central Bank of Sri Lanka, Securities and Exchange Commission of Sri Lanka, Colombo Stock Exchange and the Department of Inland Revenue.

Strategic Objectives

To ensure compliance with all regulatory requirements applicable to the Bank.

| 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 | Update on the regulatory requirements affecting the Bank. | The Bank functions within a comprehensive compliance framework, overlooked by a dedicated Compliance Department established within the Bank. |
| Response to directions, circulars and guidelines | As required | Adherence to and compliance with laws and acts relevant to the banking/financial sector, including those of the Central Bank of Sri Lanka, Colombo Stock Exchange and other regulatory bodies. | The Bank prioritizes on maintaining the highest level of compliance with all legislation, regulations and rules applicable to its business. |
| On-site visit | As required | | |
| Consultations and meetings | As required | | |
| Announcements to the Colombo Stock Exchange | As required | Awareness of developing regulatory and governance practices (e.g. Basel III). Adherence to the provisions of the Department of Inland Revenue. Meeting legislative requirements in respect of consumer protection and engaging with the Financial Ombudsman of Sri Lanka to resolve customer grievances. | The Compliance Department performs compliance audits to review the degree of compliance with both internal and external regulations. These audits are based on the risk assessments approach. Compliance training and awareness play a key role in sustaining a culture of compliance within the Bank and in mitigating compliance risk. Employees (both front line and support services) are trained on an ongoing basis and all staff members are required to complete mandatory regulatory and compliance training. 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. The Bank contributes to the development of policy, legislation and regulation through submissions of our comments and views to technical committees and associations that we are a part of within the banking industry as well as through regular engagement with regulators. The Bank has in place a comprehensive core-banking system which facilitates and ensures accurate and timely regulatory reporting. Furthermore, the Bank maintains open and continuous dialogue with the regulatory bodies on matters of concern. |



Conducted awareness programmes on anti-money laundering, suppression of terrorist financing and compliance policy and code of conduct



e-Learning on exchange control regulations for employees



Better understanding on customer due diligence (Through e-flyers)



26 Explanatory notes on changes in the regulatory environment

Strategic External Initiatives

The Bank maintains close rapport with relevant industry associations, advocacy bodies and the like through memberships and the active participation in committees, projects and similar initiatives.

| External Entity | Bank's Level of Involvement |
|--|--|
| Sri Lanka Forex Association | Bank's Treasury staff members are active members of this Association. |
| Sri Lanka – China Business Council | The Bank has been a member of this Business Council since 2014 and has built close ties with the Chinese business community during this period. |
| Trade Finance Association of Bankers | All members of the Bank's Trade Finance team are members of this Association, whose primary objectives are to share expert knowledge and engage with authorities on matters of concern to seek solutions. Two senior members of the Trade Finance team of the Bank hold the positions of Vice-President and Editor of the official newsletter of the Association. |
| Banks' CIO Forum | This is a forum functioning under the Sri Lanka Banks' Association, tasked with uplifting the level of technology governance across the banking sector. This includes assisting the Central Bank of Sri Lanka (CBSL) with policy covering technology, cyber security, payment systems, etc., as well as organizing events with world renowned speakers. The Bank's Vice President – Information Technology is the Deputy Chairperson of the Forum. |
| Lanka SWIFT User Group | This is an entity representing all users of SWIFT within Sri Lanka and represents the country at the annual global SIBOS event. The Bank's VP – Information Technology is a member of the Executive Committee of the Group. |
| Employers' Federation of Ceylon Ltd. (EFC) | As a member of the Federation the Bank receives professional advice on legal and labour related matters when required. The Federation also appears on behalf of the Bank on Labour Department matters. |
| Institute of Bankers of Sri Lanka (IBSL) | The Bank obtains membership from IBSL for its staff and the Bank widely patronises all IBSL hosted events/seminars etc. The Bank also reimburse costs of IBSL conducted banking exams across all levels of staff. To facilitate and deliver customized and off-the-shelf programmes which include Certificate courses, Diploma courses and other subject specific seminars. These are conducted exclusively for the Bank's employees in-house and at IBSL as required. |
| Payment Cards Industry Association of Sri Lanka (PCIASL) | The Bank is a member of this Professional Industry Association. Its membership consists of all payment card acquiring and issuing financial institutions in the country. It is the industry voice dealing with industry issues with VISA Intl., MasterCard Int, CBSL, Inland Revenue, Exchange Control, SLBA and the Payment and Settlements Department. The PCIASL has quarterly meetings and regularly takes up important issues with the respective institutions on behalf of the industry. |
| International Information System Security Certification Consortium (ISC) ² of the United States | An officer of the Group Risk Management Department is the current president of the (ISC) ² Colombo Chapter. (ISC) ² is the largest not-for-profit membership body of certified information security professionals worldwide, with members in more than 135 countries engaged in developing information security awareness, education and introducing best practices in the country. |
| Association of Banking Sector Risk Professionals | Two members of the Risk Management Team continue to be members of the Association, one of whom was elected as a Vice President of the Association for 2015. |
| Association of Compliance Officers of Banks Sri Lanka | The Compliance Department of the Bank is a member of the Association, which is an effective forum to discuss issues commonly faced by Banks when interpreting relevant laws, regulations, procedures and best practices. Practical solutions are discussed within the regulatory framework in order to overcome the challenges faced. |
| British Computer Society (BCS) Council Sri Lanka Section | A member of the Bank's IT Strategy and Business Development Unit is the Honorary Treasurer and Executive Council Member of BCS Council Sri Lanka Section. |
| Asia Pacific ICT Alliance (APICTA) | A member of the Bank's IT Strategy and Business Development Units serves as a Judge and organizing Committee Member of APICTA, which is an organization dedicated to increasing ICT awareness in the communities and assist in bridging the digital divide, by providing networking and product benchmarking opportunities to ICT innovators and entrepreneurs across Asia. |
| American Chamber of Commerce. (Amcham) | The Bank's Chief Executive Officer is a Director of Amcham and the Bank's Vice President - Transactional and Institutional Banking is represented in the CSR subcommittee of Amcham. |
| Bank Computer Security Incident Response Team | The Bank's Chief Operating Officer is a Steering Committee Member of BCSIRT. |
| Credit Information Bureau of Sri Lanka (CRIB) | The Bank's Chief Operating Officer is an Alternate Director of the Board of CRIB. |

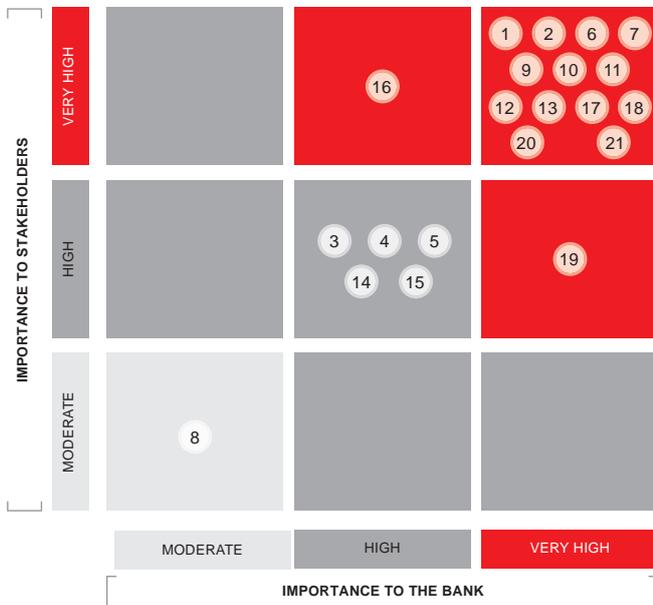
MATERIALITY

Material Aspects

We regard an aspect to be important or material if it substantively affects the Bank's ability to create value over the short, medium and long-term. Relevance and significance thus determine materiality, with significance taking account of both the magnitude of the impact as well as its 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 materiality matrix shown below:

Materiality Matrix



Rating of Material Aspects

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

Very High ■ High ■ Medium ■

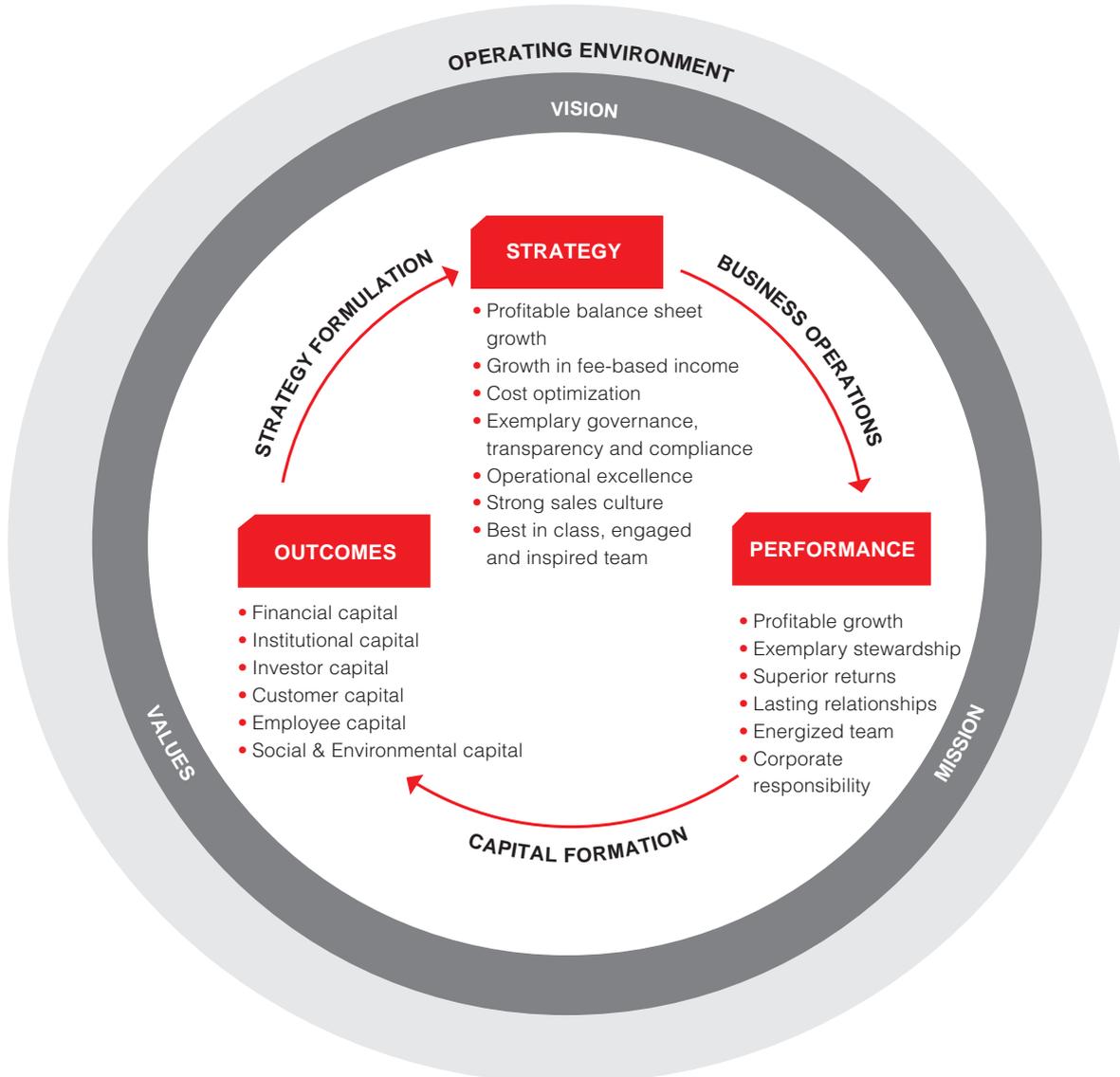
STRATEGIC FRAMEWORK

VALUE CREATION IS THE ULTIMATE GOAL OF ALL WHAT WE DO

For the Bank to create sustainable value for itself, it must also create value for its stakeholders. Our strategies focus on how we will seize opportunities and mitigate risks in doing so.

Strategy in Action

‘The Strategy-Performance-Outcomes Nexus’



Strategy

The Bank's business model is underpinned by seven pillars of strategic execution. Our strategies focus on how we will seize opportunities and mitigate risks in our operating environment, and set out plans for resource allocation. The five year strategic plan 2014-2018, prepared in-house, 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.
- **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.
- **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.
- **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.
- **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.

Performance

Our business operations transform strategies into results, both financial and non-financial. This involves having in place the required measurement and monitoring systems to assess performance. Accordingly, the Bank's key performance indicators (KPI) focus on:

- **Profitable growth**
Driven by balance sheet growth, fee-based income growth and cost optimization
- **Exemplary stewardship**
Driven by organizational values, corporate governance, risk management and operational excellence
- **Superior returns**
Driven by total shareholder returns and investor relations
- **Lasting relationships**
Driven by strong sales culture and market presence
- **Energized team**
Driven by best in class, engaged and inspired employees who work as a team

- **Corporate responsibility**
Driven by operational, strategic and philanthropic CSR and environmental stewardship

These in turn support the value creation and capital formation processes that are discussed next.

Value Creation and Capital Formation

In the previous section on stakeholders (pages 27 to 34) we identified our key stakeholder groups and how we engage with them. In the section on materiality (page 35) we distinguished between the Bank and its stakeholders, identified key aspects that affected various stakeholder groups and assessed the importance of these aspects from the perspective of the Bank as well as the stakeholder. Such an analysis (materiality matrix, page 35) helps us to refine our business model and create value over time. 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.

Outcomes

Value creation leads to capital formation, an **outcome**, which may be internal or external to the Bank.

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.

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 and for its stakeholders.

The dynamic relationship between strategy, performance and outcomes is shown schematically in the diagram given above. The outcomes are the various forms of capital discussed previously, which are the consequences of the Bank's strategy, operations and performance. This value creation and capital formation process is not static, and the feedback loop provides the basis for evaluating and refining the Bank's strategies in going forward. Our reporting, particularly the Management Discussion and Analysis, is thus structured along these lines.

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 and its stakeholders 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 performance indicators and measures where applicable.

**“MANAGING THE STRATEGY-
PERFORMANCE-OUTCOMES
NEXUS FOR SUSTAINABLE
VALUE CREATION FORMS THE
BASIS OF OUR DISCUSSION AND
ANALYSIS THAT FOLLOWS”**

**MANAGEMENT
DISCUSSION
& ANALYSIS**

| | |
|-----|---|
| 42 | Profitable Growth and Financial Capital Formation |
| 66 | Exemplary Stewardship and Institutional Capital Formation |
| 71 | Superior Returns and Investor Capital Formation |
| 74 | Lasting Relationships and Customer Capital Formation |
| 88 | Energized Team and Employee Capital Formation |
| 96 | Corporate Responsibility and Social and Environmental Capital Formation |
| 102 | Sustainability Assurance Report |
| 104 | Events |



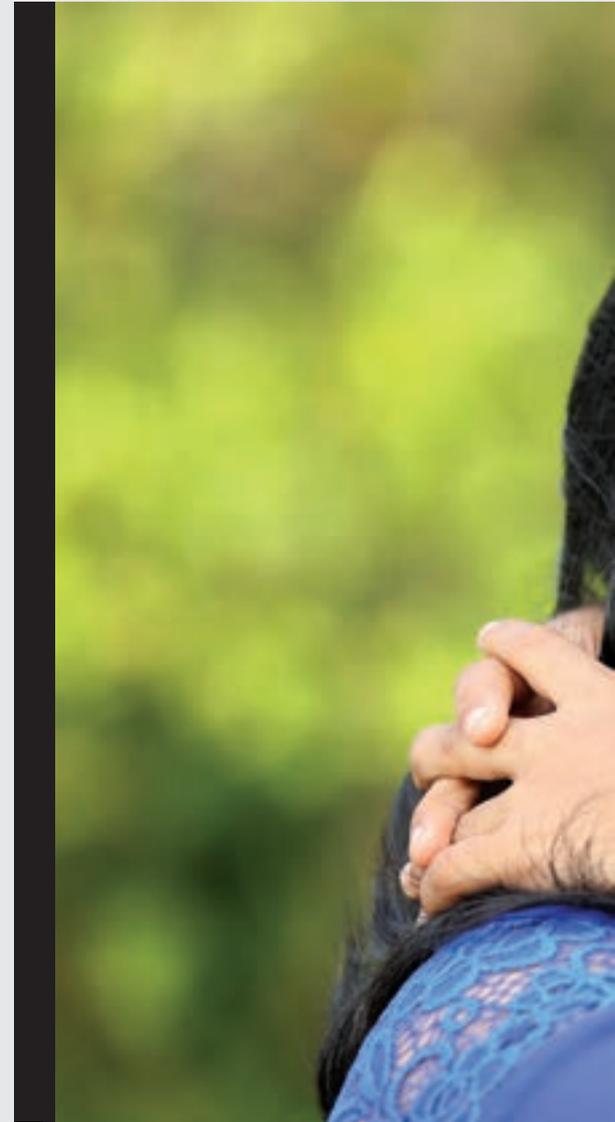
SCAN TO VIEW

<http://ndbbank2015.annualreports.lk/mdaa/index.html>

THE SOLE REASON FOR OUR COMMITMENT IS YOU

Our commitment is for your success. And nothing else.

The year gone by was one in which we raised the bar for ourselves to deliver superior value to you, our valued stakeholders. Indulge in the pages that follow, which is a full account of how our commitment bore its fruits, for your success!



18%

GROWTH
IN TOTAL
ASSETS



19%

GROWTH
IN LOANS AND
RECEIVABLES

22%

GROWTH IN
CUSTOMER
DEPOSITS

LKR 8 Mn

DONATIONS
TO THE
COMMUNITY

LKR 1,817 Mn

IN DIVIDENDS
TO THE
SHAREHOLDERS

PROFITABLE GROWTH

and Financial Capital Formation

SOLID PROFITABLE GROWTH WAS DEMONSTRATED AS WE CROSSED LKR 300 BILLION MARK IN TOTAL ASSETS

Financial Review

NDB has made considerable strides in the Sri Lankan banking and finance sector as a leading commercial bank. Originally, being a Development Financing Institution (DFI), the Bank attained commercial banking status with the acquisition of the operations of ABN Amro NV Colombo Branch in 2001. Since the transformation in 2001, the Bank has challenged, flexed and evolved itself to become a fully-fledged commercial bank, catering to a wide spectrum of customer needs under one roof.

Reaching deeper into the financing and capital market segments of the country, the Bank has established its footprints in a host of finance related areas such as investment banking, securities trading, investment advisory, wealth management and property management through its Group entities. The amalgam of these Group Companies has created a financial structure unique to NDB. The wide range of financial services offered by the NDB Group is synonymous with a one-stop-shop of financial and capital market solutions to a multitude of customer segments such as individuals, start-up business ventures, SMEs and right up to the top-notch corporates.

2015 was characterized by several political and regulatory stances being initiated during the year, which had a mixed impact on the banking and financial services sector. The political power shift to a new regime in January 2015, passing of an Interim Budget in February 2015 by the new regime, downward revision of the policy rates of Standard Deposit Facility Rate and Standard Lending Facility Rate

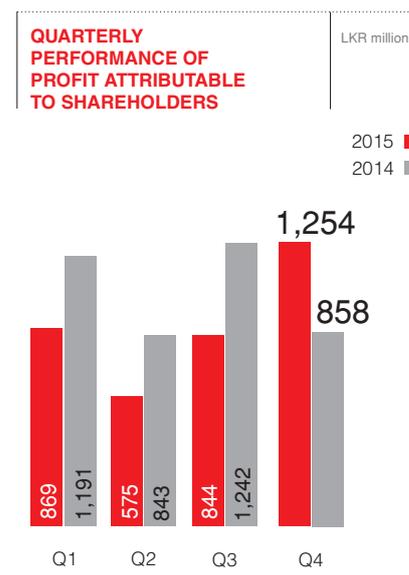
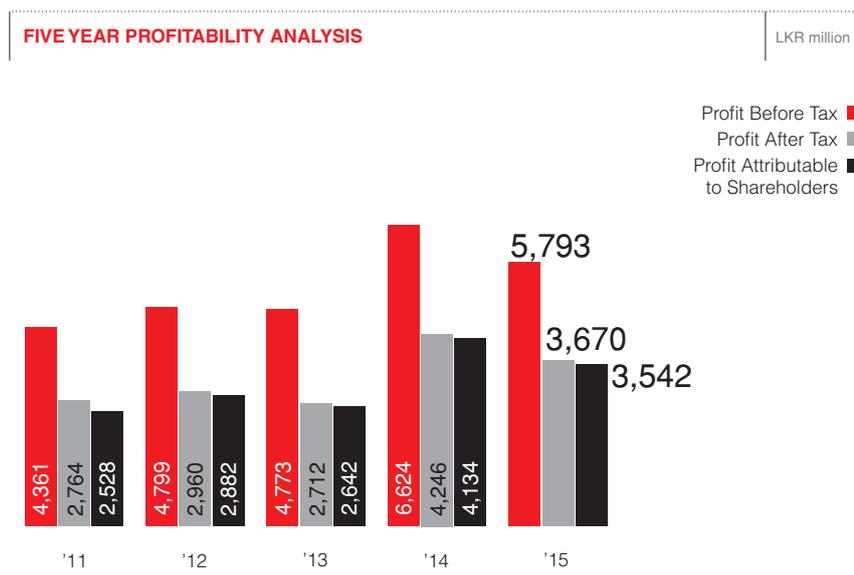
by 50 basis points in April 2015 and the adoption of a free float foreign exchange mechanism in September 2015 by the Central Bank of Sri Lanka were few highlights from 2015.

Amidst such macroeconomic challenges, the Bank and its Group Companies recorded solid growth levels, affirming its stance as a strong financial institution in the industry.

NDB Group Financial Performance at a Glance

| | 2015 LKR million | 2014 LKR million | 2013 LKR million | 2012* LKR million | 2011 LKR million |
|--|---------------------|---------------------|---------------------|----------------------|---------------------|
| NII | 7,807 | 7,913 | 7,012 | 5,896 | 4,910 |
| Net operating income | 12,545 | 12,437 | 10,288 | 14,887 | 8,010 |
| Profit before tax on financial services and share of associate companies' profits/(losses) | 5,793 | 6,624 | 4,773 | 10,830 | 4,361 |
| Profit after tax | 3,670 | 4,246 | 2,712 | 8,932 | 2,764 |
| Profit attributable to shareholders | 3,542 | 4,134 | 2,642 | 8,854 | 2,528 |
| Loans and receivables | 209,768 | 175,547 | 137,523 | 117,222 | 99,456 |
| Customer deposits | 184,152 | 151,485 | 129,423 | 107,394 | 82,094 |
| Total assets | 315,354 | 269,130 | 206,818 | 174,103 | 142,588 |
| Total liabilities | 285,953 | 240,331 | 181,454 | 148,394 | 124,750 |
| Shareholders funds | 28,382 | 27,876 | 24,516 | 24,883 | 16,926 |
| NPL Ratio (%) | 2.43 | 2.51 | 2.48 | 1.31 | 1.35 |
| CASA Ratio (%) | 25.61 | 24.30 | 25.20 | 23.94 | 22.86 |
| ROA (%) | 1.21 | 1.74 | 1.39 | 5.59 | 2.01 |
| ROE (%) | 12.59 | 15.78 | 10.70 | 42.35 | 15.69 |

*The one-off equity income of LKR 6,031 million in 2012 is included.



NDB Group Quarterly Financial Performance

NDB Group's quarterly financial performance has improved significantly during the latter half of the year. The political uncertainties that prevailed in the macroeconomic environment during the first half of the year, resulted in the relatively low growth levels experienced in profitability and the loans and receivables and customer deposit portfolios of the NDB Group.

| Year 2015 | 31 December LKR million | 30 September LKR million | 30 June LKR million | 31 March LKR million |
|-------------------------------------|----------------------------|-----------------------------|------------------------|-------------------------|
| Net operating income | 3,477 | 3,150 | 2,713 | 3,205 |
| Profit before tax | 1,674 | 1,418 | 1,010 | 1,691 |
| Profit after tax | 1,341 | 856 | 584 | 890 |
| Profit attributable to shareholders | 1,254 | 844 | 575 | 869 |
| Loans and receivables | 209,768 | 192,529 | 181,469 | 175,659 |
| Customer deposits | 184,152 | 169,040 | 169,721 | 162,428 |
| Total assets | 315,354 | 284,711 | 276,841 | 269,996 |
| Total liabilities | 285,953 | 254,655 | 247,229 | 240,943 |
| Shareholders' funds | 28,382 | 29,113 | 28,685 | 28,098 |

Total operating income, which is the total of Net Interest Income and Non-Interest Income, of the Bank for the 12 months ended 2015 was LKR 12,209 million, whilst the same figure at the Group level was LKR 13,291 million. The growth in Total operating income was 5% and 3%, at the Bank and Group levels, respectively.

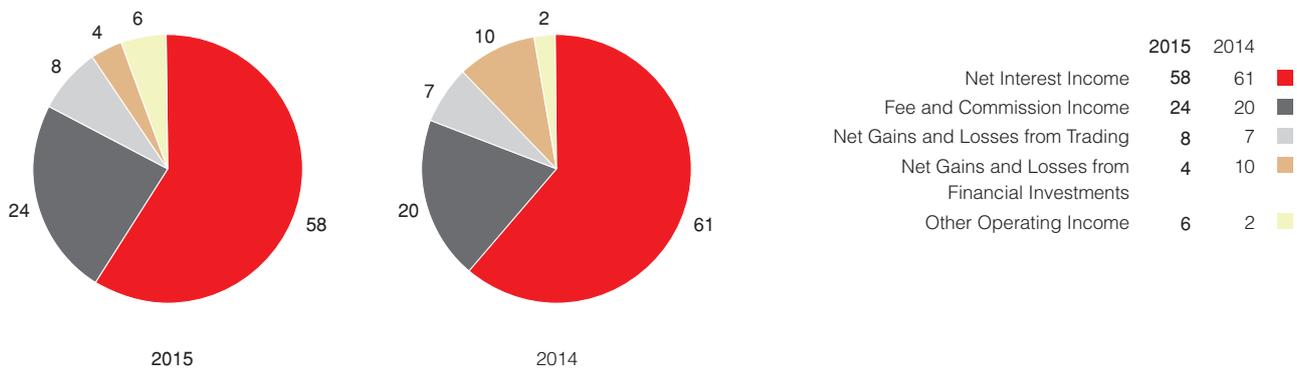
Net Interest Income contributed 58% to the Total Operating Income of the Group for the year as compared with a 62% contribution for the year 2014. This marginal decline was primarily due to the challenging credit growth environment experienced during the year. The contribution made by each income category to the 2015 Group Total Operating Income as compared with the year 2014 is given on page 44.

Total Operating Income

| | Bank | | | | Group | | | |
|------------------------|------------------|------------------|--------------------|-------------|------------------|------------------|--------------------|-------------|
| | 2015 LKR '000 | 2014 LKR '000 | Change LKR '000 | Change % | 2015 LKR '000 | 2014 LKR '000 | Change LKR '000 | Change % |
| Net interest income | 7,521,823 | 7,674,601 | (152,778) | (2) | 7,807,377 | 7,913,405 | (106,028) | (1) |
| Non-interest income | 4,687,462 | 3,987,367 | 700,095 | 18 | 5,483,931 | 5,052,650 | 431,281 | 9 |
| Total operating income | 12,209,285 | 11,661,968 | 547,317 | 5 | 13,291,308 | 12,966,055 | 325,253 | 3 |

COMPOSITION OF TOTAL OPERATING INCOME

%



Net Interest Income (NII)

| | Bank | | | | Group | | | |
|---|------------------|------------------|--------------------|-------------|------------------|------------------|--------------------|-------------|
| | 2015 LKR '000 | 2014 LKR '000 | Change LKR '000 | Change % | 2015 LKR '000 | 2014 LKR '000 | Change LKR '000 | Change % |
| Interest income – loans and receivables | 17,171,614 | 16,807,625 | 363,989 | 2 | 17,173,884 | 16,775,036 | 398,848 | 2 |
| Interest income – placements and other investments | 3,996,234 | 4,166,953 | (170,719) | (4) | 4,258,048 | 4,376,940 | (118,892) | (3) |
| Total interest income | 21,167,848 | 20,974,578 | 193,270 | 1 | 21,431,932 | 21,151,976 | 279,956 | 1 |
| Interest expenses – customer deposits | 8,157,526 | 8,748,429 | (590,903) | (7) | 8,137,635 | 8,730,048 | (592,431) | (7) |
| Interest expenses – other borrowings | 5,488,499 | 4,551,548 | 936,951 | 21 | 5,486,920 | 4,508,523 | 978,397 | 22 |
| Total interest expenses | 13,646,025 | 13,299,977 | 346,048 | 3 | 13,624,555 | 13,238,571 | 385,984 | 3 |
| Net interest income | 7,521,823 | 7,674,601 | (152,778) | (2) | 7,807,377 | 7,913,405 | (106,028) | (1) |
| Net interest margin as a percentage of average total assets (%) | 2.63 | 3.31 | -0.68 | (21) | 2.63 | 3.31 | -0.68 | (21) |

The NII of the Bank for the twelve months ended 31 December 2015 was LKR 7,522 million. This was a LKR 153 million or 2% decrease over the NII of 2014. Whilst the interest income on loans and receivables and the interest expenses on the customer deposits had a positive impact on the Net Interest Income, there was a negative impact from the investment portfolio and the borrowings, which resulted in the marginal decrease in NII over the previous year. The increase in the interest income from loans

and receivables was predominantly due to the increase in the volumes amidst pressurized interest yields. It is expected that the significant portfolio growth experienced by the Bank during the latter half of the year would benefit the Bank's Net Interest Income during the first quarter of 2016, given the current interest rate environment.

The Bank continued its vigilant focus on balance sheet structuring, effective sourcing of funds and utilization of funds during 2015 as well. The increase

of the interest expenses on borrowings by 21% was due to a public placement of a debenture and institutional foreign borrowings in line with the funding strategy adopted by the Bank, in addition to sourcing funding through customer deposits.

Net interest margin (NIM) of 2.63% based on total average assets of the Bank however, recorded a drop of 68 basis points over the prior year. Improving NIM remains a key strategic focus for the Bank.

Non-Interest Income

| | Bank | | | | Group | | | |
|--------------------------------------|------------------|------------------|--------------------|-------------|------------------|------------------|--------------------|-------------|
| | 2015 LKR '000 | 2014 LKR '000 | Change LKR '000 | Change % | 2015 LKR '000 | 2014 LKR '000 | Change LKR '000 | Change % |
| Net fee and commission income | 2,016,258 | 1,866,242 | 150,016 | 8 | 3,156,841 | 2,564,095 | 592,746 | 23 |
| Net gains from trading | 1,088,464 | 910,027 | 178,437 | 20 | 1,088,464 | 910,027 | 178,437 | 20 |
| Net gains from financial investments | 262,048 | 716,507 | (454,459) | (63) | 493,739 | 1,250,884 | (757,145) | (61) |
| Other operating income | 1,320,691 | 494,591 | 826,100 | 167 | 744,887 | 327,644 | 417,243 | 127 |

Net fee and commission income of the Bank grew by 8% to reach LKR 2,016 million, whilst the Group recorded LKR 3,157 million, a 23% growth over the previous year. Key contributors to the Bank's Net fee and Commission Income were trade services, remittances, credit card operations and fee-based operations related to lending and deposit mobilization.

The capital market cluster of the NDB Group, whose operations are predominantly fee based, was also a key contributor to the Group's fee-based income. Services generating fee-based income at the capital market cluster companies are equity raising activities as IPOs, debt trading activities such as debenture issuances, corporate advisory services, investment portfolio management and investment in private equities.

Net gains from trading which represents the income from foreign exchange includes gains and losses from spot and forward contracts and other currency derivatives, and was a 20% increase over the prior year.

Net gains from financial investments for the year ended 31 December 2015 was LKR 262 million at the Bank level and LKR 494 million at the Group level. The corresponding percentage decreases compared to the prior year were 63% and 61% respectively. The income is primarily from gains/(losses) from Government Debt Securities and Unit Trust Investments. The reduction in the net gains from financial investments in 2015 over 2014 was mainly due to the large marked to market gains earned during 2014. This was due to the Bank

benefiting from the volatilities in the securities trading market which was a result of the relatively low interest rates that prevailed during 2014.

Other operating income recorded a notable growth at both the Bank and the Group level of 167% and 127% respectively. The growth in other income was primarily due to the higher exchange gain earned on the revaluation of the foreign currency book of the Bank due to adoption of a free float foreign exchange mechanism by the Central Bank of Sri Lanka, in September 2015.

Impairment for Loans and Receivables and Other Losses

| | Bank | | | | Group | | | |
|---|------------------|------------------|--------------------|-------------|------------------|------------------|--------------------|-------------|
| | 2015 LKR '000 | 2014 LKR '000 | Change LKR '000 | Change % | 2015 LKR '000 | 2014 LKR '000 | Change LKR '000 | Change % |
| Individual impairment | 561,163 | 141,432 | 419,731 | 297 | 561,163 | 141,433 | 419,731 | 297 |
| Collective impairment | 150,670 | 387,275 | (236,606) | (61) | 150,670 | 387,276 | (236,606) | (61) |
| Other losses | – | 37,294 | (37,294) | (100) | 34,312 | – | 34,312 | 100 |
| Total impairment charge for loans and receivables | 711,833 | 566,003 | 145,830 | 26 | 746,145 | 528,708 | 217,437 | 41 |

The Bank continued the adoption of the Sri Lanka Accounting Standards LKAS 32 – 'Financial Instruments: Presentation' and LKAS 39 – 'Financial Instruments: Recognition and Measurement'. The computation of the impairment provisions of the Group are governed by a Board approved Impairment Policy. The Bank and the Group have in place, a robust risk management framework, which ensures an effective risk assessment process for individually significant loans and loans that are considered on a collective basis. This assessment takes into account past due status, loss data and the economic factors relevant to each portfolio segment. The impairment computation process of the Bank is continuously reviewed and improvements are effected as needed. As was in 2014, there were no significant adjustments to the provisions as a result of such improvements done during 2015.

Accordingly, impairment charges for loans and receivables and other losses of the Bank was LKR 712 million for the year ended 31 December 2015, an increase of 26% over the prior year.

The increase in the individual impairment charge was primarily due to the Bank's prudent adoption in fair valuing the impaired loans based on sound judgment and objective evidence of future recoveries. The decrease in the collective impairment allowances, which was based on a Board approved impairment provisioning model, was primarily due to the improvement in asset quality, despite the growth in loans and receivables over the prior year.

There were no significant impairment charges for loans and receivables and other losses in the Group Companies as their portfolios contain only staff loans, which are recovered through the staff payrolls. Provisions made for other

losses in the Group include impairment provisions made for fall in net assets value of Group investments.

The impairment allowances as a percentage of gross loans and receivables are given below:

| | 2015 LKR million | 2014 LKR million |
|---|---------------------|---------------------|
| Impairment allowances for loans and receivables | 5,410 | 5,014 |
| Gross loans and receivables | 215,012 | 180,189 |
| Percentage of impairment allowance (%) | 2.52 | 2.78 |

Total Operating Expenses

| | Bank | | | | Group | | | |
|--------------------------|------------------|------------------|--------------------|-------------|------------------|------------------|--------------------|-------------|
| | 2015 LKR '000 | 2014 LKR '000 | Change LKR '000 | Change % | 2015 LKR '000 | 2014 LKR '000 | Change LKR '000 | Change % |
| Personnel expenses | 3,204,229 | 2,872,738 | 331,491 | 12 | 3,633,627 | 3,172,387 | 461,240 | 15 |
| Other expenses | 2,845,350 | 2,436,454 | 408,896 | 17 | 3,196,253 | 2,738,228 | 458,025 | 17 |
| Total operating expenses | 6,049,578 | 5,309,192 | 740,386 | 14 | 6,829,880 | 5,910,615 | 919,265 | 16 |

Total operating expenses of the Bank for the year ended 31 December 2015 was LKR 6,050 million, whilst the same figure for the Group was LKR 6,830 million. The Bank and the Group recorded a 14% and a 16% increase in total operating expenses over the prior year, respectively.

The personnel costs of the Bank recorded a 12% growth and at a Group level the increase was 15% over the comparative year. This was mainly due to the increase in staff numbers at the Bank in line with the increase in the network and the annual remuneration increases.

Other expenses primarily include office administration and establishment expenses, depreciation of property, plant & equipment, amortization of intangible assets and deposit insurance expenses. The increase of

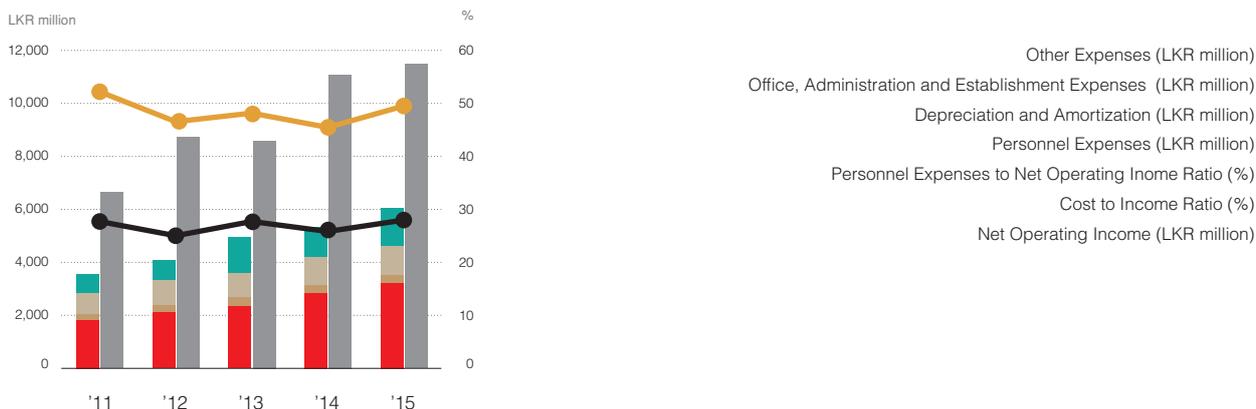
17% both at a Bank level and a Group level over the previous year was mainly due to the addition of ten new branches during the year and general price increases.

Operational Efficiency

Operational excellence and cost optimization are two of the seven pillars of the Bank's strategy spanning five years from 2014 to 2018. The execution of these strategic pillars has yielded considerable benefits in terms of cost savings and operational efficiencies.

The cost to income ratio (CIR) of the Bank for 2015 was 49.6% and compares with a CIR of 45.5% in 2014. Despite the year-on-year increase in the CIR predominantly attributable to network expansion costs, the Bank has well managed its CIR within the industry norms.

OPERATIONAL EFFICIENCY INDICATORS VS NET OPERATING INCOME



Taxation

| | Bank | | | | Group | | | |
|---|------------------|------------------|--------------------|-------------|------------------|------------------|--------------------|-------------|
| | 2015 LKR '000 | 2014 LKR '000 | Change LKR '000 | Change % | 2015 LKR '000 | 2014 LKR '000 | Change LKR '000 | Change % |
| Value Added Tax on Financial Services | 770,441 | 882,444 | (112,003) | (13) | 770,441 | 882,444 | (112,003) | (13) |
| Nation Building Tax on Financial Services | 140,001 | 146,806 | (6,805) | (5) | 140,001 | 146,806 | (6,805) | (5) |
| Income Tax | 1,026,002 | 1,339,459 | (313,457) | (23) | 1,212,564 | 1,348,784 | (136,220) | (10) |

Tax on financial services comprising Value Added Tax on Financial Services and Nation Building Tax on Financial Services was a total LKR 910 million for the 12 months ended 31 December 2015 at the Bank level, as well as at the Group level.

Income tax including deferred tax expenses was LKR 1,026 million for the Bank and LKR 1,213 million for the Group, for the twelve months ended 31 December 2015.

The Effective Tax Rate of the Group for the year ended was 36.6% against the total statutory effective tax rate of 42%. The predominant reason for the Group's lower Effective Tax Rate than the statutory rate is fee-based nature of the principal activities of the

subsidiaries and the investment income on unit trusts, which are exempt from income tax.

Super Gain Tax

As per the Finance (Amendment) Act No. 10 of 2015 dated 30 October 2015 an additional one-off tax named Super Gain Tax was imposed by the Government on specified corporates and individuals, for which the NDB Group was also liable. The tax liability was 25% of the taxable profits for the year of assessment 2013/14.

The total Super Gain Tax liability of the Group was LKR 854 million, which was paid in three equal tranches of LKR 285 million commencing from October 2015 to December 2015.

The Super Gain Tax liability for the Group was accounted and paid through the retained earnings at the beginning of the year.

Profit Attributable to Shareholders (PAS)

The PAS for the year was LKR 3,542 million and the contribution from the core banking operations and the Group share of profits for the year 2015 was 74% and 26% respectively.

Total Comprehensive Income for the Year

| | Bank | | | | Group | | | |
|---|------------------|------------------|--------------------|-------------|------------------|------------------|--------------------|-------------|
| | 2015 LKR '000 | 2014 LKR '000 | Change LKR '000 | Change % | 2015 LKR '000 | 2014 LKR '000 | Change LKR '000 | Change % |
| Profit for the year | 3,511,431 | 3,418,064 | 93,366 | 3 | 3,670,095 | 4,245,972 | (575,875) | (14) |
| Total other comprehensive income | (513,191) | 1,127,051 | (1,640,242) | (146) | (385,936) | 1,140,692 | (1,526,628) | (134) |
| Total comprehensive income for the year | 2,998,240 | 4,545,115 | (1,546,876) | (34) | 3,284,159 | 5,386,664 | (2,102,503) | (39) |

Total other comprehensive income (OCI) of the Bank was a negative LKR 513 million as compared with an income of LKR 1,127 million for the previous year. The Bank revalued its land and building during the year 2014, which resulted in revaluation gains before tax of LKR 1,084 million. The loss from total other comprehensive income for the year 2015 mainly includes temporary marked to market losses on the Bank's investments portfolio classified as 'Available-for-Sale'.

Accordingly, the total comprehensive income of the Bank for the year was LKR 2,998 million as compared with LKR 4,545 million for the previous year and the decline of 34% was due to the reasons explained above.

Total Assets

The Bank recorded a growth of 18% in total assets as at the year-end over the corresponding year end. Accordingly, the total asset base crossed the LKR 300 billion mark to reach LKR 309 billion. This growth rate is a close replication of the industry wide assets growth for the year 2015. The Group's total asset base also reached LKR 315 billion (a year on year growth of 17%) by the end of the year.

Loans and Receivables

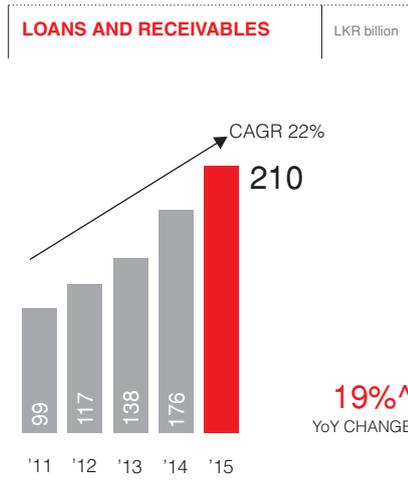
Loans and receivables net of impairment allowances was a commendable growth of 19% at the Bank, to reach LKR 210 billion as at 31 December 2015. Whilst all business

segments contributed towards this growth of LKR 34 billion, project and infrastructure financing loans, SME loans, leasing and other consumer lending products, were the main contributors.

The Bank is committed to improving its business volumes through innovative and effective product features within a constrained interest margin environment. The Bank continues to nurture the surging industries in the Sri Lankan economy, with special focus on a host of emerging SME ventures.

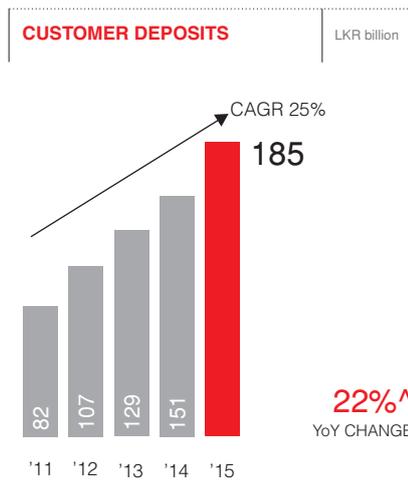
Statement of Financial Position

| | Bank | | | | Group | | | |
|---|------------------|------------------|--------------------|-------------|------------------|------------------|--------------------|-------------|
| | 2015 LKR '000 | 2014 LKR '000 | Change LKR '000 | Change % | 2015 LKR '000 | 2014 LKR '000 | Change LKR '000 | Change % |
| Total assets | 309,157,605 | 262,729,146 | 46,428,459 | 18 | 315,353,733 | 269,129,605 | 46,224,132 | 17 |
| Loans and receivables | 209,704,701 | 175,486,347 | 34,218,354 | 19 | 209,768,193 | 175,547,050 | 34,221,143 | 19 |
| Investments | 73,876,704 | 69,137,786 | 4,738,918 | 7 | 77,257,188 | 72,970,513 | 4,286,675 | 6 |
| Total liabilities | 286,456,747 | 240,490,954 | 45,965,796 | 19 | 285,953,016 | 240,331,186 | 45,621,830 | 19 |
| Customer deposits | 184,933,230 | 151,823,715 | 33,109,515 | 22 | 184,152,280 | 151,485,201 | 32,667,079 | 22 |
| Debt securities issued and other borrowed funds | 60,527,844 | 61,955,460 | (1,427,616) | (2) | 60,497,844 | 61,925,802 | (1,427,957) | (2) |
| Subordinated term debts | 19,573,883 | 11,149,439 | 8,424,444 | 76 | 19,573,883 | 11,149,439 | 8,424,444 | 76 |
| Shareholders' funds | 22,700,858 | 22,238,192 | 462,664 | 2 | 28,382,204 | 27,875,773 | 506,430 | 2 |



Customer Deposits

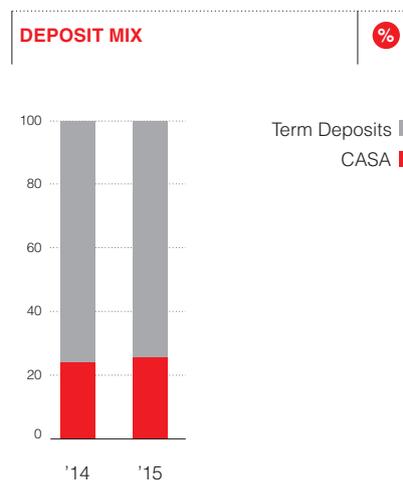
Customer deposits also recorded a commendable growth of 22% to reach LKR 185 billion. This was a LKR 33 billion increase over the prior year.



The Current Accounts and Savings Accounts (CASA) ratio of the Bank improved to 26% by the end of 2015 from a CASA ratio of 24% in 2014. The Bank intensified its efforts in expanding its low cost deposit base comprising of current and saving accounts during the year. Streamlining the Bank's savings deposit products into two

broad clusters of 'Easy Saver' and 'Big Saver' from which customers are able to choose savings accounts which suit their income and saving patterns was a major initiative rolled-out during the year. The campaign is led by the slogan 'Savings solutions – For you to choose from'. Furthermore, the Bank conducted CASA boosting initiatives amongst the staff members as well.

NDB's commercial banking operations have been in existence for just over 10 years. Prior to obtaining commercial banking status, the Bank was predominantly financed through institutional credit funds. As such the Bank's conversion from a zero CASA status to its current level over a short span of ten years is commendable. Furthermore, with the planned aggressive expansion of the operations of the Bank, the CASA ratio is expected to further improve, deriving the benefits of enhanced interest margins for the Bank.



Debt Securities Issued and Other Borrowed Funds

Debt securities issued and other borrowed funds include concessionary credit lines and refinancing borrowings and institutional borrowings.

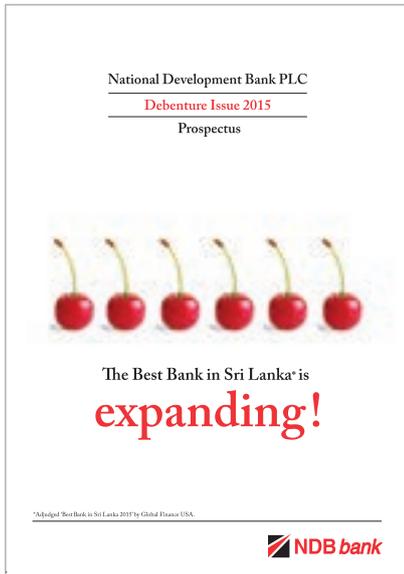
The Bank's Institutional Borrowings include, borrowing from DEG (Deutsche Investitions – und Entwicklungsgesellschaft GmbH), FMO (Nederlandse Financierings-Maatschappij voor), IFC – International Finance Corporation and Proparco which is a partially-owned Subsidiary of AFD (Agence Française de Développement). During the year 2014, the Bank entered into an agreement with Proparco and FMO for a syndication loan of USD 75 million, and commenced draw down in 2015.

Under the IFC Syndication loan, the Bank received a total of USD 200 million in 2014, out of which the Bank successfully repaid USD 105 million in March 2015, at the end of the twelve month maturity. The remaining two tranches of USD 20 million and USD 75 million, continue to be in operation for a tenor of 7 years. The Bank entered into a SWAP agreement with the Central Bank of Sri Lanka to minimize the foreign exchange risk on these loans and the agreement will be reviewed each year, over the tenor of the loan.

Funds received from institutional borrowings were infused to finance small and medium-sized enterprises and infrastructure-related projects.

Subordinated Term Debts

During the year, the Bank issued rated unsecured redeemable debentures with a face value of LKR 10 billion. The debentures were issued in two types – one issued at par value carrying a coupon of 9.4% p.a. and the other issued at a discounted price as zero coupon bonds. Both types of debentures were issued with a maturity period of five years.



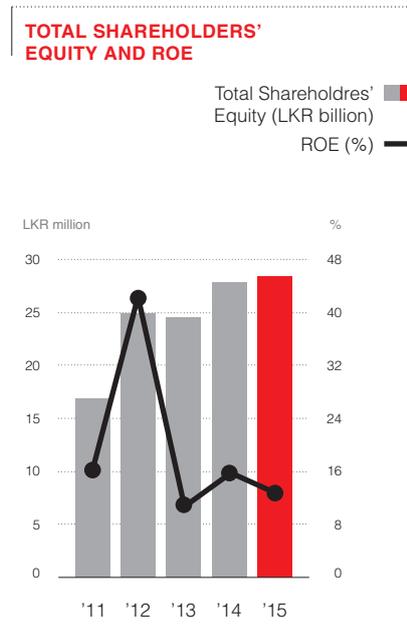
In addition to the above debentures, the Bank's subordinated debt comprises the rated debentures issued in December 2013, and other subordinated institutional debt. Accordingly, total subordinated debt of the Bank as at end 2015 was LKR 19.6 billion. All of these subordinated debts qualify for Tier II capital of the Bank as per Basel guidelines and as approved by the Central Bank of Sri Lanka.

More information on the Bank's listed and unlisted debentures is available in the Investor Relations Section on pages 282 to 284 of this Report.

Total Shareholders' Equity

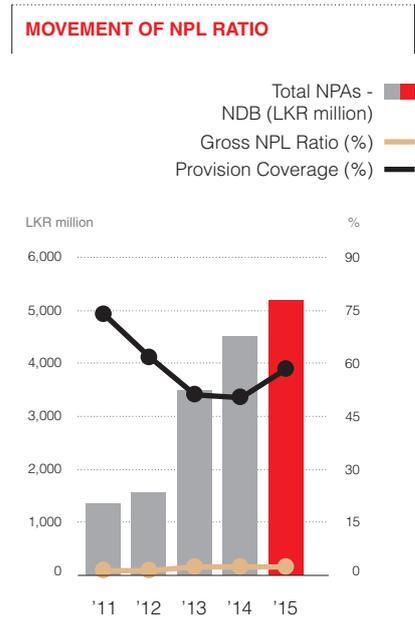
Total shareholders' equity of the Bank and the Group stood at LKR 22.7 billion and LKR 28.4 billion respectively as at the end of 2015. The movement in shareholders' equity over the previous year primarily includes the profit attributable to shareholders for the year net of the final dividends paid for the year 2014 and the interim dividend payment for the year 2015.

Group Return on shareholders' funds (ROE) was 12.59% for the year ended 31 December 2015 and compares with a ratio of 15.78% for the previous year.

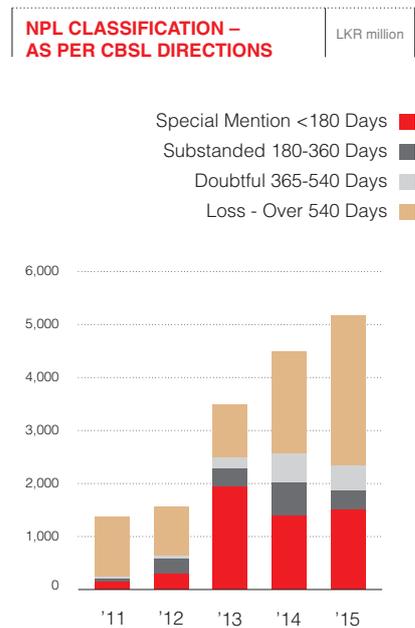


Asset Quality

Non-Performing Loan ratio (NPL) of the Bank improved to 2.43% as at 31 December 2015 from 2.51% as at the previous year-end. The Bank has consistently maintained its NPL ratio well below the industry average, and the improvement in the ratio over the prior year is a clear reflection of the strong reviewing, monitoring and recovery processes which exist within the Bank over its credit portfolios. The Bank's NPL cover, which is a percentage of specific provisions made as per the time based provisions mandated by the Central Bank of Sri Lanka over the Gross Non-Performing Loans of the Bank, was 58.7% by the end of 2015. The Bank has maintained a sound NPL coverage over the years, as depicted below:



Given below is an analysis of the Bank's non-performing loans based on the credit risk classification of the Central Bank of Sri Lanka.



Capital Adequacy

| | BANK | | GROUP | |
|---|--------|--------|--------|--------|
| | 2015 | 2014 | 2015 | 2014 |
| Eligible Tier I capital – LKR million | 20,018 | 19,888 | 27,154 | 26,952 |
| Eligible Tier II capital – LKR million | 9,596 | 9,044 | 10,263 | 9,659 |
| Capital base (Tier I + Tier II) | 29,614 | 28,932 | 37,417 | 36,611 |
| Tier I capital adequacy ratio (%) | 8.51 | 10.09 | 11.07 | 12.92 |
| Tier I & Tier II capital adequacy ratio (%) | 12.59 | 14.68 | 15.25 | 17.55 |

A strong capital base has been NDB's long-standing strength. Whilst the Bank's and the Group's capital is nourished by regular profits, the Bank also paid consistent dividends in line with the Bank's dividend policy. The Bank has well understood the need for additional capital in order to support its business expansion and will ensure that this remains a strategic priority for the year 2016.

A detailed calculation on capital adequacy is available on pages 255 to 259 of this Report.

Liquidity

| | 2015 % | 2014 % |
|--|-----------|-----------|
| Statutory liquid ratio – DBU | 22.24 | 23.85 |
| Statutory liquid ratio – FCBU | 24.91 | 25.18 |
| Regulatory minimum for statutory liquid ratio (DBU & FCBU) | 20.00 | 20.00 |

The Bank has consistently maintained its liquidity levels well above the regulatory requirements. Beyond the regulatory minimum, the Bank takes conscious efforts to strike the optimum balance between liquidity and profitability in managing its operations.

Shareholder Return Indicators

A detailed discussion on the key shareholder return indicators is available in the Investor Relations section on pages 279 to 281 of this Report.

Financial Value Added

The Bank is engaged in the creation and distribution of financial value through its operations. Amongst the beneficiaries of such value distribution are employees, providers of capital, the Government of Sri Lanka and the community at large. In addition to the external distribution of value created, a certain portion is retained within the business for expansion and growth purposes.

Presented below is a five-year analysis of the Bank's financial value addition and distribution:

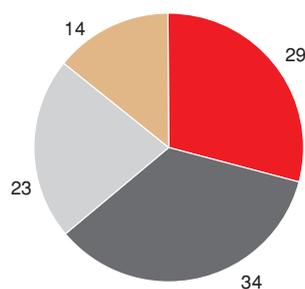
Financial Value Added and Distribution

| For the year ended December 31 | 2015 | | 2014 | | 2013 | | 2012 | | 2011 | |
|---|---------------|----------|---------------|----------|---------------|----------|--------------|----------|--------------|----------|
| | LKR million | Change % | LKR million | Change % | LKR million | Change % | LKR million | Change % | LKR million | Change % |
| Value added | | | | | | | | | | |
| Income from banking services | 24,924 | | 24,518 | | 23,556 | | 19,448 | | 13,306 | |
| Cost of services | (14,250) | | (13,998) | | (15,858) | | (13,038) | | (8,282) | |
| Value added by banking services | 10,674 | | 10,520 | | 7,698 | | 6,410 | | 5,023 | |
| Non-banking income | 931 | | 444 | | 6,100 | | 754 | | 228 | |
| Impairment charges for loans and receivables and other losses | (712) | | (566) | | (1,238) | | (106) | | (68) | |
| Total | 10,893 | | 10,398 | | 12,560 | | 7,058 | | 5,184 | |

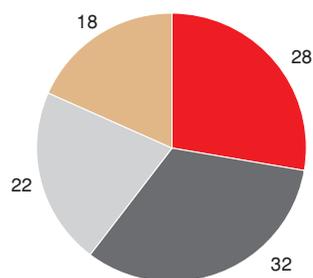
| For the year ended December 31 | 2015 | | 2014 | | 2013 | | 2012 | | 2011 | |
|---------------------------------------|---------------|------------|---------------|------------|---------------|------------|--------------|------------|--------------|------------|
| | LKR million | Change % | LKR million | Change % | LKR million | Change % | LKR million | Change % | LKR million | Change % |
| Distribution of value added | | | | | | | | | | |
| To employees | | | | | | | | | | |
| Salaries and other benefits | 3,204 | 29 | 2,873 | 28 | 2,389 | 19 | 2,173 | 31 | 1,838 | 35 |
| To providers of capital | | | | | | | | | | |
| Dividends to equity holders | 1,815 | | 1,978 | | 3,222 | | 657 | | 880 | |
| Interest to debenture holders | 1,840 | | 1,378 | | 95 | | – | | – | |
| Total to providers of capital | 3,655 | 34 | 3,356 | 32 | 3,317 | 26 | 657 | 9 | 880 | 17 |
| To Government | | | | | | | | | | |
| Income tax | 872 | | 1,213 | | 854 | | 1,023 | | 792 | |
| Financial Services VAT | 770 | | 882 | | 911 | | 622 | | 505 | |
| Nation Building Tax | 140 | | 147 | | – | | – | | – | |
| Corporate Insurance Levy | 23 | | 24 | | 77 | | – | | – | |
| Super gain tax | 732 | | – | | – | | – | | – | |
| Total Government | 2,537 | 23 | 2,266 | 22 | 1,842 | 15 | 1,645 | 23 | 1,297 | 25 |
| For expansion and growth | | | | | | | | | | |
| Retained profit | 964 | | 1,440 | | 4,501 | | 2,267 | | 951 | |
| Depreciation/amortization | 370 | | 323 | | 302 | | 265 | | 227 | |
| Deferred taxation | 154 | | 127 | | 194 | | 38 | | (17) | |
| Total for expansion and growth | 1,488 | 14 | 1,890 | 18 | 4,997 | 40 | 2,570 | 36 | 1,160 | 22 |
| To community investments | | | | | | | | | | |
| Donations | 8 | | 13 | | 14 | | 13 | | 9 | |
| Total to community | 8 | 0 | 13 | 0 | 14 | 0 | 13 | 1 | 9 | 0 |
| Total distributed | 10,893 | 100 | 10,398 | 100 | 12,560 | 100 | 7,058 | 100 | 5,184 | 100 |

COMPOSITION OF FINANCIAL VALUE ADDED AND DISTRIBUTION

%



2015



2014

| | 2015 | 2014 | |
|----------------------|------|------|---|
| Employees | 29 | 28 | ■ |
| Providers of Capital | 34 | 32 | ■ |
| Government | 23 | 22 | ■ |
| Expansion and Growth | 14 | 18 | ■ |

Economic Value Addition

Economic Value Addition (EVA) is defined as the excess value created over the required return of the Bank's investors who comprise shareholders and debtholders. EVA is a measurement of profit distinct from that of financial profit. The Bank well recognizes the importance of this concept hence computes and presents the Economic Value Added by the Bank for the financial year under review, as well as four prior years as given below:

| For the year ended December 31 | 2015 LKR million | 2014 LKR million | 2013* LKR million | 2012 LKR million | 2011 LKR million |
|---|---------------------|---------------------|----------------------|---------------------|---------------------|
| Invested Equity | | | | | |
| Shareholders' funds | 22,701 | 22,238 | 19,620 | 14,942 | 12,675 |
| Add: Allowance for impairment charges for loans and receivable | 5,517 | 5,121 | 4,379 | 2,972 | 3,029 |
| Total | 28,218 | 27,359 | 23,999 | 17,914 | 15,704 |
| Earnings | | | | | |
| Profit after tax and dividend on preference shares | 3,511 | 3,418 | 7,723 | 2,924 | 1,831 |
| Add: Impairment changes for loans and receivables and other losses | 712 | 566 | 1,238 | 106 | 68 |
| Less: Loan losses written-off | (34) | (64) | (76) | (67) | (6) |
| Total | 4,189 | 3,920 | 8,885 | 2,963 | 1,893 |
| Cost of equity (Based on 12 months weighted average T-bill rate plus 2% for risk premium) | 8.63% | 10.24% | 12.63% | 14.02% | 9.50% |
| Cost of average equity | 2,398 | 2,630 | 2,647 | 2,357 | 1,386 |
| Economic value addition | 1,791 | 1,291 | 6,238 | 607 | 506 |

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

Performance of Business Units

The discussion thus far reviewed the overall performance of the Bank and the Group in the context of financial value creation and capital formation. Given below is a more detailed review of the financial performance of the Bank's principal lines of business, namely, commercial banking, Islamic banking, project & infrastructure financing, retail banking, micro & SME financing and treasury followed by a snapshot of the group companies.

Commercial Banking

The commercial banking arm of the Bank, plays an important role in providing comprehensive working capital solutions to large and medium size businesses in the country. More recently, our services have expanded

to include facilities for local companies to expand their businesses in overseas markets such as the Maldives, Bangladesh and Uganda.

Strategic Focus

In line with national growth strategies, our commercial banking activities during the year covered loans to companies in sectors such as construction, property development, agriculture (including tea, paddy and related crops), business process outsourcing (BPO) and tourism. Going beyond the traditional large and medium sectors, we have included Distributor Financing and Supplier Financing to our product portfolio. This strategic initiative expands our commercial banking reach indirectly to the rural sector through our branch network by facilitating financial solutions down the entire value chain.

Performance

Our commercial banking products include import and export loans, guarantees, overdraft, short-term loans and advanced treasury products. Accompanied with seamless processes and a professional relationship management team, the business caters to the growth of existing and new customers.

The low interest regime and squeeze in interest margins that prevailed during the year, shifted our focus to volume growth. The continuation of sanctions on Iran and Syria together with the unfavourable economic and political situation in the Middle Eastern and former Soviet bloc countries, had a negative impact on the export sector, resulting delays in collections and slowdown in business. Local banks in turn were thus affected by extended

and restructured credit and stretched working capital cycles.

The commercial banking asset portfolio grew by 5% during 2015 (2014:11%), while the liability base grew by 36% (2014: 3%), with the CASA ratio maintained at a favourable level of 31%.

However, total income recorded a 16% YoY decline in 2015 (2014: 3% growth). Net interest income (NII) decline 20% (2014: 3% decline), while fee-based income saw a 9% decline (2014: 4% decline), which tilted the NII: Fee ratio from 69% in 2014 to 67% in 2015. As in the past five years or more, the cost to income ratio was kept below 28%.

The non-performing loans were adversely affected mainly due to some changes in the textile and garment sector resulting from external issues on which the Bank had no control.

Commercial Banking – Key Performance Indicators

| Indicator | 2015 LKR million | 2014 LKR million | YoY Change % |
|-----------------------------|---------------------|---------------------|--------------------|
| Income | 2,816 | 3,367 | (16) |
| Profit before tax | 968 | 2,672 | (64) |
| Profit after tax | 581 | 1,603 | (64) |
| Non-performing loans | 2,081 | 629 | 231 |
| Cost to income ratio (%) | 27.7 | 23.8 | 16 |
| Total loans and receivables | 79,301 | 75,796 | 5 |

Adaptation of 'SLAS 36 - Impairment of Assets' on a monthly basis has further enabled the Bank to identify the early warning signals along many angles. We maintain a proactive approach in addressing possible delays and non-repayment of loans and take necessary action where required.

Outlook

The new economic policies of the Government and improved international relations create optimism for greater foreign direct investments (FDI). While exploiting new business opportunities, our attention will be on exports, construction and agriculture sectors in the near term. Further, in an environment of low interest rates and tight net interest margins, a determined effort will be made to grow fee-based income.

Geared by ISO 9001: 2008-certified 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 2016 with optimism.

Project and Infrastructure Financing

With its roots firmly embedded in development banking, our project & infrastructure finance (PIF) business completed yet another successful year in providing long-term financing to corporate customers.

Strategic Focus

As part of Bank's overall strategy, PIF formulated its strategic direction for the next five years in the latter part of 2013 and it was revalidated in 2015. PIF executed the said strategy successfully by implementing key strategic initiatives through approving 8 overseas projects totalling to a value of USD 87 million and by disbursing LKR 7.4 billion to domestically funded infrastructure projects.

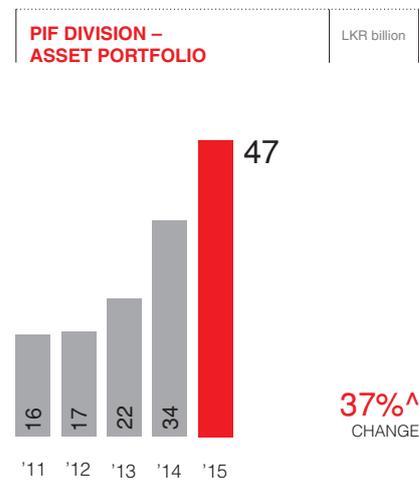
Performance

Year 2015 was challenging, due to the continued low interest rate regime that saw net margins of financial institutions being stressed to an unprecedented level. Nevertheless, PIF completed a satisfactory year with a 37% asset book growth.

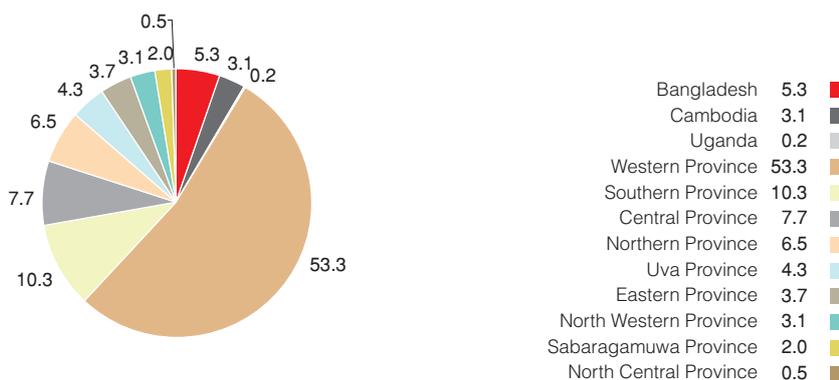
PIF functions on a long-term relationship model with a customer centric approach which focuses on fundamental understanding of their businesses. This, together with qualified, multidisciplinary and experienced staff, have been our key success factors.

The term loans/leases and securitizations accounted for approximately 82% and 11% of the total asset portfolio at the end of 2015 respectively, while investments in debentures accounted for the balance 7%.

Our first Islamic long-term financing solution (Diminishing Musharakah), was approved and disbursed during the year.



PIF PORTFOLIO AS AT 31 DECEMBER 2015 - BY GEOGRAPHICAL DISTRIBUTION



A substantial reduction in NPL ratio from 1.7% to 0.4% was achieved by reviving a significantly large leisure sector project.

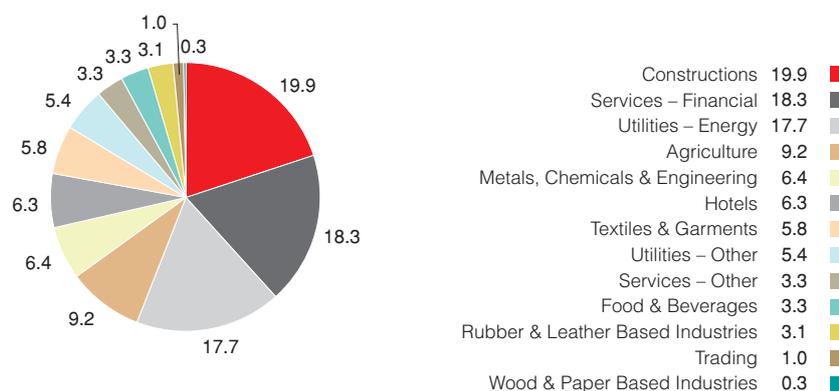
Outlook

The stressed net interest income margins scenario is likely to remain as a challenge for all financial institutions during the year ahead. While seeking to increase the share of fee-based income sources and optimally managing costs, the Bank will search for avenues for sourcing matching funds to finance long tenure accommodations.

Overseas lending activities contributed to 9% of the total assets of the PIF as at 31 December 2015. These include a large facility to a thermal power plant in Bangladesh, a manufacturing facility in Uganda and an 'inclusive financing' project in Cambodia. Further, another thermal power plant in Bangladesh, a hydropower project in Uganda and a strategic infrastructure rehabilitation project in the Maldives were approved during the year which are expected to fuel the next years' portfolio growth.

PIF will continue to look for opportunities in the global arena, to finance projects of established offshore corporates. Further, as a responsible financial partner, financing power projects, that applies novel technologies of harnessing energy through renewable sources, would be favorably considered by PIF. The Bank is also set to become a strong force in providing long-term Islamic banking solutions.

PIF PORTFOLIO AS AT 31 DECEMBER 2015 - BY SECTORAL COMPOSITION



Retail Banking

The Bank ventured into retail banking during 2005. From a modest beginning we have 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.

Strategic Focus

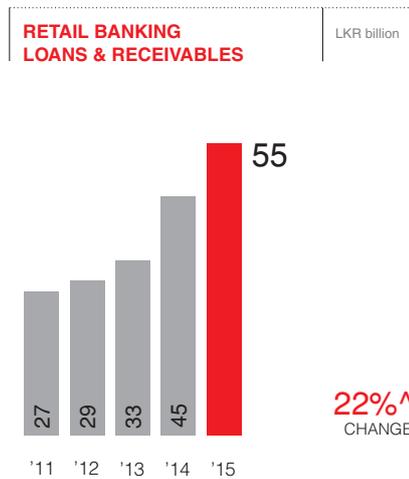
Given its appeal to a broad customer base, our retail banking business often serves as the 'face' of the Bank, taking forward the NDB brand name to all parts of Sri Lanka. This aspect assumes strategic importance for the Bank and the Group as the Bank launches its 'brand refresh' campaign with the tag line 'our commitment, your success'.

PIF – Key Performance Indicators

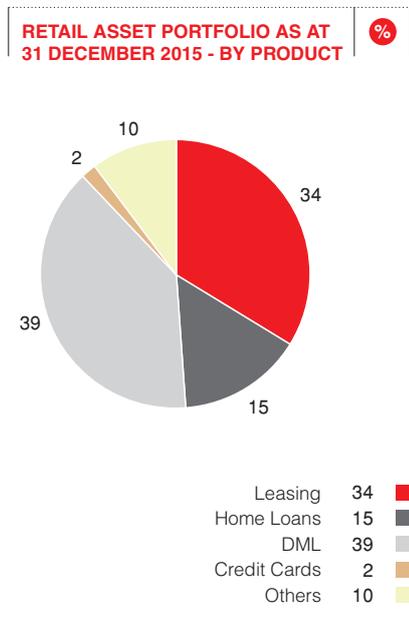
| Indicator | 2015 | 2014 | YoY Change % |
|---|-------------|-------------|--------------|
| | LKR million | LKR million | |
| Income | 3,706 | 3,297 | 13 |
| Profit before tax | 642 | 356 | 80 |
| Profit after tax | 407 | 235 | 73 |
| Non-performing loans | 176 | 558 | (69) |
| Cost to income ratio (%) | 38 | 32 | 18 |
| Total loans and receivables and investments | 46,709 | 34,024 | 37 |

Performance

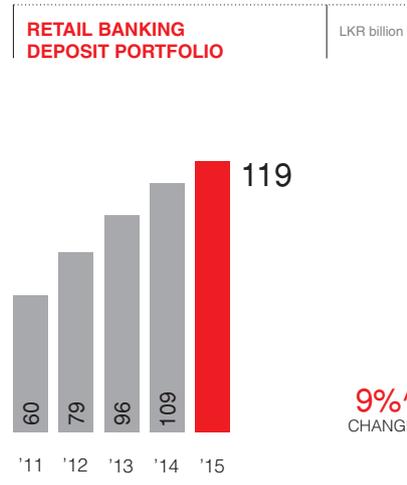
Retail banking assets grew by 22% during the year to reach LKR 55,225 million, with all products recording growth. This was largely achieved through the Bank's ability to play a financial advisory role to customers rather than merely offering a sales proposition.



In composition terms, our 'Dream Maker' loan (DML), lead the way with a share of 39%, followed by auto finance at 34%.



The low levels of interest rates in the market hindered the growth of deposits for the entire banking industry. Nevertheless, we addressed the challenge proactively and grew our CASA portfolio by 22% during the year.



SME Banking

The small and medium enterprises (SME) comprise an important sector for the country, which makes considerable contribution to the country's GDP and is a key driver in creating employment opportunities in both the formal and informal sectors.

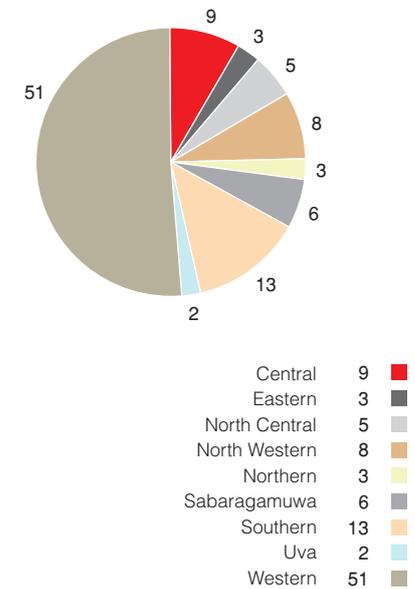
Strategic Focus

The Bank's goals are aligned with the national objective of developing the SME sector, and like micro financing, it complements our 'operational CSR' goals. Our strategic response includes customer empowering initiatives, new product development, alliances with grass root organizations and accessing targeted lines of credit from multilateral and bilateral funding agencies.

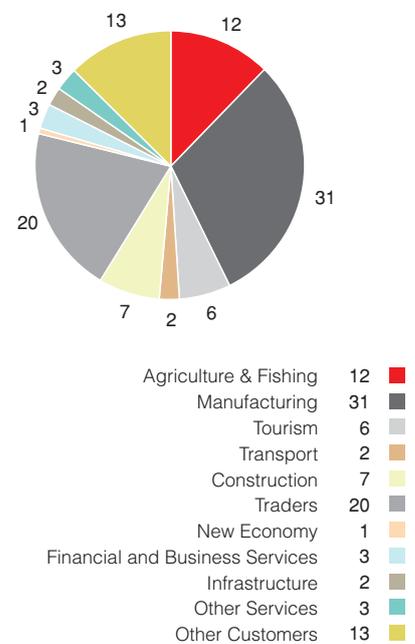
Performance

The SME loan portfolio increased by 40% from LKR 21 billion to LKR 29.5 billion during the year. Profitability of the SME Banking Unit also improved in tandem.

SME PORTFOLIO AS AT 31 DECEMBER 2015 - BY PROVINCE



SME PORTFOLIO AS AT 31 DECEMBER 2015 - BY SECTOR



Outlook

The Bank is well positioned to grow its presence in the SME sector in 2016. It will be supported by access to concessionary lines of credit such as the SMEDeF of the World Bank and the SMILE III revolving fund implemented by the Ministry of Industry and Commerce.

Retail Banking and SME – Key Performance Indicators

| Indicator | 2015 LKR million | 2014 LKR million | YoY Change % |
|-----------------------------|---------------------|---------------------|-----------------|
| Income | 4,851 | 3,692 | 31 |
| Profit before tax | 669 | 47 | 1,323 |
| Profit after tax | 402 | 28 | 1,336 |
| Cost to income ratio (%) | 85.6 | 86.5 | (1) |
| Total loans and receivables | 84,848 | 65,984 | 28 |
| Customer Deposits | 119,173 | 109,278 | 9 |
| Non-performing loans | 2,071 | 2,049 | 1 |
| CASA Ratio (%) | 26 | 23 | 2.7 |

Micro Financing

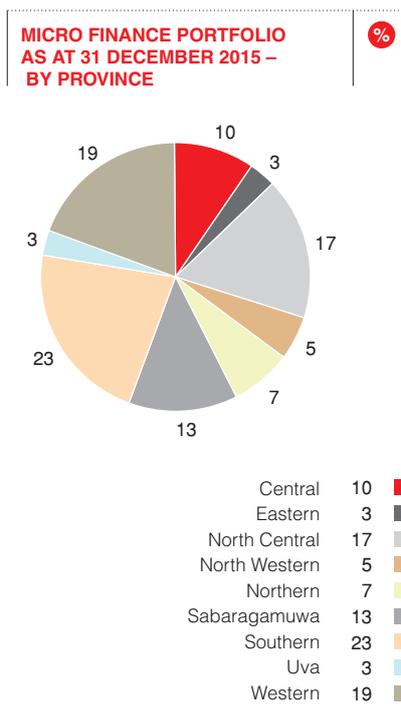
The Bank's micro finance business, launched in mid 2013, gathered growth momentum during the year with emphasis on credit quality and risk mitigation.

Strategic Focus

The entry into micro financing complements the Bank's operational CSR goals based on financial inclusion. Our approach is primarily through pilot projects that are scalable and structured programmes, such as the Citi CCCS Rural Empowerment Programme launched in 2015. We also include the urban side, as in the Bank's collaboration with the Colombo Municipal Council and the Sri Lanka Food Processing Association to upgrade the quality standards of street food vendors of the Galle Face Green.

Performance

The micro financing operations also enhanced during the year with an increase in volumes and profitability.



In terms of industry sector, agriculture, agribusiness and fishing dominates the portfolio (48%) followed by retail business (25%) and trading (9%).

Outlook

The Bank will continue to work on current initiatives, introduce refinements and scale up operations with a view to mainstreaming the micro projects financed. New initiatives too will be added, focused on our overarching goal of financial inclusion and empowerment.

Islamic Banking

The Bank launched Islamic banking in August 2014 under the brand name 'Shareek', which means 'partner'. All operations of the Islamic banking unit are in accordance with the Central Bank of Sri Lanka (CBSL) guidelines and are in conformity with the Shariah principles, including the segregation of fund management operations and earnings from our conventional banking activities. The Bank has appointed a Shariah advisory panel comprising well-respected and eminent Shariah scholars with extensive knowledge of the local and international markets.

Strategic Focus

The increasing demand for ethical investments and alternative financing in Sri Lanka has resulted in an annual growth rate of around 15% in the Islamic financial service industry. This growth has not only stemmed from Muslim followers and Islamic faith, but from Non-Muslims as well. The Bank's entry into this growth sector thus complements our diversification strategy through innovative financial solutions.

Performance

NDB Shareek is led by a well trained team. Located at the head office, it serves customers from across the Bank's network through a unique Islamic banking platform. NDB Shareek provides sharia based lending and investment options to serve the customers financial needs.

Outlook

NDB Shareek has successfully garnered a growing client base and turned around to a profitable business unit in a short period of time. We see considerable potential to grow in the years ahead and become a significant contributor to the Bank's bottom line.

Treasury

The Bank's Treasury unit is a specialized service provider catering to corporate, institutional SME and retail investors. Treasury operations comprise two aspects, one which covers foreign exchange, money market and ALM operations to generate profit, whilst the other taking on the responsibility for managing the interest rate risk, foreign exchange risk and liquidity risk of the Bank.

Strategic Focus

Amidst a depreciating Sri Lanka Rupee (LKR) and a steepening yield curve, Treasury was called to focus on its dual role of revenue generation and risk mitigation, with emphasis on interest rate and liquidity risk management aspects. The slowing down experienced in China, the second largest economy in the world, and the anticipated US Federal reserve rate hikes were external impacts that needed a strategic response.

Performance

China devalued its Yuan on multiple occasions in an attempt to maintain its economic momentum, thus sending signals of a dangerous looking financial crisis seemingly across the Asia Pacific region. The Central Bank of Sri Lanka followed suit soon after to cease the Dollar selling intervention on the Sri Lankan Rupee and administered a 'free float' of the Rupee in September 2015, which resulted in a Rupee

depreciation for the year of 9% and the USD/LKR spot closing on 144. The Euro, Sterling Pound and Australian Dollar depreciated against the greenback during the year providing the volatility which on the right footing provided ample trading (revenue) opportunities.

The yield curve was poised for a stable flat trajectory owing to the low stable inflation numbers. But due to significant outflows of foreign investment from the Government Securities market during the second half of 2015 (China factor and anticipated high USD gilt rates), the yield curve steepened with medium to long-term tenors (3 to 15 years GOSL bonds) adjusting upward by an average of between 150 to 250 basis points.

Building on its strength as a dominant 'market maker', Treasury focused on extending its position in the FX market by providing a variety of products and services to institutional, corporate, individual as well as interbank clients. Plain vanilla FX forwards, FX derivatives, dual currency deposits, FX options, FX swaps were offered to a wide spectrum of clientele with the focus on import/export-related transactions.

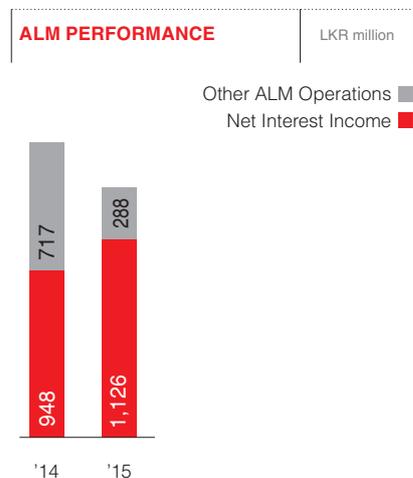
Asset and Liability Management

The Asset and Liability Management (ALM) unit focused on enhancing revenue through interest rate risk management. Gapping was optimally utilized with accurate forecasting of yield curve shifts to enhance revenue. Debt trading volumes were not as pronounced as in the previous year as yields were pushed upward, but negative impacts on the portfolio were mitigated through proactive duration management of the available-for-sale (AFS) and trading securities portfolios. Treasury Bills, Treasury Bonds, repurchase agreements, commercial

papers, debentures and interest rate swaps were offered to clients who required debt-related products. Continued emphasis on capital planning and liquidity management saw the rupee debenture issue of LKR 10 billion and a USD 75 million institutional funding along with demand, term deposits and money market funds providing a solid base for balance sheet growth. The ALM unit contributed revenue of LKR 1,414 million for 2015.

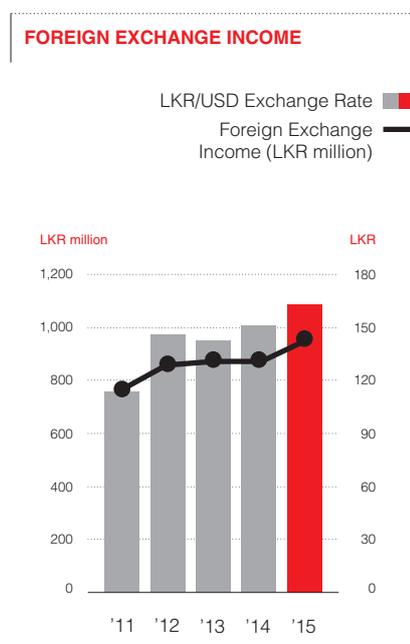
FX Desk

The rupee depreciation enabled the foreign exchange desk to capitalize on the opportunities made available. Imports which were on the rise until the Rupee depreciation, did allow for import-related volume growth. Post depreciation witnessed a decline in overall trading volumes. However, the exchange volatility prevalent provided ample opportunities to enhance trading revenue during the last quarter. The volatility in the cross currency majors was exploited to make sizeable trading gains. The FX desk recorded trading revenue of LKR 793.3 million, while FX sales recorded LKR 335.1 million revenue for 2015.



Treasury - Key Performance Indicators

| | 2015 LKR million | 2014 LKR million | YoY Change % |
|-------------------------|---------------------|---------------------|--------------|
| Foreign Exchange Income | 1,088 | 910 | 20 |
| Net Interest Income | 1,126 | 948 | 19 |
| Other ALM Operations | 289 | 717 | -60 |



expected to depreciate around 5% to 6% depending on the success of the BOP management.

Treasury has managed to forecast accurate indications of interest rates and the exchange rate leading up to 2016 and has positioned the balance sheet accordingly. The anticipated upward yield movements will harvest maximum revenue based on the positioning of the mismatches created. Treasury will continue to explore dynamic avenues to assert itself as a leader in innovative product solutions catering to evolving retail and wholesale client requirements.

Performance of the Capital Market Cluster

As detailed under Organizational Profile on pages 20 and 21, the direct operational subsidiaries of the Bank comprise NDB Capital Holdings Ltd. (NCAP), NDB Capital Ltd. (Bangladesh) and Development Holdings (Private) Ltd. (DHPL). The Bank's indirect subsidiaries are through NDB Capital Holdings Ltd., and comprise NDB Investment Bank Ltd. (NDBIB), NDB Wealth Management Ltd. (NWM), NDB Securities (Pvt) Ltd. (NDBS), NDB Zephyr Partners Ltd. (Mauritius) (NDBZ) and NDB Zephyr Partners Lanka (Pvt.) Ltd.

Among these operational subsidiaries, all except DHPL are identified as the **investment banking cluster**. The performance of the local investment banking cluster should be viewed in

context with the operating environment (pages 22 to 26) that prevailed during the year.

NDB Capital Holdings Ltd.

Strategic Focus

The capital market cluster of the Group is focused on fund-based and fee-based investment banking, wealth management, stock broking and private equity management. The overarching goal of the cluster is to provide a full range of investment banking services in the country with special emphasis on product innovation and value creation for our clients and shareholders.

NCAP is involved in both fee based operations as well as fund-based operations. The main fee-based operations of NCAP are carried out through its subsidiaries NDBIB, NWM, NDBS and NDBZ, while NCAP takes on the direct participation in fund based operations including but not limited to investments in listed equities, private equity and fixed income securities.

The complementary role of the investment banking cluster thus makes the NDB Group a leading integrated financial services provider in the country with a diversified product and service portfolio spanning both commercial banking and investment banking.

Performance

Given the volatile market conditions which prevailed in the country and the global economic conditions, NCAP reduced its equity exposure during the year. Such a tactical asset allocation decision mitigated the adverse impacts, while the negative performance of NCAP's listed equity portfolio was partially offset by the attractive returns from some of the structured equity investments made previously.

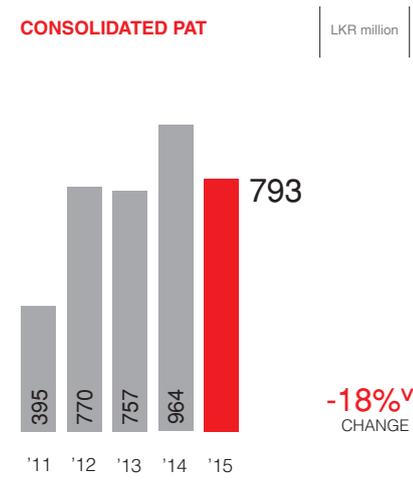
Outlook

Accelerated demand for credit growth during the last quarter of 2015 and the monetary policy tightening by way of an enhanced reserve requirement for Licensed Commercial Banks has formulated the backdrop for the interest rate environment in 2016. Medium-term interest rates are expected to move upward during 2016 driven by tighter monetary policy. The success of revenue generation and fiscal policy implementation proposed through the budget will hold the key in determining the degree on interest rate movements. Balance of payment and current account position has continued to impose strain on the exchange rate running up to 2016. The exchange rate depreciation will not be as pronounced as in 2015 but is

The dismal performance in the equity market impacted the performance at NDBS which is solely dependent on market conditions. However, both NDBIB and NDBWM achieved commendable profitability levels.

Despite the lower than expected performance, the NCAP Group continued to invest in training and development programmes for staff, recognizing the importance of its employee capital to this knowledge driven business.

The consolidated profit after tax of the investment banking cluster was LKR 793 million, a decline of 18% from LKR 964 million in 2014.



Note: The 2012 profit is adjusted for the one off capital gain reported from divestiture of AIA Insurance, while that of 2013 is adjusted for the impact on profits due to investment income earned from the aforesaid capital gain due to the divestiture of AIA.

Investment Banking Cluster – Key Performance Indicators

| Indicator | 2015 | 2014 | YoY Change % |
|--------------------------------------|-------|-------|--------------|
| Total operating income (LKR million) | 1,576 | 1,417 | 11 |
| Profit after tax (LKR million) | 793 | 964 | (18) |
| Return on equity (%) | 12 | 16 | (25) |
| Operating profit margin (%) | 57 | 64 | (11) |
| Net profit margin (%) | 50 | 68 | (26) |

Outlook

The investment banking cluster will focus on achieving and maintaining its leadership position in investment banking, asset management and private equity management within the country. It will be a driving force for policy formulation at national level for the capital markets in Sri Lanka.

NDB Investment Bank

Strategic Focus

NDBIB, the investment banking arm of the NDB Group, offers fee-based services ranging from debt and equity products, corporate advisory services to mergers and acquisitions.

Performance

NDBIB reaffirmed its dominance in the capital market by successfully raising LKR 60 billion through a combination of debentures, securitizations, commercial paper, long-term facilities and equity. It also amassed an unparalleled 55% market share in the listed debenture space, leaping ahead of its competitors.

Some of the key transactions executed during the year include the following:

- Upon completion of the acquisition of Resus Energy PLC (REP) by a consortium of investors facilitated by NDBIB in late 2014, NDBIB has been involved in a string of transactions with the REP Group including the mandatory offer triggered by the said acquisition. The financial restructuring of the REP Group was subsequently carried out under the guidance of NDBIB including share repurchases, capital reductions and dividend payments at both REP and subsidiary levels. The REP Group raised LKR 950 million via a syndicated loan facility to enable the said financial restructuring for which NDBIB played a key role as arranger and financial advisor. The financial restructuring successfully unlocked the value of the Group's assets whilst generating attractive returns to the shareholders.
- Raised USD 6 million through a syndicated loan facility for the development of a resort hotel in the Maldives.
- As financial advisor and manager, raised LKR 3 billion through a debenture issue for MTD Walkers PLC, the first listed debenture in the local construction industry.
- NDBIB acted as joint financial advisor and manager to the very successful LKR 750 million IPO of People's Insurance Ltd. which was over subscribed by several times.
- NDBIB was active in the M&A space by advising on an acquisition involving two key apparel manufacturers in the country creating a much focused and strengthened apparel group. The transaction, valued at USD 25 million, was facilitated by NDBIB who played an

imperative role as financial advisor to the divesting shareholders. The transaction was structured to include consideration in the form of cash as well as in shares.

NDBIB – Key Performance Indicators

| Indicator | 2015 | 2014 | YoY Change % |
|--------------------------------|------|------|--------------|
| Funds raised (LKR billion) | 59 | 25 | 142 |
| Profit after tax (LKR million) | 169 | 61 | 175 |
| Operating profit margin (%) | 58 | 36 | 61 |
| Net profit margin (%) | 45 | 36 | 25 |
| Return on equity (%) | 29 | 12 | 142 |

Outlook

With the ensuing political stability following the August 2015 parliamentary elections, NDBIB is of the view that both debt and equity markets would regain momentum subsequent to the unveiling of the economic policies of the new Government. We expect foreign investments to flow in to the country once there is policy level clarity due to the attractive growth rates forecast for the economy compared to most emerging and frontier markets in the region. The team at NDBIB is well equipped to continue its dominance as the leading Investment Bank in the country to support the development to be undertaken by both public and private sectors.

NDB Wealth Management Ltd.

Strategic Focus

NWM offers three distinct services: (i) Discretionary Portfolio Management for large institutions such as insurance companies, provident funds and corporates; (ii) Private Wealth Management catering to high net

worth individuals, and (iii) a series of risk rated Mutual Funds to meet the wealth planning needs of the retail mass market. Despite the uncertainty in the capital and the money markets that prevailed during the year NWM's research driven investment strategy helped clients to broadly steer clear of the volatility.

Performance

Activities during the year focused on Private Wealth Management and further development of our unique financial product - the 'ONE Account'. This is a product that combines a current account, a credit card and a money market investment account, bringing about a convergence of banking and capital markets.

NWM ended the year with over 5,000 clients and LKR 93 billion of client funds under management. NWM's capital of LKR 666 million versus the regulatory minimum capital of LKR 25 million indicates the strength of the Company and NDB Group's commitment to the business of wealth management.

NWM – Key Performance Indicators

| Indicator | 2015 | 2014 | Change % |
|---------------------------------------|------|------|----------|
| Assets under management (LKR billion) | 93 | 87 | 7 |
| Profit after tax (LKR million) | 157 | 197 | (20) |
| Return on equity (%) | 26 | 43 | (17) |

Outlook

We believe the 'ONE Account' will be a trend setter in Sri Lanka as a financial product and with new and exciting features being continuously added to provide clients truly cutting edge banking. As technological advances

continue to permeate society, NWM will be alert in understanding the strategic implications and respond accordingly. Innovation will be the central focus going forward. Thus, our introduction of a new web portal and a downloadable app with the capability of providing clients financial analysis tools, account statements, online application forms and even games with attractive prizes for winners are just the beginning.

NDB Securities (Pvt) Ltd.

Strategic Focus

NDBS provides a platform to its institutional and retail clients to access the capital market in Sri Lanka through its listed equity and debt trading platform. This is supported by a number of related value added services such as state-of-the-art online trading facilities for speedy trade executions, margin trading and other credit facilities through its parent NDB Bank and comprehensive coverage of research to support trading activities.

NDBS differentiates itself from competition through cutting edge IT systems that enhance customer service, sound research and analytics (both personalized as well as through publications) and its ability to serve both equity and debt investment needs of clients.

Performance

Despite challenging market conditions that prevailed in 2015 both globally and locally, NDBS recorded profit before tax of LKR 26.4 million (2014: LKR 35.4 million), making NDBS one of the few stock broking companies to record a profit for the year. Further, NDBS was successful in gaining market share by increasing its equity market share from 3.69% in 2014 to 4.15% in 2015 through various promotions and forums executed.

NDBS - Key Performance Indicators

| Indicator | 2015 | 2014 | Change % |
|--------------------------------|------|------|----------|
| Profit after tax (LKR million) | 18 | 26 | (31) |
| Net profit margin (%) | 11 | 16 | (29) |
| Return on equity (%) | 6 | 8 | (32) |
| Market share (%) | 4.15 | 3.69 | 12 |

Outlook

Going forward, NDBS aims to increase its foreign client base. It has been successful in promoting Sri Lankan equities amongst foreign investors having conducted several investor road shows in Malaysia and Singapore. NDBS will also look at increasing its presence in the listed debenture market which we believe should become more liquid with the expected development in the capital markets in the country. Leveraging our links with the NDB Group, we also see opportunities to increase cross selling of Group products under the NDB brand. This makes NDBS a total financial services provider with a competitive advantage over peers in our industry.

NDB Capital Ltd. (Bangladesh)**Strategic Focus**

NDB Capital Ltd. (NDB Capital) is the investment banking arm of the Group which is domiciled in Bangladesh, providing corporate advisory services and performing capital and debt raising activities for large corporates and financial institutions. The Company has been successful in creating a niche market for itself in the country by being the only merchant bank offering such innovative products and carrying

out a number of milestone investment banking transactions.

Performance

The excess liquidity in the market, availability of low cost short-term funding and an outlook of further reduction in interest rates diluted the requirement for long-term debt instruments. The focus during the year was mainly on providing corporate advisory services and equity raising.

Some of the key activities of NDB Capital during the year included:

- Arranging funds through a local currency syndication for an auto brick project under the Green Project financing initiative of the Central Bank.
- Facilitating the entry of a Sri Lankan finance company and a construction company into Bangladesh through equity participation.
- Providing fee-based corporate advisory services to foreign investors.
- Disbursing a foreign currency project loan through both local and offshore financing for a power company in Bangladesh promoted by a leading Sri Lankan energy company, along with the arrangement of their working capital facility.

NDB Capital had a good year in 2015 and recorded a revenue of over BDT 50 million, an increase of 350% over the previous year. In tandem the profit after tax of BDT 8.01 million achieved is the highest in the last four years of operation.

NDB Capital – Key Performance Indicators

| Indicator | 2015 | 2014 | YoY Change % |
|-------------------------------------|------|------|--------------|
| Revenue, BDT million | 52 | 11 | 350 |
| Profit/(loss) after tax BDT million | 8 | (31) | 126 |

Outlook

The low interest rate regime is expected to continue in the market for a few more years, which would pave the way of increased investment. Having secured mandates for innovative deals and a robust pipeline, NDB Capital is expected to build on the synergies with its parent in order to contribute to the Group's profitability.

NDB Zephyr Partners Ltd. (Mauritius)**Strategic Focus**

NDB Zephyr Partners Ltd. (NDBZ) is jointly owned by NDB Capital Holdings Ltd. (NCAP) (60%) and Zephyr Management, LP (Zephyr) (40%), a New York-based global emerging markets investment firm. NDBZ is the fund manager of the Emerald Sri Lanka Fund which makes private equity investments in Sri Lanka-based small and medium businesses seeking capital for expansion.

NDBZ has identified the key issues faced by SMEs that hinder their growth. The lack of collateral denies them access to traditional bank finance, while they have limited equity raising options until an IPO, and many SMEs are not ready for an IPO, due to the size of business, lack of management depth and inadequate governance.

NDBZ fills this void by assisting its portfolio companies in areas such as strategic planning, management development, improving financial management, corporate governance and improving operational efficiencies in addition to providing equity capital. Companies are selected based on their unique value proposition and a sustainable growth potential through a comprehensive, due diligence process. Exit of such investments will be via IPOs or through trade sales to domestic or international buyers.

Performance

NDBZ has so far evaluated a large number of companies in different sectors such as financial services, manufacturing, leisure, healthcare, education and FMCG. Negotiations are presently going on with a non-bank finance company, a construction related company and an education service provider. NDBZ has also approached many SMEs in Sri Lanka and is in the process of educating the Sri Lankan businesses on private equity as an alternative financing mechanism.

Commencing operations in December 2014, NDBZ recorded a turnover of USD 850,000 (approximately LKR 119 million), a profit before tax of USD 132,854 (approximately LKR 18 million) and a profit after tax of USD 123,203 (approximately LKR 17 million) during 2015.

Outlook

Amidst the expected rebound in the economy, supported by the political stability and favourable policy measures, NDBZ plans to complete several investments during 2016. The team's reputation in the industry and the strong brand recognition developed so far is expected to help NDBZ in maintaining a healthy and balanced deal pipeline. Furthermore, the team's knowledge acquired through active participation in local and international transactions will benefit NDBZ in selecting good investments which will enhance shareholder returns.

Performance of the Property Management Arm

Development Holdings (Private) Ltd.

Strategic Focus

Development Holdings (Private) Ltd. (DHPL) is the property management arm of the Group and has rented out the 16-storied high rise commercial property which is the NDB-EDB Tower for business purposes. This property is jointly managed by the Bank and the Sri Lanka Export Development Board (EDB) and it houses the offices of the Sri Lanka Export Development Board (EDB), several departments including the Navam Mawatha branch of the Bank and several other renowned local and global institutions.

The Tower features a magnificent view of the Beira Lake along with a fully-fledged auditorium capable of many amenities which includes capacity to seat 250 people, ample parking space and a cafeteria which can accommodate 200 people at a time.

Performance

DHPL currently has 100% occupancy and recorded a net profit of LKR 277 million for the year. The revenue generated from rental income and fair value of the investment property amounted to LKR 305 million for the year.

Outlook

DHPL will ensure that the tenants are provided with enhanced facilities to carry out their business activities and maintain high standards with necessary upgrades to position itself as a high rise commercial property with greater demand.

**LKR 6.85 Bn**BRAND VALUE
AS PER BRAND
FINANCE**AA-(Ika)**NATIONAL RATING
WITH A STABLE
OUTLOOK**2.43%**NPL RATIO
WELL BELOW
THE INDUSTRY**ZERO**

FINES



THE POWER WITHIN

NDB, as an institution has an ingrained repository of rich institutional capital. The constituents of this capital, which is unique to NDB, such as good governance, values, ethics and integrity are upheld and nurtured by our staff members every day.

100%

LOCAL
SUPPLIERS

EXEMPLARY STEWARDSHIP

and Institutional Capital Formation

INSTITUTIONAL CAPITAL, AN OUTCOME OF EXEMPLARY STEWARDSHIP

Covers a broad spectrum of non-financial components that are, vital to the Bank and the Group for the value creation process.

Institutional capital, an outcome of exemplary stewardship, 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 Governance
- Managing Risk
- Values that Drive Business
- Brand Equity
- Systems and Processes
- Procurement Policy
- Outsourcing Policy
- Information Technology
- Transactional and Institutional Capital

Corporate Governance

Corporate governance is a process used to direct and manage the business and affairs of the Bank in order to balance the attainment of corporate objectives and the alignment of corporate behaviours with the expectations of society whilst being accountable to its shareholders.

Good governance is an all pervading principle at the Bank, from setting the tone from the top at the Board room to instilling the required mindset amongst all employees, and even business partners.

Role of the Board

We believe that a robust and transparent corporate governance framework is vital for the sustainable success of the Bank. The Board of Directors is the highest governance body of the Bank. Briefly, the Board is responsible for:

- *Oversight* in the conduct of the Bank's affairs;
- *Strategic direction* that aligns priorities with the mission of the Bank and the best interests of stakeholders;
- *Risk management* in the context of approving the Bank's risk appetite that aligns with business strategy, assists decision making and enhances management effectiveness while optimizing resource allocation; and
- *Compliance* with all relevant laws and regulations.

Board Committees

The Board delegates the day-to-day operations of the business to the following Board Committees which are chaired by Non-Executive Directors:

- Board Audit Committee
- Integrated Risk Management Committee
- Human Resources and Remuneration Committee
- Nomination Committee
- Related Party Transactions Review Committee

- Strategic Issues Committee (non-statutory)
- Corporate Governance and Legal Affairs Committee (non-statutory)

Management Committees

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

- Asset and Liability Management Committee
- Investment Committee
- Credit Committees
- HR Committee
- IT Steering Committee
- Credit and Market Risk Policy Committee
- Operational Risk Policy Committee
- Outsourcing Committee
- Procurement Committee

Good Governance

The Governance Structure of the Bank ensures that the Directors take all necessary steps to avoid *conflicts of interest*, or the appearance of conflicts of interest, in their activities. Safeguard measures include the disclosure of any material conflict of interest, abstaining from voting and the presence of Independent Non-Executive Directors at Board meetings.

The Bank has in place an effective *Disclosure Policy* to provide stakeholders with timely, accurate

and relevant information which would enable them to make an accurate assessment of the Bank's activities, performance and risk profile. However, the Bank ensures that confidentiality is strictly maintained in respect of material confidential information which is not publicly available. The Bank's *Compliance Policy* and *Code of Conduct* sets out the safeguards to be taken to maintain material confidential information.

To encourage engagement with customers and stakeholders, the Bank has in place a *Customer Charter*, a *Complaint Handling Procedure* supported by an internally developed MIS system and a *Communications Policy*.

The Bank's *Compliance Policy* and *Code of Conduct* govern all employees. The Code provides a general outline of the standards of professional and ethical conduct that all employees of the Bank are expected to follow 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 Code also has policies that prohibit bribery and discrimination. The Bank applies an equitable standard of fair treatment to all of its employees, and conducts its business in a non-discriminatory manner without regard to age, gender, nationality, marital status, race, religion, disability etc.

A detailed account of the Bank's performance on governance is given in the Corporate Governance Report (pages 128 to 174).

Managing Risk

As a provider of banking and financial services, risk is at the core of our day-to-day activities. We actively manage risk through an integrated risk management framework at all

levels of the Bank, which helps to align business in assuming and managing risks objectively. It ensures that our risk profile remains acceptable and within the Bank's risk appetite, which describes the type and quantum of risk we are willing to accept in achieving our strategic objectives.

Risk Profile

In a nutshell, the Bank's risk profile is characterized by a highly diversified portfolio, stable capital and liquidity position together with a robust risk governance structure and an experienced team.

Integrated Risk Management Framework

The Bank's approach to risk management is explained in the Integrated Risk Management Framework approved by the Board Sub-Committee on Integrated Risk Management and the Board of Directors. The framework sets out the process for identifying, measuring, monitoring and controlling the different types of risk and the governance structure.

In discharging its responsibilities, the Board operates through two key Sub-committees, namely, the Integrated Risk Management Committee and the Board Audit Committee. These Committees are supplemented by management committees that comprise of individuals with specialized knowledge of the business areas and risk management professionals.

A detailed account of the Bank's performance on managing risk is given in the section on Risk Management (pages 212 to 254).

Values that Drive Business

Embedding our five core corporate values into every aspect of our business is a top priority for the Bank

and the Group. These values are articulated and internalized during recruitment, training, performance management and other people-related activities.

Our values are fundamental in moulding the Bank's corporate culture, and are particularly important in the context of developments in regulatory requirements, investor confidence and society's expectations of banks. We expect our employees to act accordingly in the execution of their duties in the following ways:

Integrity

We are devoted to uphold honesty, truthfulness and sincerity while remaining fair and ethical at all times – even in the most challenging situations. We will inspire trust by saying what we mean, matching our behaviours to our words and taking responsibility for our actions.

Excellence

We have the right attitude to diligently deliver what we promise while adding value that goes beyond what is expected. We achieve excellence through innovation, expertise, thoroughness and experience in everything we do.

Creativity

We are driven by a desire to reach beyond the norm, challenge the status quo and shape new vistas for our stakeholders. We are creative in our thinking and futuristic in our approach – while working towards the end goal of delivering unsurpassed value to all our stakeholders.

Accountability

We remain responsible, accountable and transparent in everything we do. Our corporate strategy is shaped by the willingness to take ownership for our actions which affect our stakeholders.

Sincerity

We believe in building productive, long-term relationships based on sincerity with our clients and stakeholders. We regard our sincerity towards each other just as valuable as what we collectively achieve.

Business Ethics and Integrity

As discussed in the Corporate Governance Report (pages 128 to 174) several frameworks, codes and control mechanisms are in place that shape our business ethics and integrity. The Bank's Code of Conduct guides employees to maintain high standards of personal and corporate integrity. The Code specifies how employees should conduct themselves when interacting with external customers, internal customers such as work colleagues, supervisors and subordinates as well as suppliers and business partners.

All customers receive high standards of service and responsiveness. Respect, efficiency, integrity and suitable protection to customers in accordance with the appropriate regulatory, contractual or fiduciary responsibility are key components of serving our customers.

To ensure ethics and integrity in the relationships maintained with business partners, the Bank implements a formal Sustainable Supply Chain Management process which takes into account an assessment of suppliers in the context of environmental, labour and social factors.

Brand Equity

As a diversified financial institution the Bank endeavours to financially empower individuals, organizations and communities while continuing to strengthen the infrastructure development and production

capabilities of the country – thus contributing to national economic development.

Having transformed from a development bank to a fully-fledged commercial bank, the current positioning of the Bank's brand is distinct. It is a household name across diverse customer segments and industry sectors, and has been listed amongst the top 20 brands in Sri Lanka over the past six years. Within the banking and financial services industry in the country, 'NDB' ranks 16th with a brand value of LKR 6.85 billion and a brand rating of AA- as per 'Brands Annual 2015' by Brand Finance.

During the year under review, the Bank continued to strengthen its brand presence amongst relevant target audiences by advertising in key media such as selected television and radio networks, magazines, national newspapers, strategic outdoor locations, branch premises as well as via online and digital media. The key message across all media reiterated the unique strengths of the NDB Group – a diversified conglomerate with the ability to deliver multiple financial services under one roof. The numerous product/brand name advertising conducted throughout the year also contributed to the brand equity of the NDB brand while portraying the brand as a dynamic force within the industry.

We also organized workshops and training programmes for grass root level micro industrialists and small and medium enterprises (SME), as well as events and sponsorships to strengthen relationships with large corporates and premium clients. The NDB-RCGC Inter-School Golf Tournament and Build Sri Lanka were some of the key highlights of such strategic sponsorships. We further reinforced our online brand presence, particularly targeting tech savvy young customers and prospects through many social media platforms including Facebook, Twitter, YouTube and LinkedIn.

The Bank further repositioned the brand by introducing new vision and mission statements and corporate values, while introducing the tag line '*our commitment, your success*'.

Systems and Processes

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

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

Targeting the SME sector the Bank developed a Receivables Management System and a Purchase Order Management System in 2013, both of which continue to be fully operational. 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.

The staff Performance Development System that was revamped in 2014 with the active participation of employees saw a full year of implementation during the year. The system was re-engineered 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

Procurement is a key business support function which ensures the provision of quality goods, services and works for the smooth conduct of the operations of the Bank and its Group companies. The process is governed by a Board approved Procurement Policy, which ensures adherence to prescribed standards, specifications, rules, regulations and good governance principles.

The Policy focuses on cost effectiveness, timeliness and quality and ensures that our procedures provide fair, transparent, equal and maximum opportunity for eligible interested parties to participate in the Bank's procurement. The Bank is committed to ensuring fairness, transparency and consistency in the evaluation and selection procedure and maintains confidentiality of information provided by bidders.

A Sustainable Procurement and Supplier Policy was developed during the year to strengthen the sustainability of the Bank's value chain. This Policy sets out the criteria for screening suppliers, products and services based on economic, social and environmental aspects and all suppliers have adhered to this.

In addition to the Board approved policy, procurement is guided by a eight-member procurement committee appointed by the Chief Executive Officer of the Bank.

With the centralization of the finance function across the Bank and Group companies (except for Bangladesh operations), procurement is also centralized across the Group. The Group procurement process has been instrumental in considerable cost reductions and improved quality of goods, services and works sourced thereby complementing two important strategic objectives of the Bank, namely, cost optimization and operational excellence.

It should be noted that 100% of the Bank and Group companies' (except for Bangladesh operations) suppliers are local operations.

Outsourcing Policy

Outsourcing allows an organization to focus on its core business whilst the non-core functions are taken care of by experts external to the business. The Bank's Board-approved Outsourcing Policy ensures that an optimal balance is achieved between the quality of human resources engaged and the costs for the same. Outsourcing activities are directed by an Outsourcing Committee.

Regular review of the Policy and Committee activities are carried out by the Board Audit Committee of the Bank. While outsourcing presents many advantages, it also has disadvantages which the Bank needs to manage critically, such as confidentiality, business continuity, quality of work and timeliness. In view of the above, there are regulations imposed by the Central Bank of Sri Lanka (CBSL) on outsourcing. The Bank is in full compliance with the Banking Act Direction No. 2 of 2012 of the CBSL on outsourcing business operations of a Licensed Commercial Bank.

Information Technology

Information Technology underpins the business of banking. The Bank's core banking system, implemented in 2011, serves to integrate multiple applications into one seamless platform.

Combining customer convenience and environmental sustainability, the Bank introduced e-Statements during the year, successfully delivering several benefits such as improved customer service through a consolidated view of a customer's relationship, timely and reliable delivery as well as reduced costs arising from savings in stationery, postage etc.

The Bank established connectivity with the Lanka Clear Common Payment Switch, a national initiative supporting social inclusion, which allows greater reach, service offering and convenience to customers through a common platform. It offers significant savings in foreign exchange to the country as well, as all LankaPay ATM transactions are channelled through a domestic network. The Bank also joined the Common Electronic Fund Transfer Switch (CEFTS) initiative, linking LankaPay CEFTS members to facilitate domestic interbank real-time fund transfers originating from any electronic payment channel such as internet banking and teller counters.

Other activities during the year included an upgrade of the Bank's IT hardware infrastructure to enhance system performance and customer service, and the verification of our risk management capabilities by conducting two full scale disaster recovery simulations in line with the Bank's Business Continuity Plan.

Transactional and Institutional Banking

The Cash Management Unit and the Correspondent & Institutional Banking Unit come under the main umbrella of the Transactional and Institutional Banking Division. These units support the cash management and international trade activities of corporate, retail and SME clients of the Bank, including domestic and cross-border payments and facilitate inward worker remittances.

The scope of the Cash Management Unit covers the areas of corporate electronic banking, management of financial and institutional relationships, the Chinese Desk and capital market transactions. The Chinese Desk, which exclusively caters to multiple banking needs of the Chinese business community, has managed to create a unique value proposition to clients.

The online banking platform has been regularly upgraded with better product features enabling our corporate and SME clients to better manage their payments electronically. As a result the cash management business arm has brick walled many client relationships and attracted new clients to NDB Bank during the year 2015.

In the current year too, the Cash Management Unit continued to successfully serve as the banker for many capital market transactions. The ETF platform was rolled out during the year that enables corporate clients to make their ETF payments directly to the Employee's Trust Fund Board. We are now looking at further value additions via EPF and dividend modules during the year 2016.

Relationships with a strong network of correspondent banks are important for trade finance activities, cross border payments and for the Bank's own liquidity management. The Correspondent & Institutional Banking Unit supports such activities of the Bank through a strong global network of correspondent banks covering all parts of the world. During 2015 the Bank added new strategic relationships to the existing portfolio based on emerging geographical business opportunities. The Unit also takes responsibility for evaluating and setting up counterparty limits for the Bank's liquidity management and foreign exchange trading.

Worker remittances have become an increasingly prominent source of foreign earnings for many developing countries like Sri Lanka. The Bank considers this to be a priority area of development. The upgraded remittance system at the Bank is one of the most convenient ways of receiving money by a beneficiary in Sri Lanka.

Compliance

The Bank's Legal Department has 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.

Support Services

Legal Department

The Legal Department of the Bank is located at the head office and consists of 20 Lawyers.

The Legal Department handles all matters pertaining to the evaluation of title of lands, preparing loan/security documentation of SME, Project Financing, Housing-loans, Personal loans and leases, drafting, negotiating and execution of all types of agreements, drafting formats for the products and services offered by the Bank, and providing legal advice to the Bank and the branch network on a day-to-day basis, on legal issues. The Lawyers also assist in structuring of products offered by the Bank. In certain instances legal matters of the NDB Group are handled by the department as well. The Bank obtains the assistance of External Lawyers or legal firms on a selective basis.

All members attached to the Legal Department strive to maintain the highest professional standards and corporate governance in carrying out their functions.

Centralized Recoveries Department

In April 2014, the Bank took a strategic decision to setup the Centralized Recoveries Department in order to have special focus/emphasis on the collection/recoveries effort of the Bank and especially to proactively manage the Bank's Probable Non-Performing Loans (NPLs) and the current NPLs. This move has proved to be an undoubted success with the Bank's NPL Ratio progressively improving to 2.43% by end 2015 which is among the lowest in the industry.

Key contributors to the low NPL Ratio are given below:

01. Significant decline in Project Finance NPLs.
02. Substantial decrease of the NPL Ratio in the SME Segment.
03. Less than 2% NPL Ratio for both Retail and Leasing Segments far below industry. Unsold yard vehicles have been kept to minimal levels.
04. Near total reduction of Pawning-related NPLs even in a declining gold prices scenario.
05. Significant sales of acquired assets with well over half the assets acquired being sold during the year.
06. Sound preventive measures and credit curtailing new NPLs.

The performance of the above sectors has jointly contributed to negate some NPL increases in the corporate sector.

Key Challenges of 2016

The key challenge for the Bank's NPLs in 2016 will be to regularize a significant portion of the same. Sound preventive measures, notably tightening of granting credit will also be taken in respect of the Probable NPLs. Legal action where ever deemed appropriate will also speeded up in the case of wilful defaulters.

SUPERIOR RETURNS

and Investor Capital Formation

WE ARE COMMITTED TO GENERATE SUPERIOR SHAREHOLDER RETURNS AT ALL TIMES

Investor Capital

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

Investor Relations

Shareholder Profile

As detailed under Investor Relations (commencing on page 268), 77.6% of the Bank's share capital is held by institutions, accounting for 5.5% of the Bank's 7,911 shareholder base. Residents, both institutional and individual, hold 69.1% of the shares in issue and account for 98.1% of shareholders.

Engagement

Satisfying this diverse mix of investors and their expectations, is a strategic management responsibility that integrates finance, communications, marketing and compliance. This facilitates an effective two-way communication between the Bank, investors and other constituencies (see Stakeholder Engagement, page 28).

Such engagements enable the Bank to obtain a fair value for the securities and help the investors to make informed trading decisions. In addition, it also provides market intelligence to the Bank's corporate management. Our engagement is extended to other connected stakeholders such as analysts, media and regulatory authorities. We believe that well-informed market participants are important for the efficient functioning of the capital markets and the stability of the financial system as a whole.

Share Price Movement

The Bank's share price closed at LKR 194.10 on 31 December 2015. The highest share price of LKR 280 was reached on 22 May and 23 July 2015. The total market capitalization of the share was ranked 21st on the Colombo Stock Exchange (2014: ranked 16th). More information is given under Investor Relations commencing on page 268.

Return to Shareholders

The Group Earnings per Share (EPS) for the year ended 31 December 2015, was LKR 21.51, whilst Return on Equity (ROE) was 12.59%. The resultant Price Earning (PE) Ratio was 9.02 times as at 31 December 2015. More details are given under Investor Relations commencing on page 268.

Dividend Policy

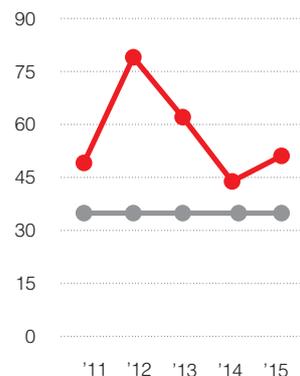
The Bank strives to deliver consistent and higher returns to shareholders through profitable performance. The policy specifies that there should be a gradual increase in dividends in tandem with profit growth, whilst taking into account, inflation and future cash needs for sustainable operations. The latter requires striking a balance between a healthy payout with prudent ratios, as specified below:

| Ratio | Policy guideline | Actual 2015 |
|-----------------------|------------------|-------------|
| Dividend payout ratio | >35% | 51% |
| Capital adequacy | >12% | 12.59% |
| Open loan position | <40% | 9.64% |
| Liquidity | >20% | 22.24% |

DIVIDEND POLICY OF THE BANK

%

Minimum Payout Ratio —
Actual Dividend Payout Ratio —





8/10

CUSTOMER
FEEDBACK
SCORES

24/7

CUSTOMER
SERVICE
HOTLINE



STATEMENTS
INTRODUCED



NEW BLOG
INTRODUCED



A DELIGHTFUL CUSTOMER EXPERIENCE

From every thought and action to a comprehensive portfolio of products and services, everything we do commits us to the highest attainable customer satisfaction and convenience, and of course, their success.

OPT-IN

NEWSLETTER

LASTING RELATIONSHIPS and Customer Capital Formation

OUR CUSTOMERS ARE SERVED WITH UTMOST CARE AND PASSION

90% of our branches has scored code 8/10 or more on customer feedback scores

Customers are at the heart of our business. Our definition of 'service' ensures they are always at the top of our minds and are served with utmost care and passion. We deliver on our commitments with superior and consistent service to all our customers across all regions and touch points across the Bank.

Delivering on Service

Values that Underpin Our Commitment

| Our Values | How We Serve Our Customers |
|----------------|---|
| Integrity | We value the relationship we hold with our customers. All our dealings are ethical, fair and honest. |
| Creativity | We solve problems by being creative and it has always been our path to success. |
| Excellence | We use all our energy, skills and resources to deliver great service and outstanding sustainable results. |
| Sincerity | Our priority is to listen to our customers to gain a better understanding of what they need. |
| Accountability | We help create, grow and protect wealth so that individuals, corporations, and wider society can achieve their ambitions in a responsible manner. |

The power of technology has raised customer expectations, but also reduced the cost to serve through automation, process improvement and innovation while enhancing customer experiences through faster service, greater reliability and personalized solutions.

Our customer service guiding principles are aligned with the Customer Charter Regulations, and go even beyond. We have in place key performance indicators and measures to manage this process.

What Gets Measured Gets Managed

| Metric | Definition | Target | Actual 2015 |
|--|---|--|---|
| Customer feedback scores | Measures customer satisfaction levels across the branch network | 8/10 or more to be scored every month/annually across the branch network | 90% of our branches have scored 8 or more |
| Customer complaints handling turn-around times | Measures the time taken to resolve customer complaints across all branches and units | 70% or more to be resolved within 10 working days | 85% |
| Staff service quality related complaints | Measures customer service related issues across the Bank due to bad service or service lapses | Less than 10% out of total customer complaints received in 2015 | Less than 5% |

Knowing Our Customers

| Segment | Customer Segment | Size | Price Sensitivity | Products and Services of Interest | Frequency of Transactions | Competition within the Industry |
|--------------------------------------|--|--|-------------------|---|---------------------------|---------------------------------|
| Commercial banking | Short and medium term needs of the large and middle market customers | Annual business turnover over LKR 600 million | High | Short-term loans, trade finance, overdrafts, leases, deposits and treasury products | High | High |
| Project and infrastructure financing | Long-term financial requirements of large and middle market customers. | Annual business turnover over LKR 600 million | High | Long-term loans, Islamic banking long-term financing products, lease facilities, investment banking products, deposits, treasury products | Moderate | High |
| Privilege Select banking | High net worth individuals and professionals | Banking relationships above LKR 20 million | High | Relationship banking, investment banking, share trading and wealth management | Moderate | High |
| Mass market/ retail banking | Salaried employees [self employed, retirees, others] | Individual customers | Low | Transactional | Moderate | Moderate |
| Micro and SME financing | Small and medium size business | Annual business turnover below LKR 600 million | High | Financing capacity building | Moderate | High |

Tailoring Our Products and Services

We regularly review our portfolio based on customer feedback as well as in response to anticipated opportunities and threats in the external environment. These products and services are designed with a customer focus and strong brand identity, and comprise the following:

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 including syndicated and co-financing facilities
- Securitizations
- Debentures
- Preference share investments
- Guarantees related to project financing
- Project financing related legal services
- Long-term Islamic Banking solutions

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
- Leasing and hire purchase facilities
- NDB credit cards, debit cards
- Pawning
- Remittances, money transfer services
- Internet banking
- Bancassurance
- Safe deposit lockers
- E-statement
- Margin trading
- Travel card

Micro and SME Financing

- 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.)

In addition the Bank cross sells capital markets products and services of the Group companies. These include:

- Investment banking products and services
- Stock broking
- Wealth management
- Private equity fund management

Feedback and Feedforward

Our call centre is structured on four broad platforms, each with a distinct strategic purpose.

24 x 7 Customer Service Hotline

Our dedicated customer service team provides around the clock full service including card activation, lost card deactivation, handling balance and transaction inquiries etc. In addition to routine queries the call centre also handles the Online Banking mail box and the contact@ndbbank.com. All queries received via these mail channels are acted upon within three working days.

Telemarketing Unit

This function within the call centre mainly focuses on revenue generation through cross selling and upselling. A telephone survey is carried out by the team on a monthly basis to measure the customer satisfaction level across the branch network. Findings and customer feedback are then shared with the retail banking network for necessary process improvements and to address staff training and development needs. Telemarketing team members are groomed to be cross functional and are capable of serving customers in different capacities.

24 x 7 Transaction Monitoring Unit

As a responsible Bank we take due responsibility in safeguarding customers. Our transaction monitoring team monitors transactions 24 X 7. Proactive and skilled team members promptly act upon identifying high risk transactions and ensure appropriate action is taken.

Operator Assistance

A dedicated team handles direct calls received from existing and potential customers between 8.30 am and 5.00 pm. These calls are typically in the nature of general inquiries from those seeking specific banking services and those who are interested in opening accounts, obtaining loans, credit cards etc.

Products Campaigns

Lifestyle Statements

The Bank developed an interactive e-statement, referred to as the 'Lifestyle Statement' during the year. It depicts the customer's entire relationship with the Bank. The statement not only includes the details of all the deposits accounts, but also credit cards, wealth management and stock broking. This interactive statement has also become an example of the Bank's commitment to sustainable practices. This innovative interactive e-statement won the Bronze Award at the National Best Quality Software Awards 2015, which confirms that it is a 'one of a kind' in the local market.



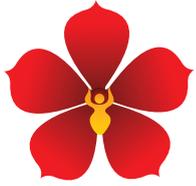
NDB Shilpa

NDB *Shilpa* is a savings proposition for minors, aimed at including the habit of savings and rewarding them for conforming with the savings habit. Following its introduction in 2014, this has made its way into many households in the country to satisfy every parent's aspiration to educate their child. NDB *Shilpa* motivates students towards academic excellence while offering attractive cash rewards to its account holders who excelled in the Government Grade 5 Scholarship Examination.

Going further, the Bank initiated a series of educational seminars to students of Grades 4 and 5 in 50 schools around the country. The campaign continued under the theme 'Education is the best Gift for a Child' and consisted of TV, radio, press and magazine advertising in Sinhala, Tamil and English.

Easy Saver and Big Saver

Easy Saver and Big Saver are the two most recent savings propositions introduced by the Bank. They are a reclassification of Regular, Special, Flexi, Premium and Savings Star accounts as Easy Saver and the Savings Star Plus accounts as Big Saver. This is in line with the Bank's '*Ithurukarana Maga*' campaign that promotes a simpler proposition which is less complex and easy to manage.



PRIVILEGE
S E L E C T



Privilege Select

The Privilege Select clientele of the Bank are treated to unique experiences in a bid to strengthen their association and engagement with the NDB brand. An inter school golf tournament was held in September 2015 with the Bank as the principal sponsor of the year's tournament that was organized by the past pupils of Holy Family Convent, Bambalapitiya. The event attracted 275 persons and significant media coverage.

NDB Leasing

The Bank competes with other banks, finance companies and leasing companies in the leasing and hire purchase business segment. Our

marketing communications for leasing included TV, radio, press advertising, public relations and online media campaigns as well as tie-ups with key vehicle dealers and agents in the country. The latter include Dimo, Sathosa Motors, United Motors and AMW.

To create further awareness across the island 'NDB Leasing Riyapola' vehicle fairs were held in Embilipitiya, Jaffna, Nuwara Eliya, Anuradhapura, Dambulla, Kiribathgoda, Galle, Colombo and Matara during the year.

Riya Abhiman

The interim budget proposals to reduce taxes on the small car segment, coupled with the increase in salaries of Government employees and the prevailing decline in fuel prices saw a surge in demand for small vehicles. The Bank's strategic response to this anticipated demand spike was to extend the NDB *Riya Abhiman* promotion period until end of December 2015 under the theme '*Riya Abhiman* – vehicles for Government Employees'.

The scheme was a remarkable success, with the Bank's leasing staff and business development associates providing a personalized service at the customer's door step. Continuous training and development of the front and back office staff and timely process improvement also contributed to the success of this endeavour.

Jaffnaspire

A first of its kind town storming, the Retail Banking Division set in motion 'Jaffnaspire' a promotional campaign to increase brand awareness and market share in the Jaffna District. Jaffnaspire, led by the CEO of the Bank, was a week-long event focused on listening to customers, to better understand their needs while providing retail and other financial solutions.

Despite the business nature of Jaffnaspire, the Bank also participated in several CSR activities, such as providing much needed equipment to the Tellipallai hospital, orphanages and schools.





93

BRANCHES

93

ON-SITE
ATMS

08

OFF-SITE
ATMS



EMPOWERING
MOBILE FOOD
VENDORS
AT THE GALLE
FACE GREEN



EMPOWERING
WOMEN IN THE
APPAREL INDUSTRY



REACHING OUT

We've extended our reach far and wide, to customers from all walks of life. We have empowered them to open up their own franchises, nourished them and cared for them, and led them to their success.



CINNAMON
FARMERS
EMPOWERED

Micro and SME Development

Forming the backbone of Sri Lanka's economy and as the principal source of employment creation, the micro and small and medium enterprises (SME) sectors have been an integral component of the Bank's business since its founding. It has been a role that goes beyond the mere provision of finance.

Providing Concessionary Financing

The Bank is an active participating financial institution in the Small & Medium Enterprise Development Facility Project (SMEDeF) funded by the World Bank via Government of Sri Lanka and the Small & Micro Industries Leader and Entrepreneur Promotion Project III - (SMILE III Revolving Fund), implemented by the Ministry of Industry & Commerce. These are concessionary funding schemes that also encourage technical assistance to strengthen and develop the SME sector on a sustainable path.

The Bank participates on cost sharing basis with the SMEDeF Project implemented by the Ministry of Finance and Planning in carrying out empowerment initiatives in the SME sector. During the year we conducted 23 SME training/capacity building workshops across the country. These workshops attracted over 2,500 SMEs that included both existing as well as prospective customers of the Bank. Resource persons were selected by the Bank, drawing in experts in diverse fields from within the NDB Group as well as external institutions such as the Central Environmental Authority, universities and practitioners.

Furthermore, in the Conscious Report issued by the Ministry of Finance to make closing remarks of the SMEDeF credit line, which concluded in September 2015, the Bank was ranked first in the utilization of the Technical

Assistance Fund and fourth in the utilization of the Line of Credit under the credit line.

Piloting Urban Micro Financing

The Bank's pilot project on financial inclusion in partnership with the Colombo Municipal Council (CMC) and Sri Lanka Food Processing Association gathered further momentum during the year. Commencing with micro financing to a group of three street food vendors at the Galle Face Green, the project now has around 200 beneficiaries. Capacity building initiatives include awareness creation campaigns on food safety by the Public Health Unit of the CMC, while the Bank provides guidance on cash management. The individual working capital loans typically amount to LKR 250,000 each with tenors of 12 - 18 months. They are secured through a group guarantee scheme that has seen a 100% recovery rate.

Taking 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 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 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.

Our venture into this sector also saw the Bank opening a branch at Uragasmanhandiya in 2014, a

bustling centre of action for cinnamon. 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.

NDB teamed up with Citi Bank and Ceylon Chamber of Commerce to promote entrepreneurship at the very bottom of the economic pyramid by reaching unbanked and under developed settlements. The pilot project started in a cinnamon based village, Dadayamkanda, Embilipitiya. These initiatives were targeted primarily towards the upliftment and empowerment of the said cinnamon farmers. Several training sessions were conducted on positive thinking and financial literacy after which the Bank would provide financial assistance for the farmer community.

Empowering Women Through Financial Inclusion

Despite the favourable working conditions in the apparel industry, most female workers keep away from the formal banking system. The financing that is available, if any, came from informal channels at exorbitant cost. As such, financing even a small domestic or personal issue becomes a burning problem for these female workers.

The Bank stepped in with a microfinancing scheme after conducting a socio-demographic study. Two broad investment purposes were identified: (i) consumption/home improvement (such as upgrading sanitary facilities); and (ii) income

generation (such as domestic manufacturing or trading).

The loans are LKR 150,000 each with 3-year tenors and are backed by mutual or cross guarantees by fellow borrowers. Thus far, a total of 12 loans for consumption and 10 for income generation purposes have been disbursed, while a long pipeline of applications are being processed.

Targeting the female apparel worker in this programme has brought about a paradigm change in their lives, such as improved living standards, financial empowerment and greater social acceptance. This will, over time, snowball to the entire local community through new-found financial capabilities.

Supporting Community-Based Agribusiness

The Bank spearheaded the formation of a community group at Siriketha village in the Hingurakgoda Divisional Secretariat. Over 80 village floriculture farmers are part of this group, and through financial empowerment have become independent of intermediaries and are gaining access to new markets.

In a similar initiative, the Bank teamed up with the Export Development Board and 'Suwas Mal Society' to provide financial and technical assistance to several small-scale floriculturists in the Gampaha and Kandy Districts.

Promoting Entrepreneurship

The Bank partnered with the Industrial Development Board (IDB) to assist in building entrepreneurs trained by the IDB in their Colombo District office. Several workshops and credit camps were conducted for these IDB trainees on a variety of topics such as financial management.

Trade Finance

To ensure service excellence the Bank's Trade Finance Department is ISO 9001 2008 certified. To promote Trade Finance activity a new unit was established in the Pettah branch, the hub for trade and results revealed encouraging signs. Products offered under this segment are well complimented by the Bank's worldwide correspondent banking network including Development Finance agencies such as International Finance Corporation Asian Development Bank.

Trade Finance Department also conducted training and awareness programmes across the country for staff and for the Bank's customers taking the subject of Trade and related Banking products to the doorstep of customers in the Regions. It is envisaged that this activity will encourage and support new business from the SME sector.

Please refer the Recognition Section commencing on page 262 to read on the award won by the Trade Finance Department in 2015.

Delivery Channels

Our delivery channels include 93 branches, all LANKAPAY enabled ATMs around the country and VISA enabled ATMs around the globe. In addition customers have access through the Internet and card-based systems.

New Branches Opened During the Year

| Branch Name | District | Province |
|----------------|--------------|------------------------|
| Battaramulla | Colombo | Western Province |
| Giriulla | Kurunegala | North-Western Province |
| Hendala | Gampaha | Western Province |
| Kahawatta | Ratnapura | Sabaragamuwa Province |
| Kekirawa | Anuradhapura | North-Central Province |
| Kochchikade | Gampaha | Western Province |
| Pitakotte | Colombo | Western Province |
| Chenkalady | Batticaloa | Eastern Province |
| Akkaraipattu | Ampara | Eastern Province |
| Thissamaharama | Hambantota | Southern Province |

Branches

Going beyond the over banked urban and suburban markets, the Bank also set up branches in rural and developing towns during the year. These branches are strategic investments that will reap the benefits of growth of these markets.

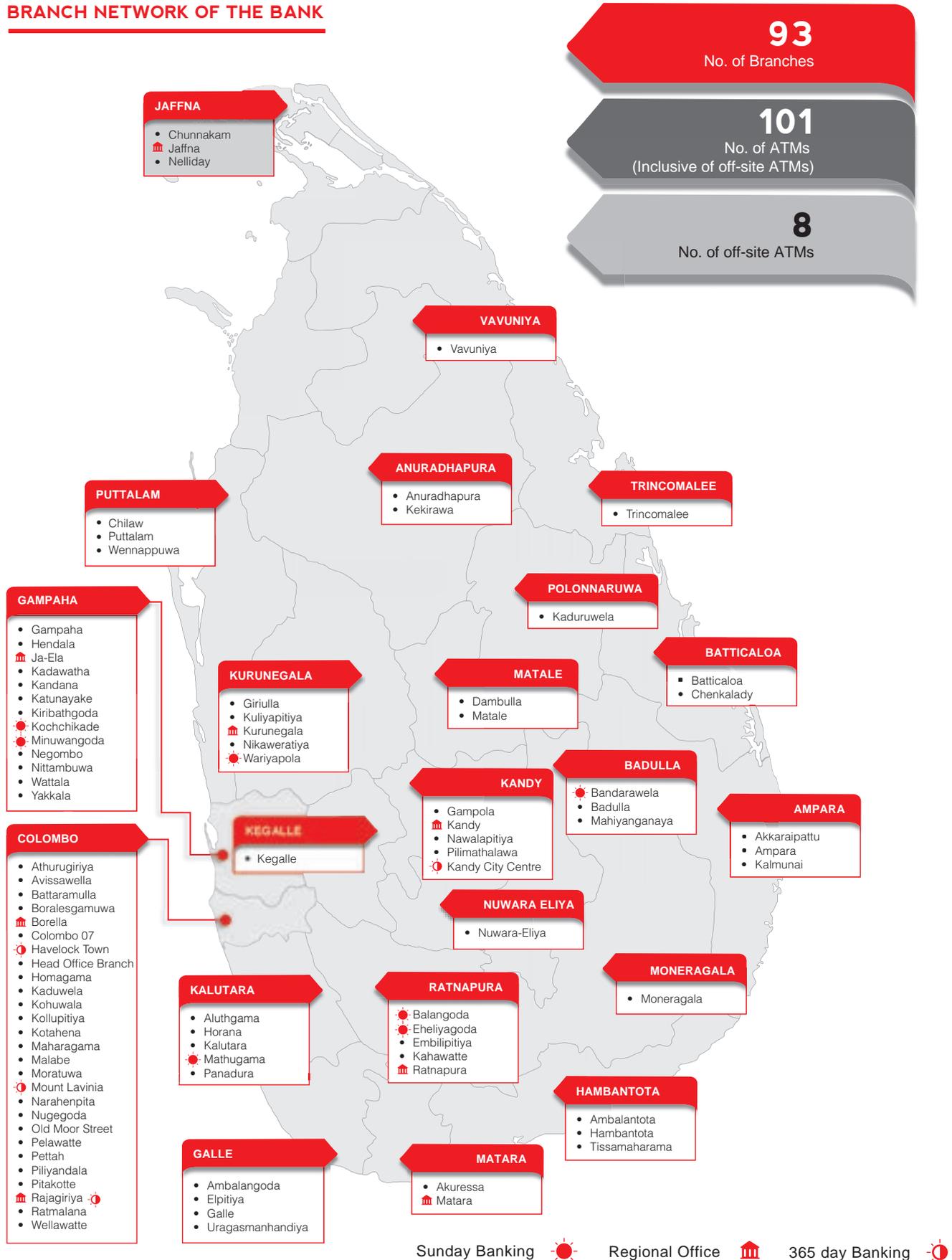
Alternate Channels

With the technological and social revolution taking place in the e-banking environment, we set in motion, the strategies aimed at accelerating acquisition and delivery of e-based touch points. We see that the future growth of retail banking would be through alternate channels more than through traditional brick and mortar channels.

ATM Network

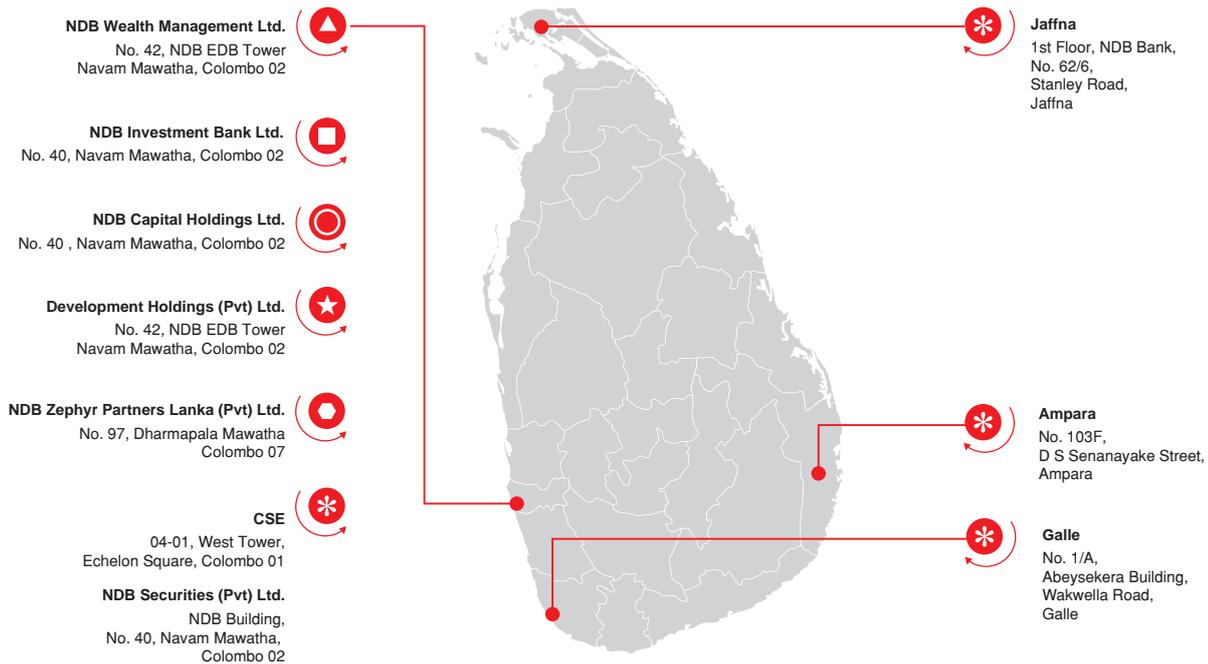
- In addition to ATMs throughout our branch network we improved our off-site ATM installations through selected strategic partners, thus further enhancing accessibility for many to experience the presence of the Bank.
- Number of on-site ATMs: 10 established during the year, total 93.
- Number of off-site ATMs: 8 established during the year, total 8.

BRANCH NETWORK OF THE BANK

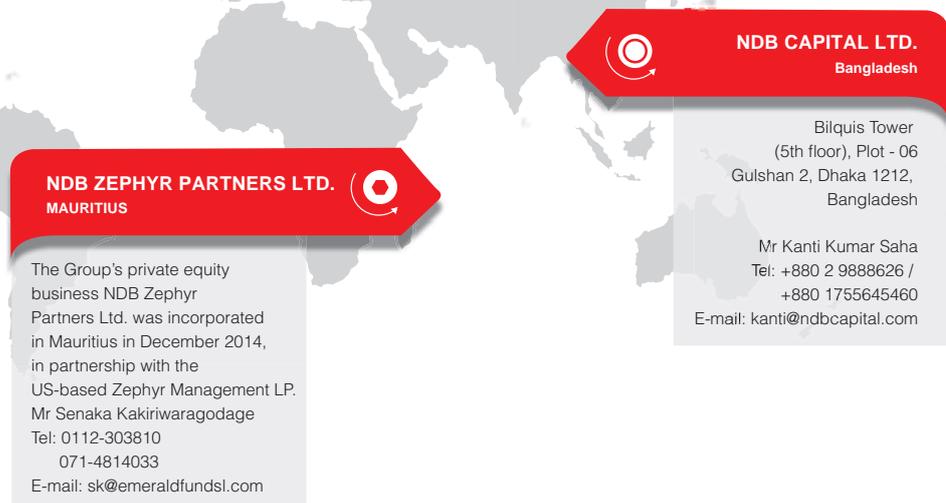


Full details of the Branch Network of the Bank are given on pages 420 - 425.

GROUP NETWORK



NETWORK OF NDB GROUP COMPANIES



NDB Wealth Management Ltd.

NDB Investment Bank Ltd.

NDB Capital Ltd.

Development Holdings (Pvt) Ltd.

NDB Zephyr Partners Ltd.

NDB Securities (Pvt) Ltd.

Redefining Our Online Presence

As a part of the Bank's continued efforts to make the NDB brand more relevant in emerging market segments, we continued to strengthen our online presence via the corporate website and social media engagements.

The Bank received awards for the second consecutive year for the 'Best use of Facebook' and the 'Best use of Social Networks' at the 6th CMO Asia Awards for Excellence in Branding and Marketing held in Singapore. The NDB Facebook page counts 297,000 fans, an increase of 179,000 over 2014. The page continues to build high interactivity by hosting many campaigns and games. Noteworthy campaigns during the year include Mother's Day, Father's Day and Earth Hour. The online 'Ice Cream Dansala' conducted on the page was an innovative initiative to spread the Vesak atmosphere, with vouchers to purchase ice cream sent to those who participated. Fans were delighted and responded well.

The Bank's 'Shilpa' page is in addition to the Bank's corporate page and is aimed at educating parents, parents to be and young adults on the savings habit for children and general tips on upbringing children. The *Shilpa* Facebook page maintains a fan base close to 50,000.

The Bank expanded its social media presence through Twitter and recorded a 244% growth in terms of followers during the year. Updates on Bank events, products, insights from customer forums, notices and daily inspirational retweetable quotes were shared. These tweets received good impressions and interactions.

The Bank's LinkedIn page has an increasing base of followers. It is ranked at 2nd place in Sri Lanka's financial services industry in terms of number of followers, with Vacancy Announcements being the most popular. Corporate details, events and announcements along with other useful business and motivational articles for professionals are also posted on the page. Sharing valuable career and personal advice extracted from internal training programmes is the latest addition to our LinkedIn page.

Website

Our corporate website is a one stop hub to collect information on all aspects of the Bank. We are in the process of revamping the website, which will be available in the near future.

Youtube

The NDB Youtube channel contains all videos published by the Bank, and includes corporate announcements, media briefings, events and commercials.

NDB Digital

In addition to the corporate website, the Bank needed a soft push to showcase its products without having to 'sell' them. A website akin to a blog was thus developed to address areas such as home loans, vehicle leasing, children's saving, general savings, credit cards and investments. Under the separate categories of Cards & Offers, Home & You, Goals & Plans, Save & Invest, Wheels & Dreams, Kids & Money this website accumulates articles that are archived monthly. The objective of the blog site is to appear on related Google searches.

'Opt in' Newsletter

An 'opt in' Newsletter was initiated to share the contents of the digital site with interested recipients. This bi-monthly Newsletter consists of four main articles and four more of relevance. Ongoing promotional campaigns are also shared on the newsletter.

Product Responsibility

Responsible Lending

Project and infrastructure financing is an area for possible indirect risks for the Bank if not carefully managed. This could arise from the manner in which the project is implemented as well as from the sale, use and disposal of the products or services generated by the project.

Environmental and Social Management System

With over 30 years of term lending experience coupled with a continuous upgrading of skills and knowledge, the Bank's lending officers go beyond the norm, sharing their expertise and knowledge with their customers and guiding them on project-related aspects. This includes environmental and social safeguards through its Board approved Environmental and Social Management System (ESMS) which is aligned with national requirements as well as those of international lending institutions. The ESMS is an integral part of the Bank's Credit Policy for term lending.

ESMS requires the Bank to screen projects to be funded from the initial stage of evaluation to identify probable environmental and social issues and to avoid or mitigate them. Issues identified are discussed with the project promoter and mechanisms are formulated jointly to ensure buy in. Such mechanisms are then formalised through loan covenants – including pre-disbursement conditions – which are legally binding.

Product and Service Labelling

The Bank takes utmost care in facilitating accurate and relevant information about its products and services to its customers. The Bank's website, its 24 hour service hotline and other forms of printed material are sources of detailed and easily accessible information presented in a manner that is easily understood by all.

The Bank adheres to all statutory requirements for its products and services. There were no incidents of non-compliance in this regard.

Creating a Socially and Environmentally Responsible Customer

The ESMS may require community consultations and impact assessments, with the depth of study depending on the nature of the project.

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 and 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.

Our lending policies thus also inculcate sound management practices on environmental and social aspects in client companies.

Responsible Practices

Going beyond the ESMS, we integrate the concept of value creation and sustainability into all our business processes. These in turn impact on our customers, business partners and the

whole value chain. For example, we encourage the use of technology to minimize resource consumption without compromising on service standards, promote energy efficient and renewable energy-based processes, products and services, maintain a supplier policy that includes adherence to labour laws, decent work, fair trade and so on.

Responsible Product Development

Switching to Renewable Energy

We encourage the use of renewable energy for households with high electricity consumption. Our NDB Solar Vantage is a personal loan for financing solar photovoltaic (PV) energy systems for domestic usage. The Bank partners with the Sustainable Energy Authority of Sri Lanka (SEASL) in this programme that ensures reliability of service and product quality. The loan scheme includes a special interest rate and tenors up to five years. It is customised and structured to ensure acceptable payback with savings on monthly electricity bill payments through the net metering mechanism.

Building a Nation of 'Savers'

The Bank offers a diverse range of savings products targeting salaried people, the general public and children.

Amongst them are 'NDB Real Saver' for the individuals who strive to make regular savings a habit, even in small quantities, 'NDB Salary Max' current/savings account, specially designed for salaried individuals to facilitate mandatory savings and 'NDB *Shilpa*' children's savings account.

Communication Policy

The Bank's Communication Policy aims to encourage effective internal and external communications of corporate information in relation to the Bank on

its behalf covering all stakeholders including staff, customers, creditors, shareholders, partners, general public and regulators. The overall goal is to demonstrate to the stakeholders and the general public, the range of products and services offered by the Bank as a universal Bank, and to create and enhance visibility of the NDB Brand. Beyond awareness, effective communication would contribute towards achieving the business strategies of the Bank. As a regulated public quoted bank, the Bank shall strive to ensure that communication is transparent whilst taking into account the laws relating to secrecy and confidentiality. The key focus of internal communication is to support the Bank in achieving its business objectives and strategy. Further, internal communication also assists in building an organization culture and feeling of commitment and unity among its staff.

Customer Privacy

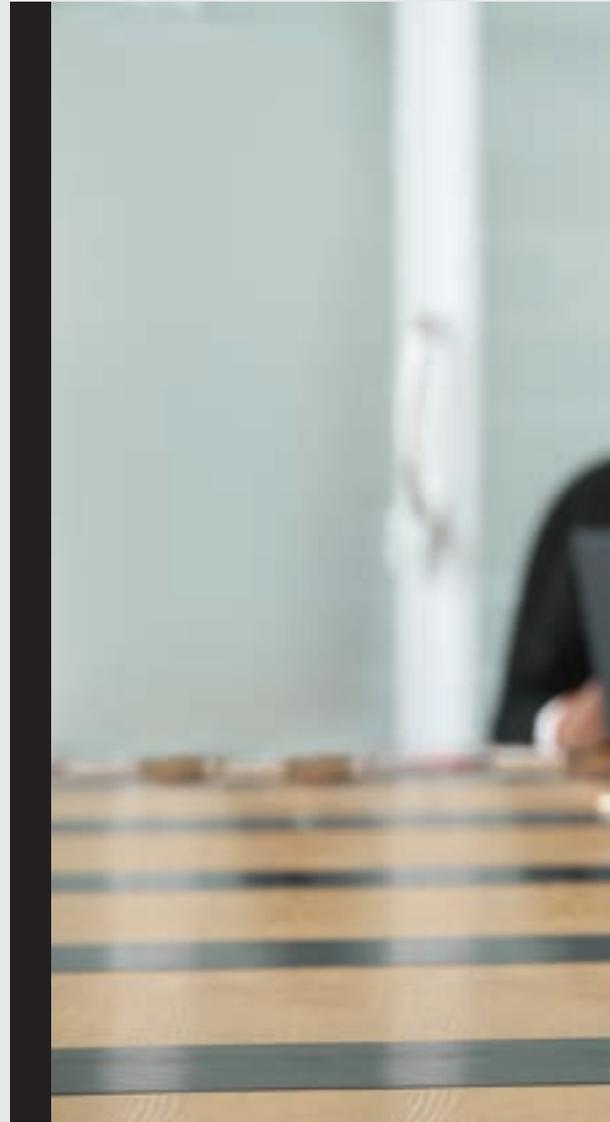
The Bank maintains an online complaint management system where complaints are resolved within a specific time frame taking into account the nature and complexity of the complaint. Once a complaint is lodged, it is escalated to the relevant head of department. There were no substantiated complaints regarding breaches of customer privacy or loss of customer data during the year.

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 under strict confidentiality and is duly secured against malicious spyware etc.

No incidents were reported regarding non-compliance with regulations and voluntary code concerning communication policy during 2015.

FULFILLING JOBS

The Bank is committed to deliver employment that offers job satisfaction, recognition and social upliftment to every employee.



1,960

STRONG
WORKFORCE



LKR 55 Mn

INVESTED ON
TRAINING AND
DEVELOPMENT

7.75%

STAFF
ATTRITION RATE
WELL BELOW
THE INDUSTRY

1:1 GENDER

RATIO OF THE
WEIGHTED
AVERAGE SALARY

LKR 3,204 Mn

PAID IN
SALARIES
AND OTHER
BENEFITS

AN ENERGIZED TEAM

and Employee Capital Formation

THE BANK DRAWS ON ITS DIVERSE WORKFORCE AS INHERENT STRENGTHS TO DELIVER BIG RESULTS

1960, people worked at the Bank by the end of 2015, and women formed over one-third of this workforce.

'Our commitment, your success' – delivered by a best in class, engaged and inspired team. 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 the end 2015, 1,960 people worked at the Bank, an increase of 12.4% over the previous year's total of 1,744 persons. Women form well over one-third of our workforce, including senior 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 Employment Type and Gender

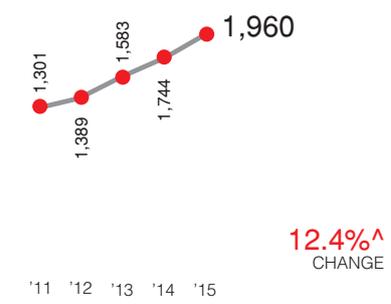
| Employment type | Number | | | Composition, % | |
|----------------------------|--------------|------------|--------------|----------------|-----------|
| | Male | Female | Total | Male | Female |
| Permanent | 906 | 585 | 1,491 | 61 | 39 |
| Contract | 64 | 77 | 141 | 45 | 55 |
| Specialized salesforce | 208 | 20 | 228 | 91 | 09 |
| Trainee banking assistants | 37 | 46 | 83 | 45 | 55 |
| Interns | 10 | 07 | 17 | 59 | 41 |
| Total | 1,225 | 735 | 1,960 | 63 | 37 |

Employees in the permanent cadre accounted for 76% of the total workforce by end 2015 (2014: 79%, 2013: 82%). In order to optimize business efficiencies certain tasks are outsourced. Contract cadre employees are mainly engaged in incentivized jobs such as the Specialized Sales Force

and school leavers awaiting their GCE Advanced Level Examination results who may move on with easy exits.

Workforce Growth

WORKFORCE GROWTH No.



Workforce by Grade and Gender

| Grade | Number | | | Composition, % | |
|-------------------------|--------------|------------|--------------|----------------|-----------|
| | Male | Female | Total | Male | Female |
| Senior management | 29 | 17 | 46 | 63 | 37 |
| Management | 141 | 75 | 216 | 65 | 35 |
| Executive | 221 | 86 | 307 | 72 | 28 |
| Non-executive | 567 | 480 | 1,047 | 54 | 46 |
| Specialized sales force | 208 | 20 | 228 | 91 | 09 |
| Trainees and others | 59 | 57 | 116 | 51 | 49 |
| Total | 1,225 | 735 | 1,960 | 63 | 37 |

Workforce by Location and Gender

| Location | Number | | | Composition, % | |
|-----------------------------|--------------|------------|--------------|----------------|-----------|
| | Male | Female | Total | Male | Female |
| Head Office – Colombo | 598 | 434 | 1,032 | 58 | 42 |
| Region 1 – Colombo | 95 | 63 | 158 | 60 | 40 |
| Region 2 – Greater Colombo | 82 | 53 | 135 | 61 | 39 |
| Region 3 – Southern | 85 | 27 | 112 | 76 | 24 |
| Region 4 – North Western | 92 | 56 | 148 | 62 | 38 |
| Region 5 – North Central | 76 | 24 | 100 | 76 | 24 |
| Region 6 – Central | 81 | 42 | 123 | 66 | 34 |
| Region 7 – Uva-Sabaragamuwa | 62 | 16 | 78 | 79 | 21 |
| Region 8 – North Eastern | 54 | 20 | 74 | 73 | 27 |
| Total | 1,225 | 735 | 1,960 | 63 | 37 |

Recruitment and Retention

As the impending merger with DFCC Bank did not progress, our focus was on fostering organic growth, supported by internal promotions 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, employee share options, an Equity Linked Compensation Plan and retirement benefits.

Recruitment

To keep pace with our planned growth the Bank recruited a total of 457 persons (2014: 379 persons) during the year. Males (67%) and the age groups 18 to 20 years (21%) and 21 to 30 years (66%) accounted for the largest proportion of new entrants. Out of the total, 57% were posted at the Head Office, with all eight Regions absorbing the rest (4% to 8%).

In filling most vacant positions in the organization, HR adopted a bottom-up approach, where the positions are filled by suitable internal staff, following an internal selection process. In this manner, pools of staff are built at various levels to step up to internal vacancies and where necessary only, prospective candidates are recruited externally.

In recruiting candidates externally, the Bank adopts many methods. Recruitment drives are conducted in academic bodies, such as universities and main professional bodies in Sri Lanka. The Bank has come into an understanding with universities to recruit newly passed out graduates of certain disciplines. Further, recruitment drives are conducted in order to recruit Y generation youngsters, who are incentivised contract staff of the Bank. These drives which use state-of-the-art assessment methods, are enriched by giving a unique experience to the participants.

Employee Turnover

A total of 116 employees resigned from the Bank during the year, with males (65%) and the age group 20 to 30 years (47%) 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) divided by the average number employed during the year amounted to 7.75% (2014: 6.58%). The attritions were mainly due to job opportunities both locally and overseas, migration and personal reasons.

Turnover by Age Group

| Age Group | 2015 | | 2014 | |
|---------------|-------------|-------------|-------------|-------------|
| | No. Leaving | Attrition % | No. Leaving | Attrition % |
| 18 - 20 years | – | – | – | – |
| 21 - 30 years | 55 | 7 | 52 | 7 |
| 31 - 40 years | 48 | 11 | 29 | 8 |
| 41 - 50 years | 11 | 5 | 10 | 5 |
| 51 - 55 years | 01 | 2 | – | – |
| Over 55 years | 01 | 14 | – | – |
| Total | 116 | 8 | 91 | 7 |

Turnover by Location

| Location | 2015 | | 2014 | |
|-------------------------------|-------------|-------------|-------------|-------------|
| | No. Leaving | Attrition % | No. Leaving | Attrition % |
| Head Office – Colombo | 59 | 8 | 54 | 8 |
| Region 1 – Colombo | 17 | 13 | 10 | 9 |
| Region 2 – Greater Colombo | 08 | 7 | 05 | 5 |
| Region 3 – Southern | 06 | 7 | 04 | 4 |
| Region 4 – North Western | 08 | 7 | 10 | 9 |
| Region 5 – North Central | 02 | 3 | 01 | 2 |
| Region 6 – Central | 04 | 4 | 03 | 4 |
| Region 7 – Uva - Sabaragamuwa | 04 | 6 | 03 | 6 |
| Region 8 – North Eastern | 08 | 14 | 01 | 2 |
| Total | 116 | 8 | 91 | 7 |

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 after maternity leave out of those due to return in 2015 was 77% (2014: 95%)

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 the National Development Bank 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 354.

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.

| Type of Benefit | Permanent Employees | Contract Employees |
|-------------------------------|---------------------|--------------------|
| Compensation | | |
| Fixed compensation | Applicable | Applicable |
| Variable compensation | Applicable | Applicable |
| Long-term share based schemes | Applicable | Not applicable |
| Other perquisites | | |
| Subsidized loans | Applicable | Not applicable |
| Retirement benefits | Applicable | Applicable |
| Reimbursable expenses | Applicable | Not applicable |
| Other benefits | Applicable | Applicable |

Training and Development

The training and development philosophy at the Bank recognizes that it is employees who drive the business. The Bank invests in their continuous learning through programmes that 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.

The Bank maintains arrangements with professional bodies such as the Institute of Bankers, Sri Lanka (IBSL), Centre for Banking Studies (CBS) and Chartered Institute of Management Accountants (CIMA) Sri Lanka who organize regular training sessions for staff. The IBSL facilitates in-house Diploma and Certificate courses to employees that lead to professional banking qualifications such as Diploma in Credit Management and Certificate in Branch Banking Operations. The programmes are both off-the-shelf as well as customized to meet specific requirements of the Bank.

As part of the Bank's welfare initiatives, the Bank provides a range of training and assistance that supports lifelong learning and transition support. The

following programmes were conducted in 2015; Effective Communication Skills Programme, Business Writing Skills Workshop, Communication Skills Development Programme, Workshop on 'Personal Grooming and Social Etiquette', Career Women Programme, Training on MS office Excel 2010, and programmes on Time Management. These programmes develop knowledge, competencies and learning that collectively benefit our employees. employees are also sent overseas for specialized training, and the Bank maintains affiliations with foreign training bodies such as Euromoney, Marcus Evans, CRISIL (India) and Singapore Institute of Management.

During the year, the Bank invested LKR 55 million (2014: LKR 38 million) to provide a total of 69,137 person hours of training (2014: 101,076 person hours) across all categories of staff. The Bank made a concentrated effort on specialized foreign training in 2015.

Average Training Hours

Training is made available to staff based on needs, both in terms of the Bank and the individual and is independent of gender. The average duration of formal training provided during 2015 was 32.4 hours per person overall (2014: 59.04 hours per person). By gender, the corresponding figures were 30.24 hours per female (2014: 59.37 hours) and 33.39 hours per male (2014: 50.17 hours) employee.

| Gender | Average Training hours |
|-------------------------------|------------------------|
| VP | 26.3 |
| AVP | 37.43 |
| Senior Management staff Total | 63.73 |
| Chief Manager | 33.2 |
| Senior Manager | 21.8 |
| Manager | 18.77 |
| Management staff Total | 73.77 |
| Deputy Manager | 19.3 |
| Associate Manager | 21.01 |
| Executive | 30.0 |
| Executive Staff Total | 70.31 |
| Junior Executive | 26.93 |
| Senior Banking Associate | 19.77 |
| Banking Associate | 35.22 |
| Non-Executive staff | 81.92 |

Self-Learning

Employees are encouraged to supplement Bank-provided external training with self-learning and take control of their professional development. The Bank supports this through the investment in e-learning, which now has 34 modules. In addition, employees may enrol on other part time courses offered by universities and professional bodies to further their development.

As another facet of personal development, the Bank initiated the NDB Toastmasters Club in 2013 and joined the Global Toastmasters fraternity. This has helped many to improve their oral communications while giving them confidence to participate in professional forums.

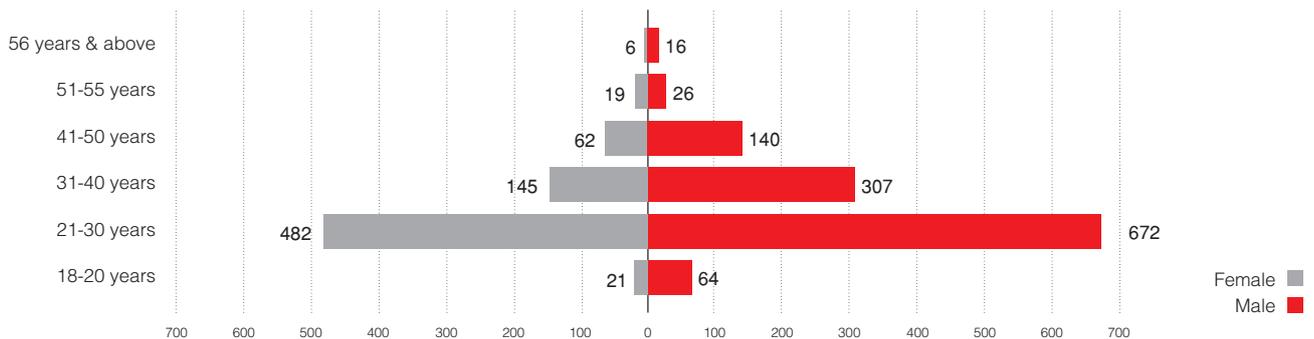
Diversity and Equal Opportunity

As an equal opportunity employer the Bank recognizes 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 the human capital, diversity arising from hiring locally helps the Bank to better align its business model to effectively meet the needs of local communities.

Composition of Governance Bodies

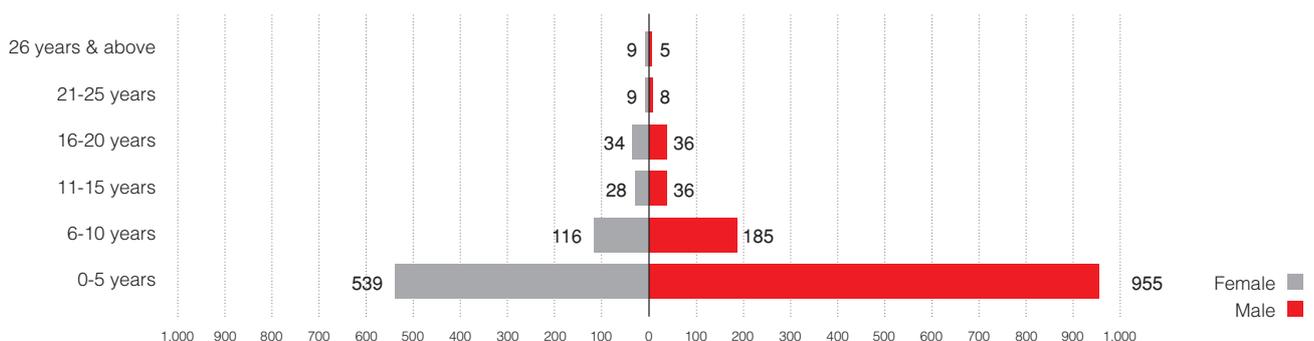
AGE ANALYSIS

No.



SERVICE PERIOD ANALYSIS

No.



Rewarding Performance

The Bank rewards 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 2014 to enhance uniformity and consistency.

As per the reward mechanism 82% of staff became eligible for performance bonus during 2015. In a further effort to differentiate excellence, a special merit bonus scheme was introduced in 2014 and was implemented in 2015 in a transparent manner.

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 performance review and remuneration mechanism at the Bank recognizes and rewards individuals according to their performance. Hence, there is no gender bias.

The ratio of the weighted average basic salary by gender, female: male, for the Bank overall during the year was 1:1.1, which is the same as in the previous year.

Average Basic Salary Ratio, Female to Male, Analyzed by Grade

| Grade | Female | Male |
|-------------------------|--------|------|
| Senior management | 1 | 1.3 |
| Management | 1 | 0.9 |
| Executive | 1 | 1.0 |
| Non-executive | 1 | 1.0 |
| Specialized sales force | 1 | 1.0 |
| Others | 1 | 2.1 |
| Overall for the Bank | 1 | 1.1 |

Average Basic Salary Ratio, Female to Male, Analyzed by Location

| Location | Female | Male |
|-----------------------------|--------|------|
| HO – Colombo | 1 | 1.1 |
| Region 1 – Colombo | 1 | 1.4 |
| Region 2 – Greater Colombo | 1 | 1.1 |
| Region 3 – Southern | 1 | 1.4 |
| Region 4 – North Western | 1 | 1.3 |
| Region 5 – North Central | 1 | 1.7 |
| Region 6 – Central | 1 | 1.4 |
| Region 7 – Uva-Sabaragamuwa | 1 | 1.5 |
| Region 8 – North East | 1 | 1.0 |
| Overall for the Bank | 1 | 1.1 |

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.

Also the Bank provides to the employees a substantial notice period, prior to major operational changes that could affect them.

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, the Bank maintains officers trained in first aid and psychological assistance who are available at all times to assist staff while on duty.

During the year 01 incident related to occupational health and safety was reported (2014: 3) and duly addressed. The total number of days lost in relation to these incidents was 24 person days (2014: 146 person days).

Employee Engagement

The Bank uses several channels 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 skills and adequate compensation
- continuous engagement with employees
- achieving operational excellence in serving employees.

These are aimed at driving and supporting superior employee performance that complement the Bank's seven pillars of business strategy (page 37).

Welcoming Feedback

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

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 communication channels 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.

A total number of 3 grievances were addressed and resolved over the year.

All Aboard

Taking a broader view that goes beyond 'work', the Bank believes that the emotional engagement of staff is also important for a long-lasting relationship. This takes several forms. Some activities extend to the families of employees, such as the felicitation of children of staff who excel at public examinations and workshops during school holidays with a focus on arts/ crafts and leadership skills.

Through the Recreation Club of the Bank it encourages employees to participate in sports. The Bank participated in many sports in mercantile tournaments and excelled in Basketball, Netball and Athletics where teams won places at tournaments and individual athletes excelled with Gold, Silver and Bronze medals.

Promoting employee volunteerism received special attention during the year, where NDB undertook a tree planting programme of 2000 areas along the Deduru Oya reservoir in its quest to sustain a greener environment. The focus is on encouraging direct employee participation through teams to supplement the Bank's own CSR initiatives. Under this programme the Bank provides a financial allocation to each CSR team to implement its own CSR project in the areas of education, entrepreneurship, health and children. The programme has triggered much enthusiasm across the Bank and has contributed to a better understanding of social issues, empathy and teamwork amongst employees.

NDB Toastmasters Club

NDB Toastmasters Club completed a very successful year in 2015, being a very young club that was chartered in October 2013.

The Club achieved many awards during the year, including three International Awards. The Club also achieved the President's distinguished status which is the highest level of recognition a club can achieve in global Toastmasters fraternity having met the membership prerequisite and achieving all 10 goals set by Toastmasters International Headquarters - California, USA.

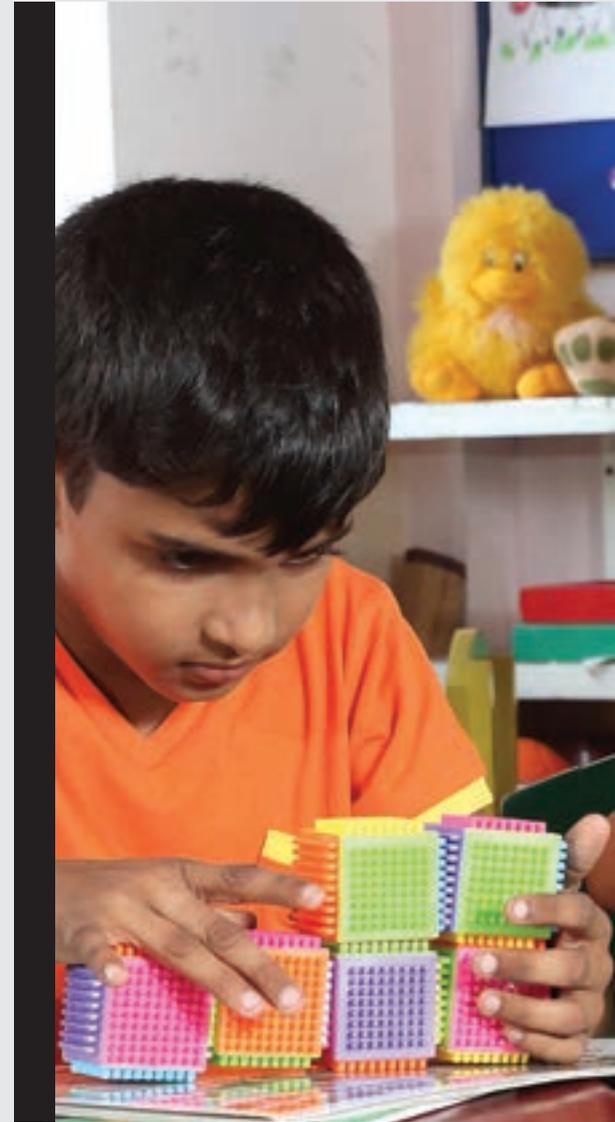
In addition to the regular fortnightly educational meetings, the Club conducted several programmes for the benefit of the Bank's staff members as well as their children. NDB Best Speaker Contest was conducted for the 2nd consecutive year in 2015 with great enthusiasm. The event saw the participation of employees representing a large number of departments and branches.

The training Programme 'Back to the Stage' was conducted to improve the public speaking and leadership skills of the children of the NDB Staff. Furthermore, the club organized three Regional Training Programmes in Central Region (Kandy), Southern Region (Matara) and Sabaragamuwa Region (Ratnapura) for the benefit of the Bank's regional staff members.

NDB Toastmasters Club has passed through three themes since its inception, 'Breaking Through' (2013/2014), 'Discovering The Potential' (2014/2015) and 'Quality With Spirit' (2015/2016), which has escalated the Club's quality and caliber to internationally recognized levels.

A CARING CORPORATE

The well-being of all Sri Lankans concerns us...and drives our commitment to their development via our CSR initiatives. Children, the future of our nation, and their well-being form a core part of our CSR initiatives. Find out more in the pages to follow.



486

TEACHERS
TRAINED
IN ENGLISH
SINCE 2012



8,103 kg CO₂e

OF GHG
EMISSIONS
REDUCED

10

SCHOOL LIBRARIES
UPGRADED IN 2
PROVINCES

CORPORATE RESPONSIBILITY

and Social and Environmental Capital Formation

THE BANK ADOPTS A THREE-PRONGED APPROACH TO CORPORATE RESPONSIBILITY

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 sustainable value for itself is related to the value it creates for others. Thus, our approach to corporate social responsibility (CSR) is structured along three strategic lines - operational, strategic and philanthropic initiatives.

Operational CSR

Operational CSR initiatives are based on the Bank's day-to-day business operations. They are an integral part of the business and serve to create value for the Bank as well as its multiple stakeholders over time. For brevity, only material aspects that have identifiable impacts on local communities and the environment are discussed here.

Market Presence

A broad geographical coverage 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 progressively expanded its market position through organic growth in the past and is represented in every province and 22 districts of the country (see page 82 for details).

| Location | Employees in executive grade and above | |
|-----------------------------|--|------------------|
| | Total Number | % From Locality* |
| Head Office – Colombo | 370 | 36 |
| Region 1 – Colombo | 34 | 22 |
| Region 2 – Greater Colombo | 23 | 17 |
| Region 3 – Southern | 24 | 21 |
| Region 4 – North Western | 32 | 22 |
| Region 5 – North Central | 23 | 23 |
| Region 6 – Central | 25 | 20 |
| Region 7 – Uva-Sabaragamuwa | 20 | 26 |
| Region 8 – North Eastern | 18 | 24 |
| Overall | 569 | 29 |

*Defined as one's permanent residence lying within the defined geographic location/region
Employees in executive grade and above are considered as Senior Management in order to present the employee percentage from locality.

MSME Development

Since its founding, the Bank has been active in the development of micro, small & medium enterprises (MSME) sector, through the provision of finance and much more.

Our strategic approach to micro financing is two-pronged: (i) Target underserved communities of the economy through empowerment and capacity building (the 'Jeevana' or 'Life' programme), and (ii) Promote livelihood development through financial inclusion (the 'Divi Aruna' or 'Awakening of Lives' programme). Both programmes inculcate a business orientation that instils a strong credit culture to wean the beneficiaries away from a dependency mindset.

Our five dedicated SME Centres in the provinces are equipped with

state-of-the-art facilities to support entrepreneurs in many ways. The Centres provide access to a wide range 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 Profitable Growth (page 42) and Lasting Relationships (page 74) respectively.

Indirect Economic Impacts

In addition to direct value creation and distribution through our own operations, the Bank's investments and market presence impact on local communities in many ways. They include jobs created or jobs 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 36).

Environmental and Social Strategy

Our eight-pronged '8 R' strategy aims to inculcate sound environmental and social practices across the Bank, our customers and suppliers. Some of these aspects were discussed previously, such as our ESMS (page 84), supplier/procurement policy (page 69), use of digital technology (page 84) and borrower capacity building. The table that follows encapsulates these and more.

| The 8 R's | Definition | Activities |
|-----------|--|---|
| Refuse | Refuse transactions that could be socially and environmentally harmful | <ul style="list-style-type: none"> • Avoid purchase of materials that would negatively impact the environment • Screen suppliers for labour and environmental practices as per the Bank's Supplier and Procurement Policy • Lend responsibly through the Bank's Environmental and Social Management System (ESMS) - an integral part of our credit policy and credit evaluation process - which specifies negative sectors, watchlists and compliance requirements for borrowers |
| Reduce | Reduce the utilization of scarce resources by switching to alternatives that are less resource intensive | <ul style="list-style-type: none"> • e-Learning modules for staff that reduces paper consumption • e-Statements to clients to reduce paper consumption • The Bank's consumption of stationary in 2015 amounted to LKR 53 million • Improve energy efficiency through regular energy audits and implement solutions • Implement the '5 S' methodology - sort, straighten, shine, standardize and sustain |
| Reuse | Reuse waste material without processing whenever possible | <ul style="list-style-type: none"> • Reuse stationary items, such as the reverse side, for workings • Donate usable assets of the Bank that are replaced during an upgrade (e.g. computers and furniture) to deserving institutions |
| Recycle | Recycle used materials that cannot be reused | <ul style="list-style-type: none"> • Recycle waste paper through authorized recyclers, 8,103 kg in 2015 |
| Renew | Promote renewable energy development | <ul style="list-style-type: none"> • Finance micro hydro power projects within the plantation sector (6 projects with 445 kW total capacity financed in 2015) |

| The 8 R's | Definition | Activities |
|-----------|--|---|
| Refine | Refine and build capacity of internal and external customers | <ul style="list-style-type: none"> Empower environmental literacy amongst: <ul style="list-style-type: none"> Employees through internal awareness campaigns and specialised training (2015: 18 branch officers and 1 Vice-President trained through 2 programmes) Customers and potential customers (2015: 9 workshops on environmental and social responsibility conducted, attended by 776 participants) |
| Respond | Respond to the environmental and social needs of our nation | <ul style="list-style-type: none"> Responsible product development Responsible lending Responsible procurement Promote English language proficiency and the reading habit Support screening programmes for chronic kidney disease Combat climate change by planting trees to mitigate deforestation |
| Replace | Restore the resources consumed by the Bank to establish neutrality or mitigate negative impacts as far as possible | <ul style="list-style-type: none"> Bank employees planted 2,000 trees at Deduru Oya in 2015 with employee volunteerism to mitigate its carbon footprint through carbon sequestration |

Our Carbon Footprint

We are reporting our greenhouse gas (GHG) emissions for the second successive year, using the most recent version of WBCSD/WRI Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (2004) and Calculation Tools (2015).

To be consistent with the aspects discussed in this section of the Annual Report the boundary is limited to the Bank and its core business. Hence, we have restated the figure for Scope 2 electricity for 2014 to enable comparison. Our reporting of GHG emissions under Scope 3, which is optional, is limited to sources that are material and measurable.

GHG Emissions of the Bank

| Scope | Source | 2015 | | 2014 | |
|---------------------------------|--|--------------------|--------------|--------------------|--------------|
| | | tCO ₂ e | % | tCO ₂ e | % |
| 1 | Combustion in stationary sources | 4.4 | 0.2 | 22.2 | 0.8 |
| 1 | Combustion in mobile sources | 55.4 | 1.8 | 233.3 | 8.3 |
| 1 | Fugitive emissions from air conditioning equipment | 101.2 | 3.4 | 99.9 | 3.6 |
| Subtotal, Scope 1 | | 161.0 | 5.4 | 355.4 | 12.7 |
| 2 | Purchased electricity | 1,297.9 | 43.1 | 1,161.8 | 41.5 |
| Subtotal, Scopes 1 and 2 | | 1,459.0 | 48.4 | 1,517.2 | 54.2 |
| 3 | Combustion in stationary sources | 55.5 | 1.8 | 52.1 | 1.9 |
| 3 | Purchased electricity | 1,444.9 | 48.0 | 1,181.2 | 42.2 |
| 3 | Employee air travel | 52.7 | 1.8 | 47.4 | 1.7 |
| Subtotal, Scope 3 | | 1,553.1 | 51.6 | 1,280.7 | 45.8 |
| Total, all Scopes | | 3,012.1 | 100.0 | 2,797.9 | 100.0 |

Note: Totals may not tally exactly due to rounding

The Bank's total carbon footprint amounted to 3,012 tonnes carbon dioxide equivalent (tCO₂e) in 2015, an increase of 7.7% over the previous year. The increase is largely due to the 22.3% increase in purchased electricity consumed in branches occupying rented premises, a Scope 3 item. The branch network expanded during the year to support business growth.

On the other hand, Scopes 1 and 2 together accounted for 1,459 tCO₂e, a decrease of 3.8%, largely due to a decline in fuel usage of the Bank owned generator, a Scope 1 item.

Purchased electricity was by far the largest source of GHG emissions, with 43% coming from our own premises (banking business only) and another 48% from premises rented by branches. Taken together, purchased electricity accounted for 91% of the total carbon footprint of the Bank. This high proportion is to be expected considering the nature of our business

and reliance on air conditioning in the climatic conditions under which we operate.

GHG Emissions Intensity

When related to an activity level, our overall GHG emissions intensity in 2015 was 247 kg tCO₂e per LKR million of the Bank's total operating income (2014: 240 kg tCO₂e per LKR million). Considering only Scopes 1 and 2, which is complete and hence a more meaningful figure for benchmarking, the Bank's GHG emissions intensity in 2015 was 119 kg tCO₂e per LKR million (2014: 130 kg tCO₂e per LKR million).

Going forward, we see the importance of closely managing electricity consumption through measures such as improved energy efficiency in plant, equipment and buildings as well as augmentation with solar PV based self-generation. These steps will not only make the Bank more environmentally responsible, but also result in cost savings through the effective and efficient use of resources.

Consumption of Paper in 2015

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. A waste reduction and recycling drive is done by the Bank where waste paper amounting to 8,103 kgs was recycled during the year, resulting in an estimated reduction in GHG emissions of 8,103 kgs of carbon equivalent and saved:

- 138 trees
- 14,216 litres of oil
- 32,400 kWh of electricity
- 257,418 litres of water
- 24 cubic metres of land fill

Our material usage is not significant hence, recycled input material are not used.

Strategic CSR

Education, particularly competency in a global language such as English, is an important factor that contributes to the nation's economic growth in the long-term. As this is well aligned with the Bank's own business focus and strategy, 'education' is an important facet of our strategic CSR initiatives.

| | |
|-----------------------|---|
| Project | English Communication Programme for secondary school teachers Commenced: 2012 Current status: Ongoing |
| Objective | Enhance the standard of English in Sri Lanka |
| Partner | British Council, Colombo |
| Sustainability | 196 Teachers from 295 participating schools covering 07 Provinces are well equipped to teach students who come under their purview. Cumulative: all 486 trained teachers are linked with the British Council and thus have access to assistance whenever required. The trained teachers impact over 81,000 students. |

| | |
|-----------------------|--|
| Project | Chronic kidney disease of unknown etiology (CKDu) screening programme Commenced: 2014 Current status: Ongoing |
| Objective | Early detection of CKDu in identified geographical areas |
| Partner | Renal Unit of Anuradhapura Hospital |
| Sustainability | Screening of over 3,800 persons from 17 rural villages in Anuradhapura District during 2015 Cumulative: 5,571 persons from 23 villages. Over 200 individuals detected with CKD and referred for treatment in 2015 (cumulative 405 persons) Public awareness raised in 17 rural villages in 2015 (cumulative: 23 villages) |
| Project | Schools Library Project Commenced: 2008 Current status: Ongoing |
| Objective | Improve reading habits and English language skills |
| Partner | Asia Foundation |
| Sustainability | Upgraded 10 school libraries in 02 provinces during 2015 Cumulative: Upgraded 210 school libraries in all provinces of the country by providing high quality English language books. |
| Project | Palmyra Bio-fencing Project Commenced: 2014 Current status: Ongoing |
| Objective | Prevent wild elephants from entering areas of human habitat and causing destruction by planting palmyra palms as a barrier, while providing mutual benefits to both, the inhabitants and the animals. |
| Partner | Janathakshan, Sri Lanka (an NGO) |
| Sustainability | This was a pilot project limited to 1 km of fencing. Funding for the balance 21 kms to be considered, based on lessons learnt. |
| Project | Combating Deforestation Commenced: 2015 Current status: Ongoing |
| Objective | To recover lost forest cover in Sri Lanka and to replenish the equivalent of the Bank's consumption of paper in day-to-day business operations by partnering the 'One million tree stories' project. |
| Partner | Rotary Sri Lanka, CIMA Sri Lanka |
| Sustainability | Planted 2,000 saplings near the Deduru Oya reservoir in 2015 as part of the Bank's Employee Volunteerism Programme. The plants will be nurtured for two years, to ensure growth and sustainability. It will be followed by regular inspections and replacements of casualties as required. |

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 areas for support, with assistance channelled through two Trusts set up for this purpose.

| | |
|-----------------------|---|
| Project | NDB Cancer Aid Trust Fund Commenced: 2008 Current status: Completed |
| Objective | Provide assistance through the Maharagama Cancer Hospital to patients who are unable to afford vital therapeutic items. |
| Partner | Cancer Hospital, Maharagama |
| Sustainability | Activities during 2015: Donation of DVT Pumps, Glucometers and 2 Multipara Meters To date over LKR 10 million worth of donations consisting of essential therapeutic items for patients as well as surgical items for the hospital |

| | |
|-----------------------|---|
| Project | Prevention of Child Abuse Trust Commenced: 1997 Current status: Ongoing |
| Objective | 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 | Activities during 2015: Skills building programme for 30 Child Right Promotion Officers of the Department of Probation and child care To date, the Trust has conducted over 100 awareness programmes, benefiting over 9,000 parents, 1,900 students, 1,000 teachers and 500 principals. In addition special awareness programmes have been conducted for 1,126 trainee teachers in 07 National Colleges of Education in 2014. Over the years, the Trust has also conducted special programs for probation Officers and Caregivers. |

SUSTAINABILITY ASSURANCE REPORT



EY

Building a better
working world

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Independent Assurance Report to National Development Bank PLC on the Sustainability Reporting Criteria Presented Under the Integrated Annual Report – 2015

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 – 2015 ('the Report').

- Reasonable assurance on the information on financial performance as specified on pages 51 and 52 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 ("CASL").

The evaluation criteria used for this limited assurance engagement are

based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI G4 'In accordance' - Core guideline publication, publicly available at GRI's global website at 'www.globalreporting.org'.

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

Management of the Bank's Responsibility for the Report

The management of the bank is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustaining reporting process in line with the GRI Sustainability Reporting Guidelines.

Ernst & Young's Responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative G4 'In accordance' - Core guidelines. This report is made solely to the Bank in accordance with our engagement letter dated 20 January 2016. 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 CASL.

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 bank's personnel 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 the data on financial performance are properly derived from the bank's audited financial statements for the year ended 31 December 2015.
- 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 51 and 52 of the Report is properly derived from the audited financial statements of the Bank for the year ended 31 December 2015.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Bank's sustainability practices and policies some of which are derived from GRI-G4-'In accordance' Core Sustainability Reporting Guidelines.



Chartered Accountants

12 February 2016
Colombo

EVENTS

JANUARY

**BRANCH OPENING IN KEKIRAWA AND KAHAWATTE**

Kekirawa is a thriving agrarian community with a progressive economy that contributes to the gross production of the country. The opulent soil of Kekirawa is home to an ambitious farming and trading community.

Kahawatte with its fame for gem and jewellery is a bustling economy and is home to many self-made businessmen and traders.

NDB established its footprints in these townships in January 2015 to herald financial prosperity to the individuals and businesses in the areas.

FEBRUARY

**BRANCH OPENING IN HENDALA**

Hendala, with its close proximity to the bustling tourist hub Negombo, is a growing economic hub with ample opportunity for traders and manufacturers. NDB opened its 86th branch in Hendala to serve its citizenry with a novel banking experience with NDB.

CHRONIC KIDNEY DISEASE (CKD) PROJECT IN KEBITHIGOLLAWA

NDB commenced a health initiative with the aim of alleviating major impacts of the Chronic Kidney Disease (CKD) by creating awareness and facilitating free medical screening to those living in vulnerable environments. The project was launched in association with the 'Renal Unit' at the Anuradhapura Teaching Hospital and the 'Kidney Protection Foundation' in Anuradhapura.

MARCH

**BRANCH OPENING IN GIRIULLA**

Giriulla is renowned for its rich agricultural success located within the geographic spread of the famous 'Coconut Triangle'. NDB opened its doors to the aspiring individuals and businesses of Giriulla, in a bid to support and encourage entrepreneurial, growth efforts of its people.

OFF-SITE ATM OPENING

08 off-site ATMs were opened at Maliban Textile Garment Factories in Ingiriya, Pelmadulla, Opanayake, Dematagoda, Balangoda, Matale, Deraniyagala and Ginigathhena in order to provide the staff convenience in accessing their NDB savings accounts. This initiative also formed a part of the Bank's micro financing initiatives.

JULY

**BRANCH OPENING IN KOCHCHIKADE**

NDB opened its doors to the aspiring individuals & businesses of Kochchikade, with NDB's expertise and knowledge in SME financing, offering many solutions; including short-term working capital loans, supplier and distributor finance and industry specific long-term funding which will be beneficial for the growers, small and micro industrialists, traders and distributors in the area.

SME WORKSHOPS

SME workshops were carried out in Awissawella, Malabe, Mahiyanganaya, Piliyandala and Nikaweratiya where participants were introduced to sustainable business practices.

AUGUST

**BRANCH OPENING IN BATTARAMULLA**

NDB made entrance to Battaramulla, the rapidly developing administrative capital of Sri Lanka, to bring new vistas of financial prosperity to the township.

MERCANTILE ATHLETIC MEET – DIYAGAMA

The Bank was the Gold Sponsor of this event held in August 2015.

SME WORKSHOPS

SME workshops were conducted in Kalutara, Matara and Kallmunnei to educate Small & Medium Entrepreneurs (SME) on sustainable business practices.

SEPTEMBER

**GOLF TOURNAMENT**

NDB together with the Royal Colombo Golf Club (RCGC) hosted the Annual 'Inter-School Golf Championship' at the RCGC. This tournament was organized by past pupils of the Holy Family Convent, Bambalapitiya.

SME WORKSHOPS

SME workshops were carried out within the Colombo Region (Havelock Town, Colombo 7, Nawam Mawatha and Kollupitiya), Giriulla, Kandy, Chilaw, Ampara and Kegalle. A large number of entrepreneurs benefited from the wide range of information and knowledge that was shared in these workshops.

APRIL



JAFFNASPIRE

NDB Jaffnaspire, held in April 2015 in the Jaffna Peninsula, received a tremendous response from the people in the region. This mammoth event conducted by NDB in Jaffna comprised of several community development projects, an Investor Forum, a vehicle fair, a mega door-to-door campaign and a musical show which featured some famed Indian Super Singers.

MAY



BUILD SRI LANKA

The Bank was the Gold Sponsor at the Build Sri Lanka - Housing and Construction Exhibition which was held at the BMICH in May 2015.

SME WORKSHOPS

SME workshops were conducted in Kuliyaipitiya, Kandana and Boralessgamuwa where Small and Medium Entrepreneurs (SME) were educated on environment and social management processes. The programmes which shared valuable knowledge on sustainable business practices; were conducted in conjunction with the regional SME workshops organized by the Bank.

JUNE



SME WORKSHOPS

SME Workshops were carried out in Embilipitiya, Gampola, Vauvniya and Kaduruwela in conjunction with the regional SME workshops organized by the Bank.

BRITISH COMEDY SHOWCASE

NDB entertained 100 of its top Privilege Customers at a unique event of brilliant British stand-up comedy featuring four of Britain's best comedians coupled with a fine dining experience at Hilton Colombo.

OCTOBER



BRANCH OPENING IN CHENKALADY

NDB opened its 91st Branch in Chenkalady in Batticaloa District. The new branch opening reinstates the Bank's continued commitment towards the rapid post-conflict economic development taking place in the region.

RIYA POLA IN ANURADHAPURA

The Bank conducted 'Riya Pola' in collaboration with Diesel & Motor Engineering PLC (DIMO), an initiative to promote price discounted vehicles coupled with NDB's convenient leasing solutions.

NOVEMBER



APPOINTING OF NDB BRAND AMBASSADOR

Angelo Mathews, Sri Lanka's Crikcket Captain was appointed as the NDB Brand Ambassador. NDB believes that this new partnership will in return bring in an emotional connection towards the brand and build greater stature.

RIYA PLOA IN AMBALANGODA

'Riya Ploa' was carried out in Ambalangoda as well following its success in Anuradhapura in October 2015.

DECEMBER



BRANCH OPENING IN AKKARAIPATTU

NDB opened its 92nd branch in Akkaraipattu in a bid to support the economic and livelihood development in the area. With this opening, NDB signalled a steady continuation of the Bank's aggressive expansion strategy.

BRANCH OPENING IN TISSAMAHARAMA

NDB opened its last branch for 2015 in Tissamaharama with the intention of further strengthening its financial services to the residents in the Southern Province. With this opening, NDB branch network grew to ninety three.

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STEWARDSHIP



SCAN TO VIEW

<http://ndbbank2015.annualreports.lk/stewardship/index.html>

**“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”**

BOARD OF DIRECTORS

| | Date of Appointment to the Board | Date of Last Re-election as a Director | Length of Service as a Director | Membership in Board Sub Committees: | Skills/Experience/Qualifications: |
|---|----------------------------------|--|---------------------------------|--|--|
|  <p>N G Wickremeratne Chairman (Non-Executive Independent Director)</p> | 15 April 2015 | N/A | 08 Months | <ul style="list-style-type: none"> - Strategic Issues Committee - Nominations Committee - Related Party Transactions Review Committee | BSc. Degree in Mathematics and Chemistry - University of Ceylon |
|  <p>A K Pathirage Deputy Chairman (Non-Executive Non-Independent Director)</p> | 18 February 2011 | 28 March 2014 | 04 Years | <ul style="list-style-type: none"> - Strategic Issues Committee - Human Resources and Remuneration Committee - Nominations Committee | <p>G.C.E Advanced Level.</p> <p>He has over 25 years of experience in Senior Managerial capacity in the Information Technology Industry and in the business world.</p> |

| Present Directorships with Other Companies/Positions: | Past Directorships/Positions Held: | Other Information: | Number of Shares Held in the Bank as at 31 December 2015: |
|--|--|--|---|
| <ul style="list-style-type: none"> - Holcim Lanka Ltd. – Chairman - Finlays Colombo PLC – Non-Executive Director - National Trust, Sri Lanka – Trustee/Vice-President | <ul style="list-style-type: none"> - Hayleys Group – Chairman, Executive Director and CEO, - Dipped Products PLC – CEO - Sri Lanka Association of Manufacturers and Exporters of Rubber Products – Founder Chairman - Ceylon Chamber of Commerce – Committee Member and its representative on the National Labour Advisory Council - Advisory Council of Ceylon Chamber of Commerce – Member - France Business Council – President of Sri Lanka - Hatton National Bank PLC – Non-Executive Director | <p>He is especially credited with the establishment of Dipped Products PLC and its evolution into a world leader in its field.</p> | <p>Nil</p> |
| <ul style="list-style-type: none"> - Softlogic Holdings PLC – Chairman/Managing Director - Asiri Hospital Holdings PLC – Chairman/Managing Director - Asiri Surgical Hospital PLC – Chairman/Managing Director - Asiri Central Hospitals Ltd. – Chairman/Managing Director - Central Hospital Ltd. – Chairman/Managing Director - Asiri Hospital Kandy (Private) Ltd. – Chairman/Managing Director - Softlogic Retail (Private) Ltd. – Chairman/Managing Director - Ceysand Resorts Ltd. – Chairman/Managing Director - Softlogic Finance PLC – Chairman - Softlogic Capital PLC – Chairman - Asian Alliance Insurance PLC – Chairman - NDB Capital Holdings Ltd. – Chairman - Softlogic Properties (Private) Ltd. – Chairman - Softlogic Australia (Pty) Ltd. – Chairman (Incorporated in Australia) - Softlogic City Hotels (Private) Ltd. – Chairman - Asian Alliance General Insurance Ltd. – Chairman - Softlogic Brands (Private) Ltd. – Chairman - ODEL PLC – Chairman - Abacus International Lanka (Private) Ltd. – Managing Director | <ul style="list-style-type: none"> - Softlogic Information Technologies (Pvt) Ltd. – Chairman - Softlogic Credit Ltd. – Chairman - Softlogic International (Pvt) Ltd. – Chairman - Softlogic Communications (Pvt) Ltd. – Chairman - Asiri Hospital Matara (Pvt) Ltd. – Chairman/Managing Director - Future Automobiles (Pvt) Ltd. – Chairman/Managing Director - Dai-Nishi Securities (Pvt) Ltd. – Chairman - Asiri Diagnostics Services (Pvt) Ltd. – Chairman - Softlogic Communication Services (Pvt) Ltd. – Director - Softlogic Computers (Pvt) Ltd. – Chairman - Ominga International (Private) Ltd. – Director - Softlogic Corporate Services (Pvt) Ltd. – Chairman - Gerry's Softlogic (Pvt) Ltd. – Director - Softlogic Solar (Pvt) Ltd. – Director - Softlogic Restaurants (Pvt) Ltd. – Director | <p>N/A</p> | <p>3,993,000</p> |

| | Date of Appointment to the Board | Date of Last Re-election as a Director | Length of Service as a Director | Membership in Board Sub Committees: | Skills/Experience/Qualifications: |
|--|----------------------------------|--|---------------------------------|---|---|
|  | 24 August 2013 | N/A | 02 Years | <ul style="list-style-type: none"> - Corporate Governance and Legal Affairs Committee - Integrated Risk Management Committee | <ul style="list-style-type: none"> - FCMA (UK) - FCA (Sri Lanka) - MBA (Cranfield) - FIB (Hon.) Sri Lanka - CGMA |
| R Theagarajah Chief Executive Officer (Executive Non-Independent Director) | | | | | |
|  | 10 February 2010 | 30 March 2015 | 05 Years | <ul style="list-style-type: none"> - Strategic Issues Committee - Audit Committee - Human Resources and Remuneration Committee - Nominations Committee - Related Party Transactions Review Committee | <ul style="list-style-type: none"> - FCA (Sri Lanka) - ACMA (UK) |
| T F L Jayasekera Non-Executive Independent Director | | | | | |
|  | 4 June 2010 | 28 March 2013 | 05 Years | <ul style="list-style-type: none"> - Integrated Risk Management Committee - Strategic Issues Committee - Audit Committee - Related Party Transactions Review Committee | <ul style="list-style-type: none"> - FCA (Sri Lanka) |
| D S P Wikramanayake Non-Executive Non-Independent Director | | | | | |

| Present Directorships with Other Companies/Positions: | Past Directorships/Positions Held: | Other Information: | Number of Shares Held in the Bank as at 31 December 2015: |
|---|---|---|---|
| <ul style="list-style-type: none"> - NDB Capital Holdings Ltd. – Director - NDB Wealth Management Ltd. – Director - NDB Securities (Pvt) Ltd. - Chairman - NDB Investment Bank Ltd. – Director - Development Holdings (Pvt) Ltd. – Chairman - NDB Zephyr Partners Lanka (Pvt) Ltd. – Chairman - Emerald Sri Lanka Fund 1 Ltd. – Director - NDB Zephyr Partners Ltd., (Mauritius) – Director - NDB Capital Ltd., Bangladesh – Director - Carson Cumberbatch PLC – Director - The American Chamber of Commerce, Sri Lanka – Director - Ceylon Chamber of Commerce – Vice-Chairman - Colours of Courage – Director - CIMA Sri Lanka – Member of Board - World University Service of Canada - Director | <ul style="list-style-type: none"> - Hatton National Bank PLC – MD/CEO - HNB Assurance PLC – Director - Sithma Development (Pvt) Ltd. – Director - Sri Lanka Banks' Association (Guarantee) Ltd. – Chairman - Asian Banks Association – Chairman - Colombo Stock Exchange – Director - Acuity Partners (Pvt) Ltd. – Director - Majan Exchange LLC – Director - Delma Exchange, UAE – Director - Sri Lanka Institute of Directors – Director - Sri Lanka Accounting and Auditing Standards Monitoring Board – Member - Chartered Institute of Management Accountants (UK) Sri Lanka Governing Board – Chairman | <p>He counts over 31 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.</p> <p>He was also the first Sri Lankan to assume Chairmanship of the Asian Banks' Association from 1 November 2010 for a two-year tenure.</p> <p>He is also Sri Lanka's representative in the CIMA UK's Global Council.</p> | 126 |
| <ul style="list-style-type: none"> - Brandix Lanka Ltd. - Group Finance Director - John Keells Hotels PLC – Non-Executive Director | <ul style="list-style-type: none"> - Hayleys PLC – Non-Executive Director - Lanka Ventures Ltd. – Non-Executive Director - Ceylease Financial Services Ltd. – Director - Sri Lanka Auditing and Accounting Standards Monitoring Board – Board Member - Aitken Spence & Company Ltd., Colombo – Group Finance Director - Deutsche Bank, Colombo – General Manager and Financial Controller - Arab Bank Ltd., Bahrain – Internal Auditor - Coopers & Lybrand, Zambia – Audit/Senior Supervisor | N/A | Nil |
| <ul style="list-style-type: none"> - NDB Capital Holdings Ltd. – Director - NDB Wealth Management Ltd. –Chairman - NDB Investment Bank Ltd. – Chairman - NDB Capital Ltd. (Bangladesh) – Chairman - Orient Finance PLC – Director - Power World Gyms Ltd. – Director | <ul style="list-style-type: none"> - NDB Securities (Pvt) Ltd. – Director - Aviva NDB Insurance PLC – Director - Aviva NDB Holdings Lanka (Pvt) Ltd. – Director - PC House PLC – Director - Greenwich Lanka (Pvt) Ltd. – Chairman - Profinity Ltd. - Eco-Lodgia (Pvt) Ltd. - Rainbow Trust Management (Pvt) Ltd. – Director - Infoserve (Pvt) Ltd. - Bartleet Finance PLC – Director | N/A | Nil |

| | Date of Appointment to the Board | Date of Last Re-election as a Director | Length of Service as a Director | Membership in Board Sub Committees: | Skills/Experience/Qualifications: |
|---|----------------------------------|--|---------------------------------|---|---|
|  | 4 June 2010 | 30 March 2015 | 05 Years | <ul style="list-style-type: none"> - Corporate Governance and Legal Affairs Committee - Strategic Issues Committee - Audit Committee - Human Resources and Remuneration Committee - Nominations Committee - Related Party Transactions Review Committee | <ul style="list-style-type: none"> - Barrister-at-Law - Attorney-at-Law, Sri Lanka - LLB - London School of Economics, UK - Postgraduate Certificate Course – Human Resources Management, Postgraduate Institute of Management (PIM) |
| Mrs. K Fernando Non-Executive Independent Director | | | | | |
|  | 4 October 2013 | 28 March 2014 | 02 Years | <ul style="list-style-type: none"> - Corporate Governance and Legal Affairs Committee - Audit Committee - Human Resources and Remuneration Committee - Related Party Transactions Review Committee | <ul style="list-style-type: none"> - Sri Lanka Administrative Service – Retired Member - Bachelor of Arts (Social Sciences) – University of Colombo - Masters Degree (MBA/MPA) – Monash University, Australia - Hubert H Humphry Fellow (Fulbright) |
| Mrs. W A I Sugathadasa Non-Executive Independent Director | | | | | |
|  | 22 April 2015 | N/A | 08 Months | <ul style="list-style-type: none"> - Corporate Governance and Legal Affairs Committee - Integrated Risk Management Committee | <ul style="list-style-type: none"> - President's Counsel - Attorney-at-Law – Sri Lanka - Solicitor England and Wales - Diploma in Intellectual Property - University of London |
| D M R Phillips, PC Non-Executive Independent Director | | | | | |

| Present Directorships with Other Companies/Positions: | Past Directorships/Positions Held: | Other Information: | Number of Shares Held in the Bank as at 31 December 2015: |
|---|--|--|---|
| <ul style="list-style-type: none"> - LB Finance PLC – Director - Vallibel One PLC – Director - Delmege Ltd. – Director | <ul style="list-style-type: none"> - Pan Asia Bank – Chief Executive Officer/Director - Standard Chartered Bank – Head - Client Relationships/Corporate Banking/Wholesale Banking - Deutsche Bank AG – Head - Corporate Banking/Global Cash Management - Waters Edge – Director - Lanka Clear (Pvt) Ltd. – Director - Sri Lanka Bankers Association – Board Member | N/A | Nil |
| <ul style="list-style-type: none"> - Insurance Board of Sri Lanka – Chairperson - Kalubovitiyana Tea Factory Ltd. – Director | <ul style="list-style-type: none"> - Securities and Exchange Commission of Sri Lanka – Chairperson - Ministry of Plantation Industries – Permanent Secretary - Ministry of Child Development and Women’s Affairs – Permanent Secretary - Board of Investment of Sri Lanka – Director - Sri Lanka Export Development Board – Director - Environment Council – Director - Sri Lanka Bureau of Foreign Employment – Director - Sri Lanka Tea Board – Director | <p>Mrs. Sugathadasa had an illustrious career in the public service, having joined the Sri Lanka Administrative Service in the year 1977 and reaching the helm in the service as a Permanent Secretary.</p> <p>She was awarded the prestigious Hubert H. Humphrey Fellowship (Fulbright) by the United States Government in 1990.</p> <p>She has received many accolades, including the Australian Alumni Excellence Award in 2013 and the 'Inspirational Woman' - Professional and Career Women Award by Women in Management 2014/15.</p> <p>Mrs. Sugathadasa is a Trustee of Musaeus College and the current President of the Sri Lanka Association of Australia Awards Alumni (SLAAAA).</p> | Nil |
| <ul style="list-style-type: none"> - Gestetner of Ceylon PLC – Director - Vauxhall Beira Properties (Pvt) Ltd. – Director - Intellectual Property Advisory Commission – Member | Intellectual Property Advisory – Chairman | <p>A Founder Member of the South Asian Association for Regional Co-operation in Law (SAARCLAW) - Sri Lanka Chapter. He is also a Member of the International Pacific Bar Association and a life member of the Bar Association of Sri Lanka.</p> | Nil |

| | Date of Appointment to the Board | Date of Last Re-election as a Director | Length of Service as a Director | Membership in Board Sub Committees: | Skills/Experience/Qualifications: |
|--|--|--|--|--|--|
|  | 13 May 2015 | N/A | 07 Months | <ul style="list-style-type: none"> - Integrated Risk Management Committee - Audit Committee - Related Party Transactions Review Committee | <ul style="list-style-type: none"> - Bachelor of Science (Physics) - University of California |
| <p>K D W Ratnayaka Non-Executive Independent Director</p> | | | | | |
|  | 22 April 2015 | N/A | 08 Months | <ul style="list-style-type: none"> - Integrated Risk Management Committee - Audit Committee - Related Party Transactions Review Committee | <ul style="list-style-type: none"> - Bachelor of Arts – University of Sri Jayewardenepura, Sri Lanka - Licentiate Examination – The Institute of Chartered Accountants of Sri Lanka - Member of the Institute of Public Finance and Development Accountancy in Sri Lanka - Postgraduate Diploma in Management – Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura Sri Lanka - Master of Commerce Majoring in Finance – University of New South Wales (UNSW), Australia - Member of the Australian Institute of Banking and Finance |
| <p>Mrs. D M A Harasgama Non-Executive Non-Independent Director</p> <p>As Nominee of the Ministry of Finance (in terms of the Articles of Association of National Development Bank PLC)</p> | | | | | |
|  | N/A – (Appointed as the Company Secretary in April 2012) | N/A | N/A – (Length of service at the Bank 22 Years) | N/A | <ul style="list-style-type: none"> - Attorney-at-Law (Hons.) - Bachelor of Arts (Hons.) – University of Colombo |
| <p>Mrs. Shehani Ranasinghe Assistant Vice-President/Company Secretary</p> | | | | | |

| Present Directorships with Other Companies/Positions: | Past Directorships/Positions Held: | Other Information: | Number of Shares Held in the Bank as at 31 December 2015: |
|---|---|--|---|
| <ul style="list-style-type: none"> - The Associated Newspapers of Ceylon Ltd. – Chairman and Managing Director - Sri Lanka Institute of Directors (SLID) – Director - Sri Lanka Business Development Centre (SLBDC) – Director - KBSL (Pvt) Ltd. – Director | <ul style="list-style-type: none"> - Cargills Ceylon PLC – Group Chief Corporate Officer - Dialog Axiata PLC – Group Chief Corporate Officer - Dialog Broadband Networks – Chief Executive Officer - IBM – Country General Manager for Sri Lanka/Maldives - Employers Federation of Ceylon (EFC) – Council Member - Arthur C Clarke Institute for Modern Technologies – Director - Sri Lanka Institute of Information Technology (SLIIT) – Director - John Keels PLC – Director - Amcham, Sri Lanka – Past President | N/A | Nil |
| <ul style="list-style-type: none"> - Department of State Accounts, General Treasury – Director General | <ul style="list-style-type: none"> - Department of Information and Technology Management, General Treasury – Director General - Department of Public Enterprises, General Treasury – Director General - Department of Public Finance – Additional Director General - Department of Public Finance – Director - United Nations Development Programme (UNDP) – Financial Analyst - Public Enterprises Reform Commission of Sri Lanka (PERC) – Director (Finance and Administration) | N/A | Nil |
| N/A | N/A | <p>Mrs. Ranasinghe was formerly attached to the Legal Department of the Bank where she gained experience in Corporate and Banking law. She has also functioned as the Company Secretary of several subsidiary companies of the Bank prior to her appointment as the Company Secretary of the Bank.</p> | N/A |

SENIOR MANAGEMENT TEAM



Rajendra Theagarajah
Director/Chief Executive Officer

Please refer pages 110 and 111,
for the profile.



Faizan Ozman
Group Chief Financial Officer

Mr. Ozman counts more than 20 years of experience in the international and local banking industry in the disciplines of Risk Management, Remedial Management, Corporate Banking, Operations and Finance.

He was the resident Vice-President at Citigroup in the UAE managing corporate and multinational relationships. He also served as the Chief Financial Officer and Chief Operating Officer at Standard Chartered Bank, in Sri Lanka. He was also instrumental in establishing the Risk Management Unit at Seylan Bank PLC as the Chief Risk Officer and Head of Compliance. He also played a lead role in the integration of Standard Chartered Bank with Grindlays, Union Bank and American Express Bank.

Mr. Ozman is a Fellow Member of the Chartered Institute of Management Accountants (CIMA) UK and a Chartered Global Management Accountant. He is also a member of the Certified Public Accountants – Australia and Certified Management Accountants – Australia with a Bachelor of Commerce degree from the University of Sri Jayewardenepura.



Rohan Muttiah
Chief Operating Officer

Prior to this appointment, Mr. Muttiah held the Corporate Management position of the Chief Information Officer at Commercial Bank PLC.

In a career spanning over 35 years, Mr. Muttiah has gained wide experience overseas as well as locally. He worked in Australia for 18 years, including IBM Global Services, Lend Lease Corporation, and the Mayne Group. He returned to Sri Lanka as the first Chief Information Officer of John Keells Holdings PLC where he spearheaded the implementation of SAP Enterprise Resource Planning and Shared Services. He then moved on to Auxicogent International Ltd. (John Keells BPO) as CEO, prior to joining the Commercial Bank of Ceylon PLC as Chief Information Officer. Mr. Muttiah is a past Chairman of the Lanka SWIFT User Group and Banks' CIO Forum, and a past Board member of Lanka Financial Services Bureau Ltd. Mr. Muttiah has a Bachelor of Computing from Monash University, Australia.



Mancius Paiva
Vice-President – Administration and Services

Mr. Paiva joined NDB from Hatton National Bank PLC (HNB), where he counts for over 30 years of experience out of which over 11 years of experience is at Corporate Management Level. Prior to joining NDB, he held the position of Deputy General Manager - Strategy and Compliance and has also overlooked the Human Resources and Administration areas at HNB. Mr. Paiva holds a BA (Hons.) in Sociology from the University of Peradeniya.



Buwanekabahu Perera
Vice President – Corporate Banking

Mr. Perera holds a Bachelor's Degree in Financial Services from the University of Manchester, UK and a Postgraduate Diploma in Bank Financial Management from the University of Sri Jayewardenepura. He is an Associate Member of the Chartered Institute of Bankers, UK. His 30 years of experience in banking covers corporate banking, project finance and international trade. Before joining NDB in 1998, he worked at Banque Indosuez, Sampath Bank and Deutsche Bank. Mr. Perera is a past President of the Association of Professional Bankers, Sri Lanka (APB).



Darshana Ratnayake
Vice President – Retail Banking

Mr. Ratnayake began his career in Banking at ANZ Grindlays Bank Colombo. Apart from ANZ Grindlays, he has worked at Societe Generale Bank Colombo and Hatton National Bank. He counts over 27 years' experience in banking both locally and overseas.

His experience in Banking extends to Credit (Retail, SME and Corporate) Bank operations, Credit Risk as well as Private and Priority banking. He was instrumental in

setting up priority and private banking at a leading private bank in the country.

He has extensive experience as a Branch Manager. He possesses an MBA from the University of Wales, UK and is a Certified Credit Analyst for small to medium industry credit from the Omega Performance Corporation, USA an IFC accredited institute. In addition, he also possesses a Certificate in Banking from the Institute of Financial Services, UK.



Niran Mahawatte
Vice-President – Treasury

Mr. Mahawatte holds a B.Sc. from the University of Colombo and is a Fellow Member of the Chartered Institute of Management Accountants, UK. He joined the NDB Bank Treasury in 2001, prior to which he worked at Deutsche Bank and Commercial Bank of Ceylon. He has to his credit over 21 years of banking experience.



Raj Aboobucker
Vice-President – Transactional and Institutional Banking

Mr. Aboobucker is the Vice-President heading the Institutional Banking for NDB. His experience in banking spans over 34 years. He has previously held senior management positions of heading the Retail Banking, SME Banking, Transactional Banking and Specialized Commercial Markets at NDB. He was instrumental in the renaissance of the flagship SME,

leasing and personal lending businesses of NDB. He holds a MBA in Leadership and Sustainability from the University of Cumbria, UK. He is an alumnus of the Harvard Kennedy School, Boston, USA where he underwent his executive education in private enterprise development. Prior to joining NDB, he held the senior management position as Head of Commercial Banking Group at Citibank NA Colombo.



Sujeewa Dissanayake
Vice-President – Information Technology

Before joining NDB, Mr. Dissanayake worked at Pan-Asia Bank and the Union Bank of Colombo as Head of IT. He came to banking from the IBM World Trade Corporation, where he was IT specialist for the finance industry. He has over 30 years of experience in IT, 26 of which were acquired in the banking sector.



Dhanan Senathirajah
Vice-President – Finance and Planning

Mr. Senathirajah is an Attorney-at-Law and a Fellow of The Chartered Institute of Management Accountants, UK. Before joining NDB in 1998, he worked at the Maharaja Organization and Reckitt and Colman of Ceylon. He counts over 32 years experience in finance and accounting.



Ishani Senaweera
Vice-President – Human Resources

Having joined the organization in 1995, Ms. Senaweera counts over 20 years of experience in all areas of HR management and development. She holds a Masters Degree in Business Administration from the University of Wales and B.Sc. in Economics and Management from the University of London.



Nirmala Rayen
Vice-President – Group Risk Management

Mr. Dissanayake holds a Master's Degree in Business Administration from the University of Lincoln, UK and is a Chartered Member of the British Computer Society. He is the past Chairman of British Computer Society Sri Lanka Section.

Ms. Rayen is an Associate Member of the Institute of Bankers, Sri Lanka and counts over 33 years of banking experience. Prior to joining NDB, she worked at ABN AMRO Bank N.V., ABN Bank N.V. and Citibank NA Colombo.



Sanjaya Perera
Vice-President – Branch Network Management

Mr. Perera joined NDB from Nations Trust Bank PLC (NTB) where he held a Corporate Management position as the Head of Branches. He has over 25 years experience in Banking, having worked at NTB and Sampath Bank PLC. Mr. Sanjaya Perera has an MBA from the Postgraduate Institute of Management of the University of Sri Jayewardenepura and is an Associate Member of the Institute of Bankers of Sri Lanka.



Shanti Gnanapragasam
Vice-President – Credit

Prior to this appointment Ms. Gnanapragasam held the Corporate Management positions of the Chief Risk Officer and Head of Treasury at the Hatton National Bank PLC. In a career spanning over 33 years in the Banking and Finance industry, she has also served as the Group Treasurer of Hayleys PLC, the Deputy Head of Treasury, at People's Bank PLC and Director Global Markets & Treasury at American Express Bank Colombo.

Ms. Gnanapragasam is a Fellow Member of the Chartered Institute of Management Accountants UK (FCMA) and the Chartered Global Management Accountants (CGMA) and has a Bachelor of Science Degree from the University of Madras.



Delrene Seneviratne
Assistant Vice-President – Institutional Banking

Ms. Seneviratne is an Attorney-at-Law (Hons.) of the Supreme Court of Sri Lanka, Solicitor's Final Examination (UK), postgraduate qualifications in Commercial Arbitration from Queen Mary College, University of London and Masters in Public Administration from the University of Colombo. She was also the recipient of a Foreign and Commonwealth Scholarship awarded by the Foreign and Commonwealth Office (UK).

She counts over 25 years of experience in Banking at NDB in legal and recoveries, housing, retail/SME credit, Human Resources,



Ruwani De Silva
Vice-President – Internal Audit

Ms. De Silva is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Chartered Institute of Management Accountants (CIMA), UK. At NDB she counts over 15 years of banking experience covering the areas of Audit, Compliance and Finance. Prior to joining NDB, she worked at ABN AMRO Bank N.V. as the Head of Audit for six years and at Messrs Ernst & Young Chartered Accountants for a period of 5 years.



Melody Wickramanayake
Vice-President – Legal

Ms. Wickramanayake is an Attorney-at-Law (Hons.) of the Supreme Court of Sri Lanka. She counts over 21 years of experience in the field of corporate and banking law. She joined NDB in 1991 and had a brief stint in the Middle East during 2008 to 2010 after which period she re-joined NDB.

She was also the Company Secretary of NDB Bank Ltd.



Sanjaya Senarath
Assistant Vice-President – Marketing

micro finance and network management. She was also the lawyer and the company secretary for several subsidiary/associate companies of NDB Group. She was instrumental in setting up the centralized Recoveries Unit, Centralized Retail Credit Unit and the Micro Finance business of the NDB. She has served on the Wages Board for Confectionery and Biscuits trade and the Ceramic Industry as a nominee of the Ministry of Labour from 2003-2006. Mrs. Seneviratne is also a Guest Lecturer/Trainer for Institute of Bankers Sri Lanka.

Mr. Senerath counts over 25 years of experience in the field of Marketing spanning several industries. He began his career at John Keells Ltd., working in FMCG and Leisure sectors.

His exposure to the financial services industry began at Eagle Insurance Ltd., where he was involved with the brand change from CTC Eagle to Eagle Insurance, as a part of the Zurich Financial Services Group. He headed Marketing, in the launch of the new Asian Alliance Insurance Ltd., and later played a key role as Head of

Marketing during the privatization of Sri Lanka Insurance Corporation, re-branding and positioning a state institution as a privately owned, service-driven business.

Mr. Senerath also worked as General Manager – Marketing at Hutchison Telecommunications, where he was exposed to a highly competitive and dynamic environment of mobile telecommunications.

He holds a B.Sc. in Financial Management from the California State University, Long Beach, USA and is also CIM qualified.



Reshanka Abayasekara
Head of Operations

Mr. Abayasekara carries 35 years of banking experience at Hatton National Bank PLC prior to joining NDB as Head-Correspondent and Institutional Banking. His exposure covers general branch banking, domestic and International operations, corporate banking, correspondent banking and Inward remittances. He has been a member of

the Boards of Management of remittance houses in the Middle East region. Mr. Abayasekara has served on the Banking Technical Advisory Committee from 2005 to 2011 and is the former Senior Vice-President of Trade Finance Association of Bankers.



Manique Kiriella Bandara
Compliance Officer

Ms. Kiriella Bandara joined the NDB Legal team in 1997 and counts over 18 years experience in the areas of Banking and Finance law. She was involved in drafting the Internal Code of Corporate Governance of the Bank when it was first introduced in 2006. In January 2014, she was appointed as the Compliance Officer of the Bank. She is an Attorney-at-Law (Hons) of the Supreme Court of Sri Lanka and earned her Bachelor of Laws degree from the Law Faculty, University of Colombo.

GROUP MANAGEMENT TEAM



Rajendra Theagarajah
Director/Chief Executive Officer
National Development Bank PLC

Please refer pages 110 and 111,
for the profile.

Vajira Kulatilaka
Director/Chief Executive Officer
NDB Capital Holdings PLC

Mr. Kulatilaka is a Bachelor of Engineering from the University of Moratuwa, Sri Lanka and a Master of Science in Industrial Engineering and Management from the Asian Institute of Technology, Thailand. He is also a Fellow of the Chartered Institute of Management Accountants (CIMA), UK and a CFA Charterholder. He worked for several years as a Project Management Specialist at United States Agency for International Development (USAID) and prior to joining NDB Investment Bank (NDBIB), was the CEO of CKN Fund Management (Pvt) Ltd. (an Associate Company of Franklin Templeton Group of USA).

Mr. Kulatilaka since becoming CEO of NDBIB, has provided leadership to many activities undertaken by the Company. Under the leadership of Mr. Kulatilaka, NDBIB was able to perform the two largest initial public offerings in the Sri Lankan capital market – Dialog Telekom PLC and Lanka IOC PLC, amongst other diverse investment banking transactions in different sectors. Presently he is the CEO of Investment Banking cluster of the NDB Group, leading the teams of Investment Banking (Both Sri Lanka and Bangladesh), stock broking and fund management.

Mr. Kulatilaka is the Chairman of the Colombo Stock Exchange and also serves as the Chairman of the South Asian Federation of Exchanges (SAFE). He was adjudged the 'Best Investment Banking CEO Sri Lanka 2014 and 2015' by Global Banking and Finance Review in recognition of his contribution to the investment banking arena of Sri Lanka. In addition to the above he serves as a Council Member at the University of Moratuwa.

Faizan Ozman
Group Chief Financial Officer
National Development Bank PLC

Please refer page 116, for the profile.



Mancius Paiva
Vice-President – Administration and Services
National Development Bank PLC



Darshan Perera
Chief Executive Officer
NDB Investment Bank Ltd.



Prabodha Samarasekera
Chief Executive Officer
NDB Wealth Management Ltd.

Please refer page 117, for the profile

Mr. Perera joined the NDB Group in 2001 and has been heading its Investment Banking arm since 2009. He counts for over 22 years of experience in the financial services sector covering areas of investment banking, corporate finance and commercial banking. He has to his credit, led teams that have successfully managed a large number of IPOs, most of which have achieved record breaking results, and other funds raising deals. He holds a B.Sc in Physical Science and a MBA from the University of Colombo. He is an Associate Member of the Institute of Bankers, Sri Lanka and the Chartered Institute of Marketing, UK. He also holds a CIMA qualification.

Mr. Samarasekera offers a successful background in Asset Management and has 20+ years of experience within the financial services industry. His extensive experience and training in banking, finance and capital markets verticals encompass USA, Hong Kong, Singapore and Sri Lanka. His responsibilities have included the setting up and managing all aspects of a fund management business. He has a B.Sc in Management Information Systems and an MBA from University of Southern California, Los Angeles, USA.



Ms. Prasansani Mendis
Chief Executive Officer
NDB Securities (Pvt) Ltd.

Ms. Mendis joined the National Development Bank PLC in 1990. She holds a B Com. (Special) Degree and is a CIMA finalist. Prior to joining the Bank she functioned as an Accountant for around four years in two leading private companies. She has been a Banker for over 17 years and has gained wide experience in corporate finance, merchant banking and consultancy, audit and restructuring of companies. She also functioned as the Head of Special Projects and Leasing Departments of the Bank. In addition, she was involved in setting up of the initial branch of the Bank and the Maldivian leasing subsidiary. In 2008, she joined NDB Stockbrokers (Pvt) Ltd.



Senaka Kakiriwaragodage
Managing Director
NDB Zephyr Partners Lanka (Private) Ltd.

Mr. Kakiriwaragodage possesses over 10 years of experience in investment banking. His areas of expertise span across a wide range of investment banking activities such as initial public offerings, debt and equity placements, mergers and acquisitions, loan syndications, corporate restructurings, advisory services, feasibility studies, diagnostic studies and project financing. Prior to his appointment as the Managing Director of NDB Zephyr Partners Lanka (Private) Ltd., he was the Vice-President of NDB Investment Bank Ltd. Prior to joining the NDB Group, he was a senior Software Engineer at Virtusa (Pvt) Ltd. Mr. Kakiriwaragodage has a B.Sc First Class Degree in Computer Science and Engineering from the University of Moratuwa. He is also a Fellow Member of CIMA (UK) and CFA Charterholder. He holds a MBA from University of Manchester, UK. He is also a member of CIMA Sri Lanka Board.



Kanti Kumar Saha
Managing Director and Chief Executive Officer
NDB Capital Ltd. (Bangladesh)

Mr. Saha has over 20 years experience in the banking industry. Prior to joining NDB Capital, he was the Deputy Managing Director and Chief Business Officer of Prime Bank Ltd. Previously, he also served Citibank NA., Bangladesh as Director and Head of Global Corporate Bank. Mr. Saha also worked with AB Bank Limited and Standard Chartered Bank. His work in Corporate & Institutional Banking, Public Sector and Offshore Banking have earned many laurels for him. He also attended developmental assignments in India and Thailand.

Mr. Saha holds a Bachelor and Master's Degree in Economics from University of Dhaka. He also has a Postgraduate Management Degree from The Nottingham Trent University, UK. He attended a number of training courses, workshops and seminars in Risk Management, Leadership, Relationship Management and International Trade at home and abroad.

BANK MANAGEMENT TEAM

Ajith Senadheera
**Assistant Vice President –
Leasing**

Anushca Saranapala
**Assistant Vice President –
Group Risk Management**

Amal Yapa
**Assistant Vice President –
Corporate Banking**

Camy Somasunderam
**Assistant Vice President –
Cash Management and Islamic Banking**

Chandana Guniyangoda
**Assistant Vice President –
Finance, Strategic Planning
and Business Support**

Damitha Samaranyake
**Assistant Vice President –
Treasury Trading**

Dayani Algama
**Assistant Vice President –
Human Resources**

Ganga Wanigaratne
**Assistant Vice President –
Branch Operations**

Gehan Biyanwila
**Assistant Vice President –
Asset and Liability Management**

Gehan Dias
**Assistant Vice President –
Cards and Alternate Channels**

Harshini Satharasinghe
**Assistant Vice President –
Credit**

Indika Ranaweera
**Assistant Vice President –
Branch Network Management**

Ishani Palliyaguru
**Assistant Vice President –
Project Finance**

Kumar Gunawardena
**Assistant Vice President –
Administration**

K V Vinoj
**Assistant Vice President –
Correspondent and Institutional Banking**

Lalith Fernando
**Assistant Vice President –
Information Technology**

Nishantha Hettiarachchi
**Assistant Vice President –
Information Technology**

Niranjan Thangarajah
**Assistant Vice President –
Branch Network Management**

Priyantha Gamage
**Assistant Vice President –
Operational Risk**

Rivindu Nanayakkara
**Assistant Vice President –
Trade Finance**

Sanjaya Senarath
**Assistant Vice President –
Marketing**

Sanjeev Kulendran
**Assistant Vice President –
Group Internal Audit**

Shehani Ranasinghe
**Assistant Vice President/
Company Secretary to the Board**

Shareen Jayasuriya
**Assistant Vice President –
Credit**

Shera Hassen
**Assistant Vice President –
Privilege Select Banking**

Sumith Peiris
**Assistant Vice President –
Centralized Recoveries**

Sunil Karunaratne
**Assistant Vice President –
Treasury Sales and Marketing**

Suvendrini Muthukumarana
**Assistant Vice President –
Finance and Planning**

Vidisha Jayawardena
**Assistant Vice President –
Legal**

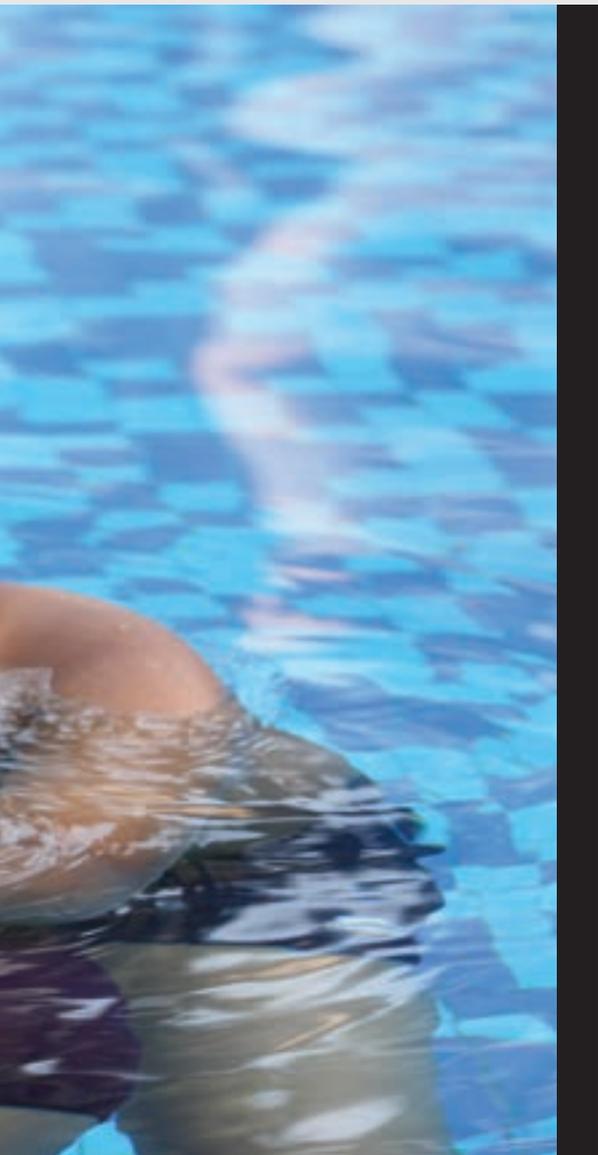


15

BOARD MEETINGS
DURING THE YEAR

ISO 27001:2005

CERTIFIED FOR
INFORMATION SECURITY



OUR PROMISE TO YOU

Our promise to you is that your wealth is safe in our hands. As the custodians of your bank, we pledge that we operate with highest standards of corporate governance.



NEW
DIRECTORS

CORPORATE GOVERNANCE

Dear Stakeholders,

We are committed to ensuring that the Bank and Group operates at the highest standard of corporate governance. We believe the Board is the Custodian of the Bank's performance and behaviours and sets the vision, strategic aims and values to which the entire Group must adhere.

Our Corporate Governance practices are built on making a positive and sustainable impact in the lives of our customers, suppliers, employees, communities and on the environment in which we operate. **This underpins a strong and sustainable business for our shareholders, while creating societal value for our stakeholders.**

We are committed to and focused on leveraging our vision, culture and governance practices to deliver successful customer experiences, engage with our employees, mitigate our risks, identify new opportunities and enhance our reputation. We believe this will help us meet our objectives of delivering superior shareholder returns and being the driving force for a financially empowered Sri Lanka.

It is with great pleasure that we present the Corporate Governance Report for 2015 which elaborates how the Board, its Committees and The Leadership Team effectively and collaboratively achieved these goals.

During 2015, the Bank took steps to readjust its mission, vision and values to better suit the long-term objectives of the Bank. We have described the

initiatives taken by the Bank in this regard in greater detail below.

We are fortunate to be supported by a Board that possesses a diverse set of skills. During 2015, we continued to take a forward looking approach to refreshing our Board composition. The Board has always maintained fairness, responsibility, accountability and transparency for the betterment of its stakeholders. It is accepted that the effectiveness of a Board depends on its individual members. Each member of the Board brings a different area of expertise, skills and experience to the table which encourages a robust exchange of alternate views and ways of thinking. The Board staunchly supports The Leadership Team that runs the day-to-day business operations of the Bank by giving them guidance in executing our agreed strategy.

We would like to thank Sunil Wijesinghe our previous Chairman, Ms. Chandra Ekanayake, Sujeewa Rajapakse and Anura Siriwardena all of whom resigned in March 2015, for their unstinting support and assistance towards the Bank and Group and their contribution on the Board and Board Committees.

Statement of Compliance

The Bank's Corporate Governance Report for 2015 highlights important elements of the governance framework that is in place at National Development Bank PLC and the Bank's adherence to the requirements set out in the Corporate Governance Direction issued by the Central Bank of Sri Lanka (CBSL) 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) (the Code). The Report also covers the Factual Findings Report submitted by External Auditors in relation to compliance with the Corporate Governance Directions issued by CBSL.

As required by 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.



N G Wickremeratne
Chairman



Mrs. K Fernando
Chairperson
Corporate Governance and
Legal Affairs Committee

12 February 2016
Colombo

Corporate Governance Initiatives of the Bank for the Year 2015

- Launched a new vision and mission statement in alignment with the new strategic objectives of the Bank.
- Refreshed the Bank's core values which were communicated to all employees through a brand playbook that provided them with a better understanding of the Bank's corporate philosophy. The playbook contained inspirational stories of real life heroes that lived each value.
- Established a Related Party Transactions Review Committee:

Further to the directive issued by the SEC to adopt the Code of Best Practice on Related Party Transactions for listed companies mandatorily by 1 January 2016, the Bank opted to voluntarily adopt same with effect from 1 January 2015.

- The Board, all Board Committees and all Management Committees carried out self-assessments to critically evaluate the effectiveness of the Board and each of the Committees. The results of the self-evaluations were discussed in detail and areas for improvements together with an action plan were mandated.
- All policies, procedures and product programme guides are tracked on

a monthly basis to ensure that they are reviewed in a timely manner and are up to date and in compliance with laws, regulations and internal operational standards.

- All documents pertaining to Board meetings were made available in electronic format to enable timely, more efficient and interactive real time communication among Board members in line with sustainability initiatives adopted by the Bank to reduce paper usage.
- Explanatory Notes and E-Flyers were circulated to Employees to provide a simplified understanding of new regulations applicable to the Bank's business.

REGULATORY BENCHMARKS ON CORPORATE GOVERNANCE

- ▶ Companies Act No. 7 of 2007
Mandatory compliance
- ▶ Banking Act No.30 of 1988 (as amended) and all directions/ guidelines issued there under
Mandatory compliance
- ▶ Corporate Governance Direction No. 11 of 2007 (as amended) issued by the Central Bank of Sri Lanka
Mandatory compliance
- ▶ Listing Rules of the Colombo Stock Exchange (CSE)
Mandatory compliance
- ▶ The Code of Best Practice on Corporate Governance as published by the Securities and Exchange Commission and the Institute of Chartered Accountants, Sri Lanka
Voluntary compliance
- ▶ Section 9 of the CSE Listing Rules
Voluntary Compliance
- ▶ Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 (as amended)
Mandatory compliance

INTERNAL BENCHMARKS ON CORPORATE GOVERNANCE

- ▶ Articles of Association
- ▶ Internal Code of Corporate Governance for Board and Key Management Personnel
- ▶ Charters/Terms of Reference of Board Committees and Management Committees
- ▶ Compliance Policy and Code of Conduct
 - Securities Trading Policy
 - Anti-bribery and Corruption Policy
 - Gift Policies
- ▶ Human Resources Policy and Manual
 - Diversity and Inclusion Policy
 - Harassment and Non-Discrimination Policy
 - Health and Safety Policy
 - Grievance Policy
- ▶ Information Security Policies
- ▶ Whistleblowing Policy
- ▶ Communications Policy
- ▶ Procurement Policy
- ▶ Outsourcing Policy
- ▶ Disclosure Policy
- ▶ Complaints Handling Policy
- ▶ Related Party Policy
- ▶ Integrated Risk Management Policies
- ▶ IT related policies
- ▶ Finance related policies
- ▶ Document Retention and Destruction Policy
- ▶ Anti-Money Laundering and Suppression of Terrorist Financing Policy
- ▶ Product Program Guides
- ▶ All Board approved policies on operational areas

Our Stakeholders

We believe that, in order to be effective, we should demonstrate ethical leadership and promote the Bank's collective Vision, Mission and Values.

Therefore, the Board is committed to act in a way they consider, in good faith, would promote the success of the Bank for the benefit of all its stakeholders and, in doing so, have regard (amongst other matters) to the:

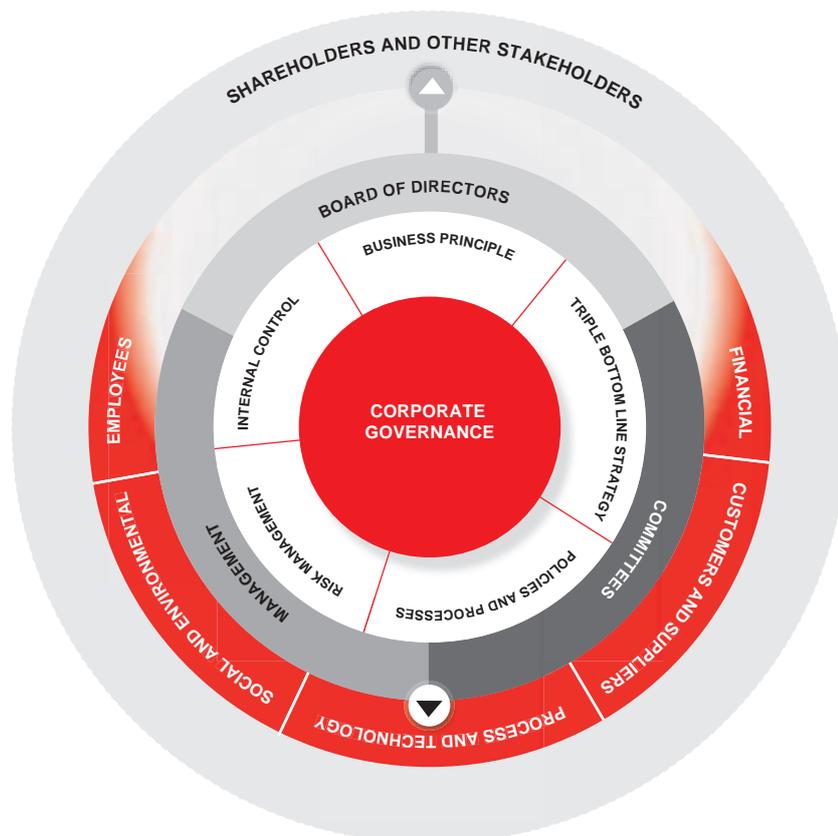
- (a) likely consequences of any decision in the long-term;
- (b) interests of the Bank's employees;
- (c) need to foster business relationships with the Bank's suppliers, customers and others;
- (d) impact of the Bank's operations on the community and the environment;

(e) desirability of the Bank maintaining a reputation for high standards of business conduct; and

(f) need to act fairly as between stakeholders of the Bank.

We are responsible for ensuring that management maintains a system of internal control which provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations. In addition, we are responsible for ensuring that management maintains an effective risk management and oversight process at the highest level across the Bank and Group.

The diagram below depicts the structures, processes and relationships in place that contributes towards the Corporate Governance culture of the Bank.



Our Corporate Governance Framework

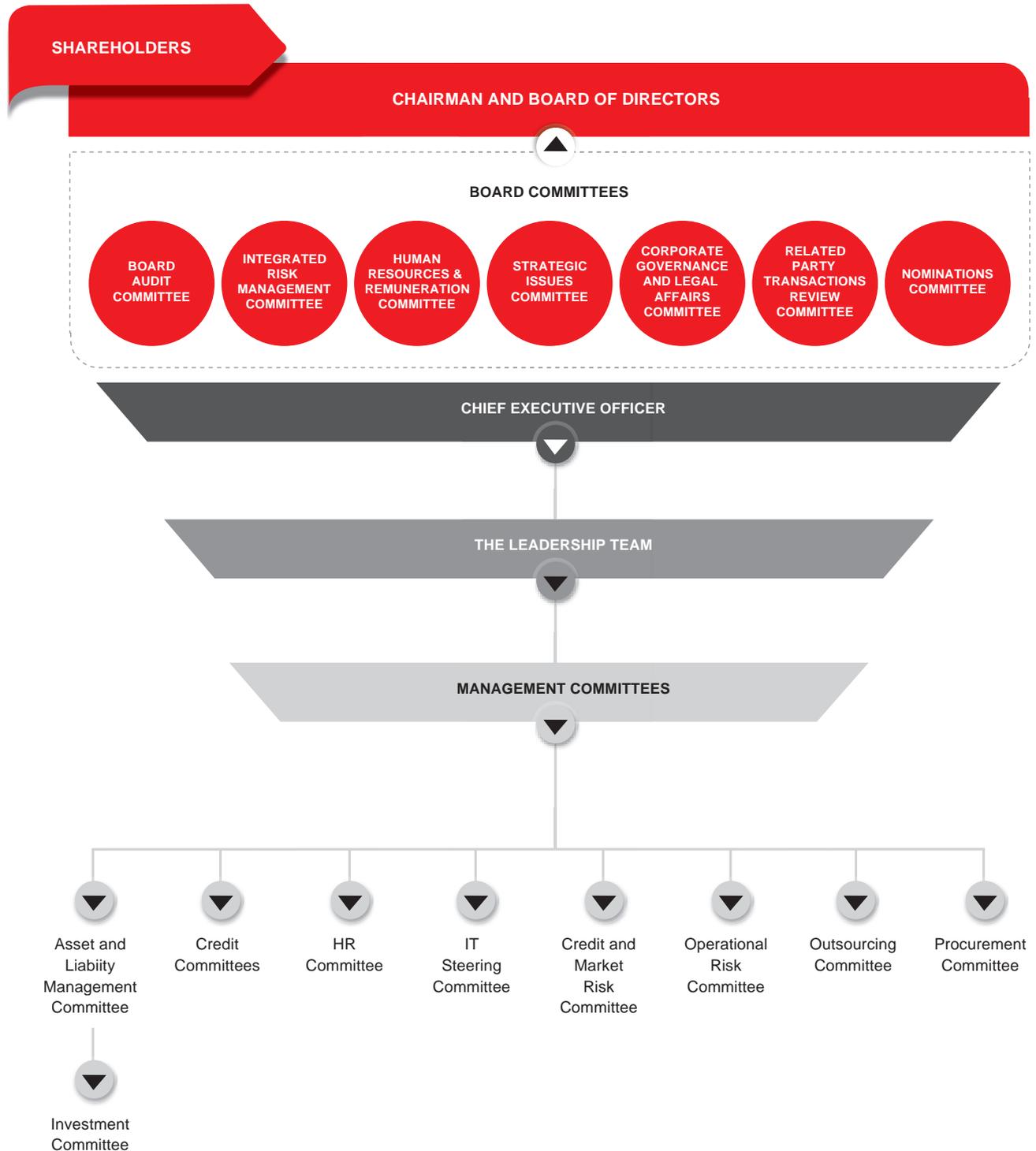
The Bank has a well-defined and well-structured corporate governance framework in place to support the Board's aim of achieving long-term and sustainable value for all its stakeholders.

Some of the components include:

- A highly skilled, diverse and independent Board
- Strong co-ordinated management
- Robust risk management systems
- Compliance with external regulations and internal policies
- Timely comprehensive communication with stakeholders
- Long-term genuine commitment to sustainability

Authority is delegated by the Board to the Chief Executive Officer (CEO), who is responsible for the management of the Bank's diverse businesses. The CEO further delegates authority to The Leadership Team and management committees who are empowered to make decisions to specified levels, beyond which they are escalated to the CEO or Board (as prescribed by the Board). There is in place a clear and consistent top-down governance structure across the Bank, aligned to personal accountabilities and delegated authorities. The governance framework and specific delegations are reviewed by the Board and CEO regularly.

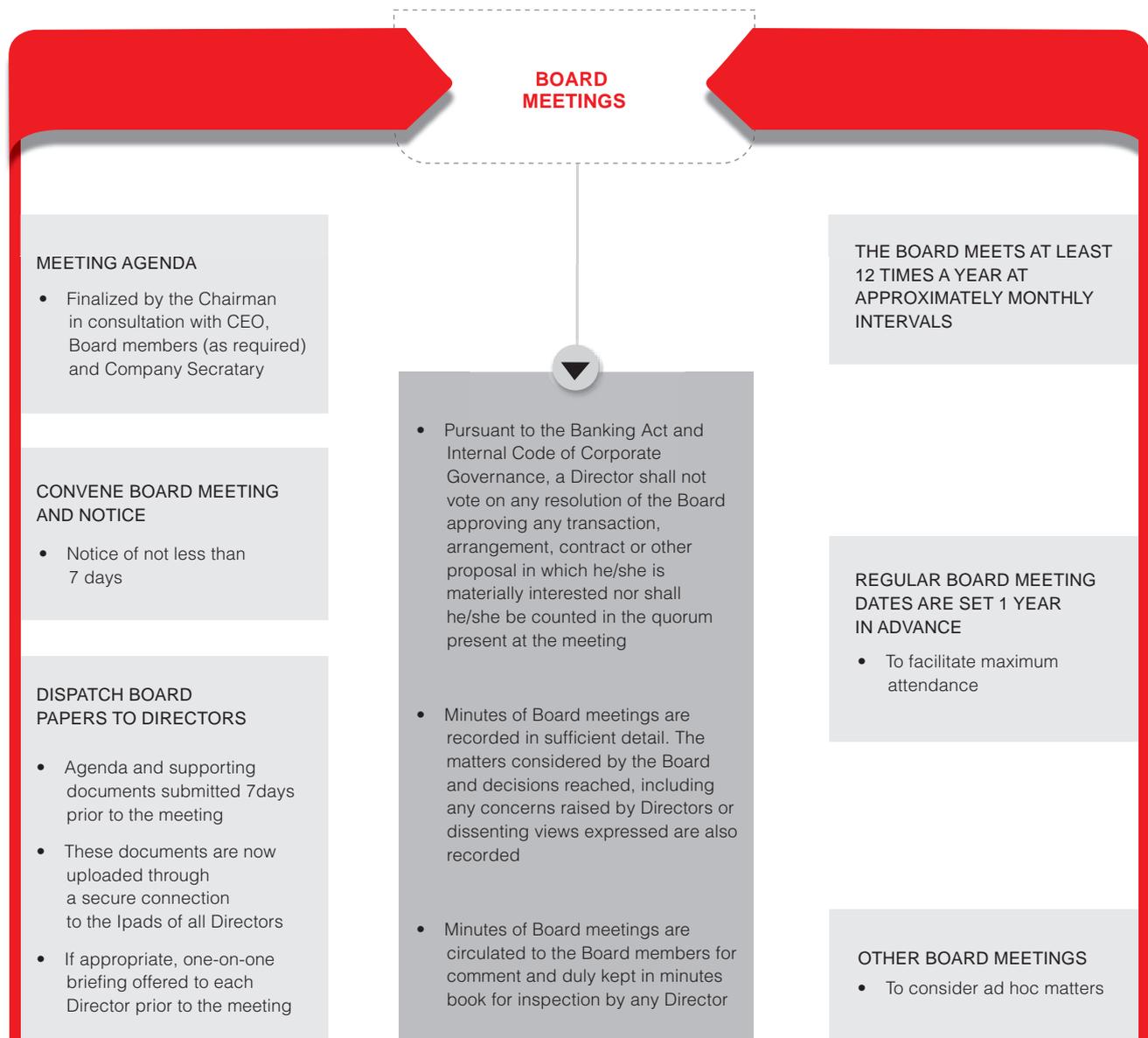
The Governance structure of the Bank is represented below:



Effective Leadership by the Board

Board Process

The Board recognizes the importance of providing timely and appropriate information to Directors so as to enable them to make informed decisions and to perform their duties and responsibilities effectively. The Board met fifteen times in 2015.



The Role of the Board

The Board of Directors as the highest governing body of the Bank plays a central role in defining our long-term strategy, performance goals and Corporate Governance standards. The diagram below details key areas

of focus by the Board during the year. Please refer the tables found on pages 142 to 174 for more details relating to processes implemented by the Board in these areas for 2015.



Board Composition

The Board consisted of ten Directors as at end December 2015, from whom nine including the Chairman are Non-Executive Directors. Of the nine Non-Executive Directors, six are Independent Directors. The Chief Executive Officer of the Bank, functions as the only ex officio Director.

The Board reviews its composition and is committed to ensuring diversity and inclusiveness in its composition and deliberations. It embraces the proposition that having a diverse Board would have a positive, value-relevant impact on the Bank. In this regard, the Board considers diversity from a number of different aspects, including gender, age, cultural and educational

background, ethnicity, professional experience, skills and knowledge that are directly relevant to our businesses. The Nominations Committee of the Board recommends the filling of vacancies of Directors based on the guidelines approved by the Board and ensures that all Directors are persons of integrity and repute with creditable track records. The four new Directors who joined the Board in 2015 have brought with them fresh insights and knowledge from the areas of Information Technology, Law and Finance.

The structure and composition of the Board as at 31 December 2015 and the attendance of each Director is set out in the table below:

Board Committees

The Board is assisted by several mandatory and voluntary Board Committees in carrying out more in-depth oversight in the areas of strategic and operational planning, corporate governance, risk management, compliance, financial planning, integrity of external reporting, succession planning, human resources and remuneration policy.

Reports of each of the Board Committees describing the activities undertaken by them during the year, are set out on pages 175 to 190 of this Report.

| Name of Director | Areas of Expertise | Independent/ Non-Independent Under CBSL Direction | Independent/ Non-Independent Under ICASL/SEC Code Direction | Date of Appointment | No. of Board Meetings Held in 2015 | No. of Meetings Attended |
|---|---|---|--|------------------------|---|--------------------------------|
| N G Wickremeratne | Management & Banking | Independent | Independent | 15.04.2015 | 10 | 10 |
| S G Wijesinha (Resigned w.e.f. 27.03.2015) | Engineering, Finance and Management | Independent | Independent | 04.10.2013 | 4 | 4 |
| A K Pathirage (Deputy Chairman) | Management, IT and Business Skills | Non-Independent | Non-Independent | 18.02.2011 | 15 | 14 |
| R Theagarajah (CEO) | Banking, Finance and Management | Non-Independent | Non-Independent | 24.08.2013 | 15 | 15 |
| T L F Jayasekera | Banking and Finance | Independent | Independent | 10.02.2010 | 15 | 15 |
| D S P Wikramanayake | Finance, Insurance and General Management | Non-Independent | Non-Independent | 04.06.2010 | 15 | 15 |
| Mrs. K Fernando | Law, Banking and Management | Independent | Independent | 04.06.2010 | 15 | 15 |
| H A Siriwardena (Resigned w.e.f. 31.03.2015) | Management | Independent | Independent | 04.06.2010 | 5 | 5 |
| Ms. G D C Ekanayake (Resigned w.e.f. 11.03.2015) | Finance, Public Policy and Management | Non-Independent | Independent | 07.02.2011 | 3 | 2 |
| S Rajapakse (Resigned w.e.f. 30.03.2015) | Finance and Management | Non-Independent | Non-Independent | 23.02.2011 | 5 | 5 |
| Mrs. W A I Sugathadasa | Insurance, Capital Markets, Human Resources and Management | Independent | Independent | 04.10.2013 | 15 | 15 |
| D M R Phillips, PC | Law | Independent | Independent | 22.04.2015 | 9 | 8 |
| Mrs. D M A Harasgama | Finance, Public Policy and Management | Non-Independent | Independent | 22.04.2015 | 9 | 9 |
| K D W Ratnayaka | Management and IT | Independent | Independent | 13.05.2015 | 9 | 6 |

The Composition of Board Committees for the year 2015 and the attendance of Directors at Board Committee meetings are detailed below:

Details of Members of the Board Committees as at 31 December 2015

| Name of Committee | Human Resources and Remuneration Committee | | Integrated Risk Management Committee | | Nominations Committee | | Board Audit Committee | | Related Party Transactions Review Committee | | Corporate Governance and Legal Affairs Committee | | Strategic Issues Committee | |
|------------------------|--|------------|--------------------------------------|------------|-----------------------|------------|-----------------------|------------|---|------------|--|------------|----------------------------|------------|
| Name of Director | Status | DOA | Status | DOA | Status | DOA | Status | DOA | Status | DOA | Status | DOA | Status | DOA |
| N G Wickremeratne■ | | | | | C | 15.04.2015 | | | C | 15.04.2015 | | | C | 15.04.2015 |
| A K Pathirage | M | 01.01.2014 | | | M | 11.08.2011 | | | | | | | M | 18.02.2011 |
| R Theagarajah | | | | | | | | | | | M | 01.01.2014 | | |
| T F L Jayasekera | M | 10.02.2010 | M | 10.02.2010 | M | 10.02.2010 | C | 10.02.2010 | M | 19.12.2014 | | | M | 11.08.2011 |
| D S P Wikramanayake | | | C | 22.06.2010 | | | M | 22.06.2010 | M | 19.12.2014 | | | M | 22.06.2010 |
| Mrs. K Fernando | M | 22.06.2010 | | | M | 30.03.2015 | M | 11.08.2011 | M | 19.12.2014 | C | 22.06.2010 | M | 04.06.2010 |
| Mrs. W A I Sugathadasa | C | 01.01.2014 | | | | | M | 01.01.2014 | M | 19.12.2014 | M | 14.11.2014 | | |
| Mrs. D M A Harasgama■ | | | M | 22.04.2015 | | | M | 22.04.2015 | M | 22.04.2015 | | | | |
| D M R Phillips, PC■ | | | M | 22.04.2015 | | | | | | | M | 22.04.2015 | | |
| K D W Ratnayaka■ | | | M | 13.05.2015 | | | M | 13.05.2015 | M | 13.05.2015 | | | | |
| Ms. G D C Ekanayake* | | | | | | | | | | | | | | |
| S G Wijesinha* | | | | | | | | | | | | | | |
| S Rajapakse* | | | | | | | | | | | | | | |
| H A Siriwardena* | | | | | | | | | | | | | | |

DOA – Date of Appointment, Status – C – Chairman/M – Member

Number of Meetings Held and Attendance

| Name of Committee | Human Resources and Remuneration Committee | | Integrated Risk Management Committee | | Nominations Committee | | Board Audit Committee | | Related Party Transactions Review Committee | | Corporate Governance and Legal Affairs Committee | | Strategic Issues Committee | |
|------------------------|--|--------------------|--------------------------------------|--------------------|-----------------------|--------------------|-----------------------|--------------------|---|--------------------|--|--------------------|----------------------------|--------------------|
| Name of Director | Eligible to Attend | Attended to Attend | Eligible to Attend | Attended to Attend | Eligible to Attend | Attended to Attend | Eligible to Attend | Attended to Attend | Eligible to Attend | Attended to Attend | Eligible to Attend | Attended to Attend | Eligible to Attend | Attended to Attend |
| N G Wickremeratne■ | | | | | 3 | 2 | | | 2 | 1 | | | 1 | 1 |
| A K Pathirage | 4 | 3 | | | 6 | 6 | | | | | | | 2 | 2 |
| R Theagarajah | | | 5 | 5 | | | | | | | 2 | | | |
| T F L Jayasekera | 4 | 4 | | | 6 | 6 | 9 | 9 | 3 | 3 | | | 2 | 2 |
| D S P Wikramanayake | | | 5 | 5 | | | 9 | 7 | 3 | 3 | | | 2 | 1 |
| Mrs. K Fernando | 4 | 4 | | | 3 | 3 | 9 | 8 | 3 | 2 | 2 | 2 | 2 | 2 |
| Mrs. W A I Sugathadasa | 4 | 4 | | | | | 9 | 8 | 3 | 3 | 2 | 2 | | |
| Mrs. D M A Harasgama■ | | | 4 | 3 | | | 6 | 6 | 2 | 2 | | | | |
| D M R Phillips, PC■ | | | 4 | 2 | | | | | | | 2 | 2 | | |
| K D W Ratnayaka■ | | | 2 | 2 | | | 5 | 4 | 2 | | | | | |
| Ms. G D C Ekanayake* | | | 1 | 1 | | | 2 | 1 | | | | | | |
| S G Wijesinha* | 1 | 1 | 1 | 1 | 3 | 3 | | | 1 | 1 | | | 1 | 1 |
| S Rajapakse* | 1 | 1 | | | 3 | 3 | 2 | 2 | 1 | 1 | | | 1 | 1 |
| H A Siriwardena* | 1 | 1 | | | 3 | 2 | | | | | | | 1 | 1 |

Ms. G D C Ekanayake* – Resigned w.e.f. 11 March 2015

H A Siriwardena* – Resigned w.e.f. 31 March 2015

D M R Phillips, PC■ – Appointed w.e.f. 22 April 2015

S G Wijesinha* – Resigned w.e.f. 27 March 2015

N G Wickremeratne■ – Appointed w.e.f. 15 April 2015

K D W Ratnayaka■ – Appointed w.e.f. 13 May 2015

S Rajapakse* – Resigned w.e.f. 30 March 2015

Mrs. D M A Harasgama■ – Appointed w.e.f. 22 April 2015

NDB GROUP IS COMMITTED TO CONDUCTING ITS BUSINESS PROFESSIONALLY AND ETHICALLY

The Related Party Policy of the Bank governs all transactions that the Bank may enter into with related parties of NDB Group.

Directors' Remuneration

Directors' remuneration is set out in the Directors' Report on page 193.

The methodology adopted in determining Director's Remuneration is described in the Human Resources and Remuneration Committee Report found on page 175 of this Report.

Directors' Interests in Shares

Bank's shares held by the Directors in office during the year, are shown on page 275 of this Report.

How the Board Manages Related Party Transactions

The Bank and Group are committed to conducting its businesses professionally and ethically. The Board appointed a Related Party Transactions Review Committee mandated to evaluate and consider all transactions that require approval. The transactions are reviewed by the Related Party Transactions Review Committee in line with the Bank's Related Party Policy. The Related Party Policy of the Bank was approved by the Board in

January 2015 incorporating processes to ensure compliance with laws and regulations in relation to related parties as required under the Corporate Governance Direction issued by CBSL, the Code of Best Practices on related party transactions issued by the Securities and Exchange Commission and Section 9 of the Colombo Stock Exchange Listing Rules.

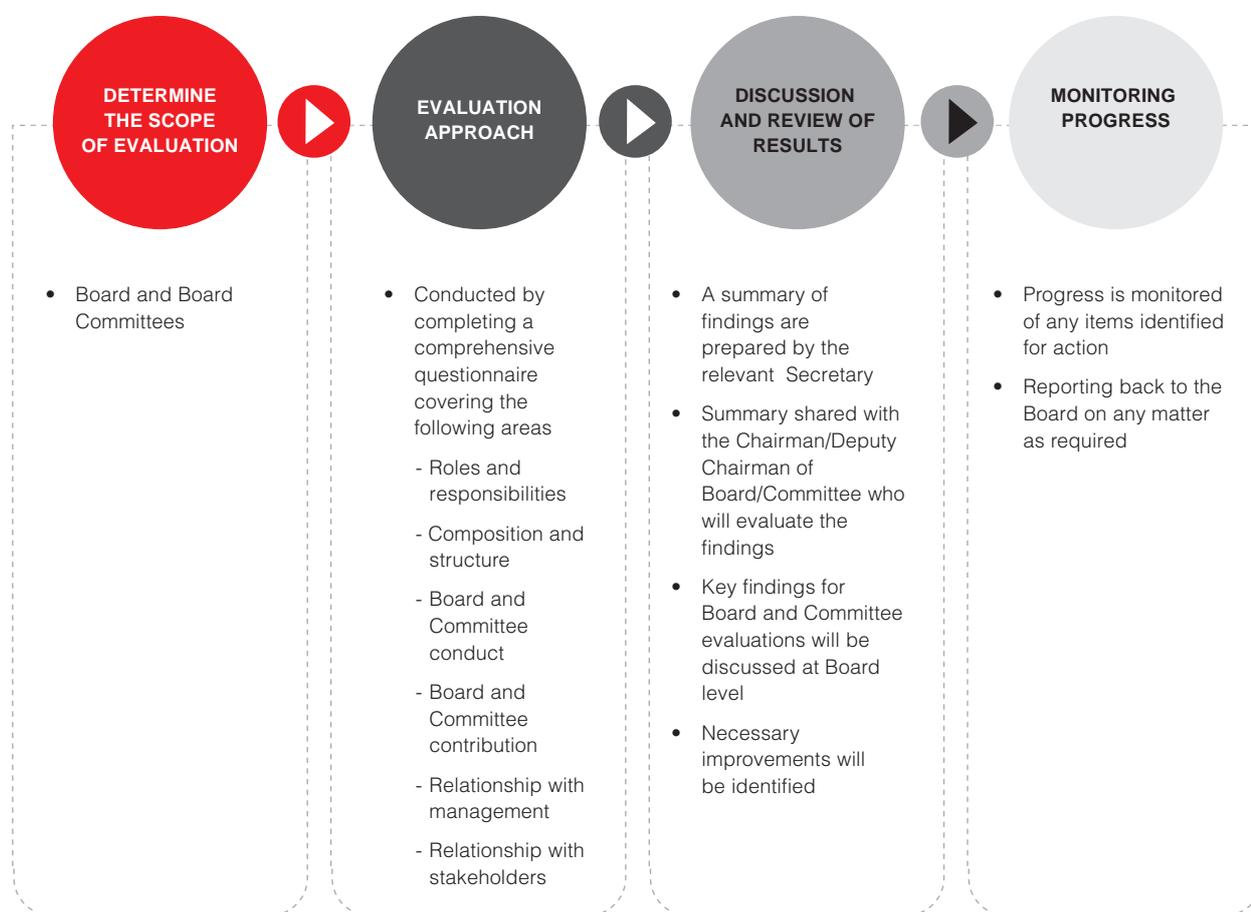
The Related Party Policy of the Bank governs all transactions that the Bank may enter into with related parties of the Bank and Group in order to ensure that related parties are treated on par with other shareholders and constituents of the Bank.

The ownership of the Related Party Policy of the Bank and Group is with the Related Party Transactions Review Committee which is required to ensure that necessary processes are in place to identify, approve, disclose and monitor Related Party Transactions as detailed in the Related Party Policy.

Please refer page 189 of this Report for the Committee Report of the Related Party Transactions Review Committee.

The Corporate Governance Direction issued by CBSL requires Directors of the Bank to avoid conflicts of interests that may arise in their activities with, and commitments to, other organizations or Directors' related parties. If a Director of the Bank has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, such matters are disclosed and discussed at 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 respect of which they have a material interest. Also their votes are not counted in the quorum for the relevant agenda item at the Board meeting. The Director concerned informs the Chairman that such conflicts of interest exists and excuses himself/herself during the discussion of the relevant agenda item at the Board meeting. The above processes have been incorporated in the Bank's Internal Code of Corporate Governance which is applicable to all Directors and Key Management Personnel of the Bank.

BOARD AND BOARD COMMITTEES' EFFECTIVENESS REVIEW PROCESS



The Board believes that annual self-evaluations are helpful and provide a valuable opportunity for continuous improvement. In 2015, the Board self-evaluation process took the form of a structured questionnaire which covered a range of key topics including effectiveness of Board conduct, the respective roles and responsibilities of Non-Executive and Executive Directors, quality of strategic and risk debate, the effectiveness of decision-making and interactions with management. All Directors participated in the self-assessment and the findings were evaluated by the Chairman and Deputy Chairman and key findings were discussed with the Board.

The effectiveness of each Board Committee was assessed through a separate exercise, again using a structured questionnaire.

The findings that were noted pursuant to each of these evaluations are shared with the Chairman and taken up for discussion at the Board. Minor improvement opportunities were identified during the process.

Our Values and Ethics

In 2015, the Board revisited the Vision, Mission and Values of the Bank and realigned them to complement the strategic direction of the Board - that of creating even greater value for all our stakeholders.

Our values statement detailed below defines what we believe in and what we stand for. These are our essential guiding principles that would cut across the way we do business, particularly in instances where the rule book provides us no answers.



INTEGRITY

We are devoted to uphold honesty, truthfulness and sincerity while remaining fair and ethical at all times – even in the most challenging situations. We will inspire trust by saying what we mean, matching our behaviours to our words and taking responsibility for our actions.

EXCELLENCE

We have the right attitude to diligently deliver what we promise while adding value that goes beyond what is expected. We achieve excellence through innovation, expertise, thoroughness and experience in everything we do.

CREATIVITY

We are driven by a desire to reach beyond the norm, challenge the status quo and shape new vistas for our stakeholders. We are creative in our thinking and futuristic in our approach – while working towards the end goal of delivering unsurpassed value to all our stakeholders.

ACCOUNTABILITY

We remain responsible, accountable and transparent in everything we do. Our corporate strategy is shaped by the willingness to take ownership for our actions, which affect our stakeholders.

SINCERITY

We believe in building productive, long-term relationships based on sincerity with our clients and stakeholders. We regard our sincerity towards each other just as valuable as what we collectively achieve.

The Bank's value proposition from its beginnings as a development bank has been an unflinching commitment to the people of this country, be it someone developing a business or an individual trying to move up in life, or a mega project needing financing. The products and services we offer, the innovations we create, the hard work we do and the value we build every single day, is all in service of them. Our determination is to do all we can to make their dreams come true. Therefore, the new tag line approved by the Board in 2015, Our Commitment. Your Success, reflects this thought.

As a custodian of public funds, the Bank has a responsibility to safeguard its integrity and credibility. It is because of this understanding that the Bank was one of the first local banks to

introduce a Compliance Policy and Code of Conduct that will apply to all employees. The Code has been regularly reviewed.

The concepts and documentation outlined in the code are clear and precise in order to ensure that employees of the Bank are conversant with the important principles related to the Bank's Compliance Policy and Code of Conduct. Great emphasis is given to strengthening the code from time to time, thereby inculcating a strong governance framework across the Bank.

The code is currently being reviewed and aligned with the new vision, mission and values to ensure that the key concepts and principles contained therein reflect the Bank's long-term strategic objectives.

The Board and Key Management Personnel of the Bank are further governed by the Internal Code of Corporate Governance. Both these codes stipulate the sound principles that will guide Directors and all employees of the Bank in discharging their duties. These codes require high standards of ethics and conduct and clearly prohibit engaging directly or indirectly in any business activity that competes or is in conflict with the Bank's interest or the interests of its customers, misuse or abuse of their positions in the Bank for their personal benefit or for the benefit of other persons, the misuse of information for the direct or indirect benefit of themselves or of any other persons.

Our Risk Governance

Maintaining an active focus on risk and compliance underpins how we run our business. We identify and actively manage risks as part of a Group-wide 'Risk Management Framework' for which the Board is ultimately responsible. The Integrated Risk Management Committee supports the Board to carry out certain responsibilities within the risk governance framework.

Risk accountability across the three lines of defence are maintained as detailed on page 219 of this Report.

For more on our risk governance framework refer pages 212 to 259 of this Report.

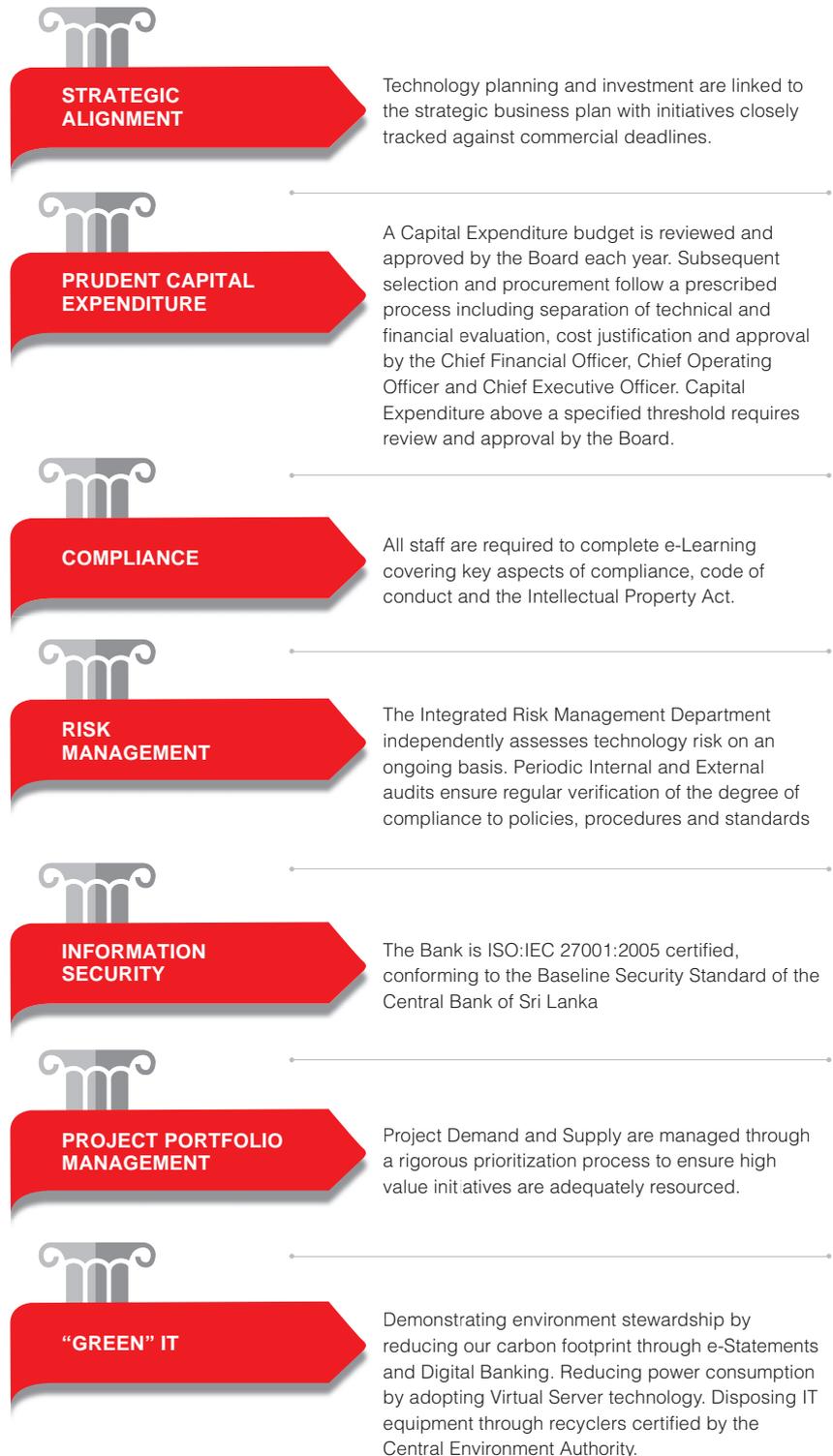
Our IT Governance

Technology Governance forms an integral part of the Bank's Corporate Governance Framework. Alignment to business objectives, prudent expenditure, compliance, risk management, security, responsible allocation of resources and environmental stewardship are core tenets of the Bank's IT Governance.

Customers today expect to perform banking at their convenience, anywhere and at any time. Our technology strategy is aligned with our business objectives whereby customers can do their banking through easy to use, agile, stable and secure channels. We ensure shareholder value through prudent capital expenditure and considered allocation of resources. We respect the trust placed in us by our customers and the regulator by our commitment to compliance, risk mitigation and information security.

The IT Governance disciplines at the Bank ensure that the technology investments made by the Bank are appropriate, and result in customer convenience, competitive advantage, and business growth.

A summary of the pillars of IT Governance at the Bank are as follows:



Our People

We are committed to building a work environment where people can make a difference both as individuals and as part of a team.

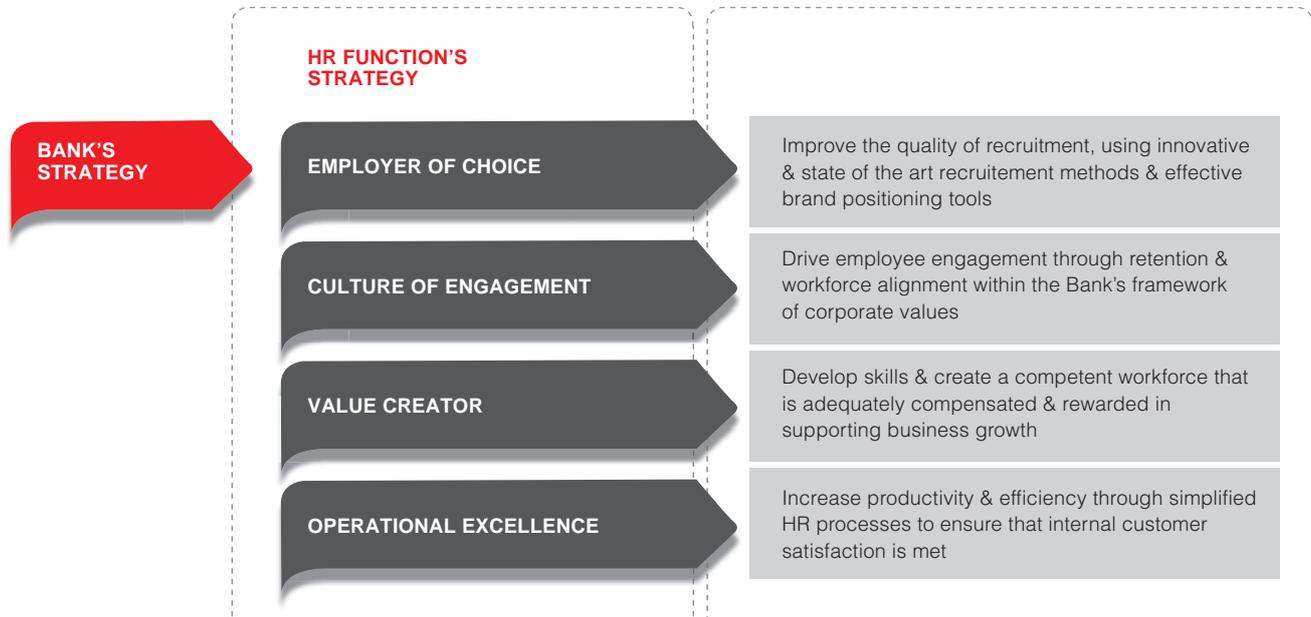
HR governance is a systematic approach to management that enables the HR function to achieve strategic

and operational objectives and thereby business performance outcomes.

We believe that having an established HR Governance Framework will lead to improved productivity and assist the Bank to drive organizational change by creating a culture of engagement through specific initiatives and value where people's skills and competencies

are developed. This value creation is supported by simplified HR processes implemented in the Bank. Within this framework the Bank also strives to project itself as an employer of choice with effective recruitment methods which are state of the art.

For more on our Employee-related initiatives see pages 88 to 93 of this Report.



Our Communication with Stakeholders



We are committed to maintaining a high level of transparency in all our disclosures so that all of our stakeholders have timely and equal access to information.

We communicate this information in a number of ways including direct written communication, publication of all relevant information on our website and webcasts of significant investor relations meetings and at the Annual General Meeting.

The Bank has an investor relations team that promotes open, transparent, efficient and consistent communications with shareholders, investors and equity analysts. The team commits to proactively providing the investment community all necessary information, data and services in a timely manner, in order to help participants in the investment community better understand the Bank's strategy, operations and new developments.

This Report provides a comprehensive report on the Group's operations and financial performance for the year under review. It provides full disclosure and is in compliance with the relevant regulations to ensure greater transparency. The Annual Report is printed together with a digital version in CD-ROM format. An online version of the Annual Report is also available on the Bank's corporate website.

The Chairman together with the CEO ensures effective communication with shareholders. The Chairman apprises members of the Board of the views of investors and other key stakeholders. The Bank's engagement with shareholders has been disclosed in greater detail in the Investor Relations Report found on pages 267 to 293 of this Report. 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 providing 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 MIS system that has been developed internally by our IT Department and a formal Communications Policy.

Governance in our Subsidiaries

The Bank has a governance framework for all our subsidiaries to ensure consistent standards are achieved. All governance related policies including the Compliance Policy and Code of Conduct, Related Party Policy, Securities Trading Policy, Anti-Bribery and Corruption Policies and Gift Policies approved and adopted by subsidiary boards are in line with the policies of the Bank. Corporate governance developments in the subsidiaries of the Bank are monitored on an ongoing basis to ensure that legal and regulatory requirements are met. The Bank's Compliance Function continues to work with subsidiaries on embedding and improving their corporate governance framework.

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. | Corporate Governance Principles | Compliance Status | Compliance and Implementation in 2015 |
|-----------|--|-------------------|---|
| 3 (1) | Responsibilities of the Board | | |
| 3 (1) (i) | The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following: | | |
| | (a) Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank; | Complied | The Bank's strategic objectives and corporate values were revised and updated in 2015, to be aligned with the Bank's current business strategy. The new objectives and values were approved by the Board in July 2015 and communicated to all members of the staff at communications meetings, via e-mails, through the Bank's intranet 'NDB Cloud' and a brand playbook. In addition, communication is further enhanced through corporate branding of the premises with the new Corporate Values, Mission and Vision 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 Bank's overall business strategy was approved by the Board for a period of five years viz 2014 – 2018. An overall Risk Management Framework consisting of policies and procedures, have been approved as required by the Direction. |
| | (c) Identify the principal risks and ensure implementation of appropriate systems to manage risks prudently; | Complied | The Board is responsible for the overall risk framework of the Bank. Board members discuss at length new strategies of the Bank, any potential risks arising from them and the risk mitigation strategies. The Integrated Risk Management Committee (IRMC) appointed by the Board, reviews and recommends to the Board, the Bank's Risk Policies and procedures defining the Bank's risk appetite, identifying principle risks, setting governance structures and implementing policies and systems to measure, monitor and manage the principal risks of the Bank. The Board has approved risk management policies and procedures as reviewed and recommended by the IRMC, based on these parameters and as required by this Direction. The following reports provide further insights in this regard. - Risk Management Report on pages 212 to 259. - The Board Integrated Risk Management Committee Report on pages 183 to 185. |
| | (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 Communications Policy aimed at encouraging effective internal and external communications of corporate information, covering all stakeholders including staff, customers, creditors, shareholders, partners, general public and regulators. The Communications Policy has been communicated to all staff and is published in the Bank's intranet 'NDB Cloud'. Communications with stakeholders takes place through the following mechanisms: - The quarterly results are published in the newspapers in all three languages and released to the Colombo Stock Exchange - The financial results are displayed on www.ndbbank.com in an area of the website devoted to Investor Relations - Financial results and business strategies of the Bank are explained to investors, business leaders and media personnel through Investor forums, webinars, press conferences and media releases. |

| Rule No. | Corporate Governance Principles | Compliance Status | Compliance and Implementation in 2015 |
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| | | | <ul style="list-style-type: none"> - At the Annual General Meeting and the Annual Report. - A Risk Rating is obtained from a reputed rating agency annually and the rating release is published in the media while the rating report is made available via the web. - The Bank has a Customer Complaint Handling Policy, which has been printed in all three languages and disseminated to all customer contact points of the Bank. This document outlines the complaints handling policy of the Bank, provides contact information of the Bank for this purpose and also of the Financial Ombudsman. - Staff communications are handled through various structured forums, via e-mails and through the Bank's intranet 'NDB Cloud'. |
| | (e) Review the adequacy and the integrity of the Bank's internal control systems and management information systems; | Complied | <p>The Bank has a stringent process in place to determine the accuracy of the financial information provided to the Board and the effectiveness of internal controls on financial reporting.</p> <p>The Bank has in place a Management Information Systems Policy, approved by the Board. In this policy, all financial and non-financial information of the Bank are submitted to the Board on a monthly basis. 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 February 2016. Thereafter, the Board at its meeting held in February 2016, 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 and confirmed the process and the system as satisfactory.</p> |
| | (f) Identify and designate key management personnel, as defined in Banking Act Determination No.3 of 2010 on the Assessment of fitness and propriety of officers performing executive functions in LCBs | Complied | <p>Key Management Personnel of the Bank have been identified by the Board and presently include the following:</p> <ol style="list-style-type: none"> 1. The Leadership Team 2. Company Secretary 3. 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 (KMP); | Complied | <p>Areas of authority and key responsibilities of the Directors, have been set out in the Bank's Internal Code of Corporate Governance, which is a Board approved document.</p> <p>Areas of authority and key responsibilities of Key Management Personnel, are defined in the respective job descriptions of each Key Management Personnel and were reviewed at the Nominations 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> |
| | (h) Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy; | Complied | <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 respective areas. Banking Operations carried out in-line with the Banks' strategic objectives, including any issues faced by the Bank, are discussed on a regular basis at Board Meetings. The CEO at weekly meetings held with the Leadership Team, updates them on key decisions taken by the Board.</p> |

| Rule No. | Corporate Governance Principles | Compliance Status | Compliance and Implementation in 2015 |
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| | (i) Periodically assess the effectiveness of the Board Directors' own governance practices, including: (i) the selection, nomination and election of Directors and Key Management Personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary; | Complied | The effectiveness of the Board's Governance practices are reviewed periodically. The Board appraises its own performance by responding to a self-assessment questionnaire by each Director, which includes the key areas detailed in this Direction. The responses are collated by the Company Secretary and submitted to the Chairman & Deputy Chairman for their review. The Chairman and Deputy Chairman then discuss areas of weaknesses and recommend changes where necessary at a Board meeting. The process was followed for the year 2015 and has been explained on page 137 of this report. |
| | (j) Ensure that the Bank has an appropriate succession plan for Key Management Personnel; | Complied | During 2015, the Board approved an interim succession plan for Key Management Personnel of the Bank. The interim succession plan will be reviewed/revalidated, by the Human Resources and Remuneration Committee (HRRC) and the Board in 2016 to ensure that the succession plan is relevant and appropriate vis-à-vis the prevailing organizational structure of the Bank. |
| | (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 are regularly present or are called in for discussions at the meetings of the Board and its Committees on policy and other matters relating to their areas. Progress towards corporate objectives is a regular agenda item for the Board and the Key Management Personnel are regularly involved in Board level discussions on same. |
| | (l) Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators; | Complied | All new regulations issued by the Regulator, are circulated to the Board for their information on a quarterly basis by the Compliance Department. The CEO meets with Central Bank officials at the monthly CEO's meetings. The Chairman of the Bank and Chairpersons of Board Committees also have meetings with CBSL officials. Further, 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 | Audit Committee Charter includes the functions of hiring and overseeing of External Auditors. 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 on any concerns in this regard if the necessity arises. The Board Audit Committee further reviews the non-audit services provided by the External Auditor annually and ensures that such services do not impair the independence and objectivity of the External Auditor. A formal evaluation of the External Auditors' performance is completed annually by the Board Audit Committee and conclusions together with any recommendations are tabled at the Board meeting. |
| 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. The roles of the Chairman and the Chief Executive Officer are contained in the Articles of Association and the Bank's internal Code of Corporate Governance. There is a clear division of responsibilities between the Chairman and the Chief Executive Officer, maintaining the balance of power between the two roles. |

| Rule No. | Corporate Governance Principles | Compliance Status | Compliance and Implementation in 2015 |
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| 3 (1) (iii) | The Board shall meet regularly and Board meetings shall be held at least twelve times a year, at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible. | Complied | Regular monthly Board meetings are held and special Board meetings are scheduled as and when the need arises. There have been 15 Board meetings during 2015. The attendance of Directors for Board and Committee meetings is set out in tables found on pages 134 and 135. 4 Circular resolutions were passed during the year 2015. Circulation of Board papers to obtain Board's consent is minimised and resorted to only when absolutely necessary. These decisions are in any event tabled at the immediately succeeding Board meeting. |
| 3 (1) (iv) | The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank. | Complied | All Directors are entitled to include such matters and proposals in the Agenda for Board meetings and this right has been entrenched in the Bank's Internal Code of Corporate Governance. Monthly meetings are scheduled and informed to the Board, at the beginning of each calendar year, to enable submission of proposals in the Agenda for regular meetings. |
| 3 (1) (v) | The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given. | Complied | Monthly meetings are scheduled and informed to the Board at the beginning of each calendar year, to provide Directors an opportunity to attend meetings. Formal notice of meetings, the Agenda and Board papers related to each Board meeting are circulated to all Directors at least 7 days in advance of the Board meeting. These documents are now uploaded through a secure connection to the Ipad's of all Directors. |
| 3 (1) (vi) | The Board procedures shall ensure that a Director who has not attended at least two-thirds of the meetings, in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' meetings through an alternate Director shall, however, be acceptable as attendance. | Complied | The Company Secretary monitors the attendance register to ensure compliance. All Directors have attended at least two thirds (2/3) of the meetings held during 2015 and no Director has been absent from three consecutive meetings during 2015. |
| 3 (1) (vii) | The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations. | Complied | The Board has appointed a Company Secretary, who 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. |
| 3 (1) (viii) | All Directors shall have access to the advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed. | Complied | All Directors have access to the advice and services of the Company Secretary. For the year 2015, the Company Secretary has provided assistance to the Directors when requested. The Bank's Internal Code of Corporate Governance also includes this provision. |
| 3 (1) (ix) | The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director. | Complied | The Company Secretary maintains detailed Board minutes and circulates minutes to all Directors. The minutes are approved at the subsequent Board meetings. 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. |

| Rule No. | Corporate Governance Principles | Compliance Status | Compliance and Implementation in 2015 |
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| 3 (1) (x) | Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes shall also serve as a reference for regulatory and supervisory authorities, to assess the depth of deliberations at the Board meetings. Therefore, the minutes of a Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions. | Complied | The minutes contain adequate details appropriate to the matters dealt with. The minutes are 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 the minutes. |
| 3 (1) (xi) | There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank. | Complied | Independent professional advice is available, on request, to all Directors at the expense of the Bank. The Bank's internal Code of Corporate Governance has put in place a procedure which enables independent professional advice to be obtained jointly or severally by a Director or Directors where such advice is necessary to enable the fulfilment of the obligations imposed on a member of the Board. The Directors have obtained professional advice during the year. |
| 3 (1) (xii) | Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with and commitments to, other 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 | <p>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).</p> <p>The Internal Code of Corporate Governance adopted by the Board, requires each Board member to determine whether he/she has a potential or actual conflict of interest. If a Director of the Bank has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, such matters are disclosed and discussed at the Board meetings, where Independent Non-Executive Directors who have no material interest in the transaction, are present.</p> <p>Further, Directors abstain from voting on any Board resolution in relation to which such Directors or any of their close relation/s or a concern in which such Directors have substantial interests, and/or are interested in. Further their votes are not counted in the quorum for the relevant agenda item at the Board meeting.</p> |
| 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. |

| Rule No. | Corporate Governance Principles | Compliance Status | Compliance and Implementation in 2015 |
|--------------|---|-------------------|--|
| 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. | Complied | The Bank is aware of the requirement but the situation has not arisen within the year. A Solvency Statement is prepared quarterly and tabled at the Integrated Risk Management Committee (IRMC) and the Board. The Bank also has an IRMC approved Liquidity Contingency Funding plan in place. |
| 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. Also the ICAAP covers capital planning over the next 3 years. |
| 3 (1) (xvi) | The Board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions. | Complied | This requirement is met through the presentation of 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 summary of findings together with areas for future improvement, is tabled at the Board Meeting for discussion. |
| 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 2015. The Bank's Board comprised of 10 Directors during the year 2015. |
| 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. |
| 3 (2) (iv) | The Board shall have at least three independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher. This subdirection shall be applicable from 01 January 2010 onwards. A Non-Executive Director shall not be considered independent if he/she: <ul style="list-style-type: none"> a. has direct and indirect shareholdings of more than 1% of the Bank; b. currently has or had during the period of two years, immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3 (7) hereof, exceeding 10% of the regulatory capital of the Bank. c. has been employed by the Bank during the two year period, immediately preceding the appointment as Director; | Complied | There are 9 Non-Executive Directors on the Board as at 31 December 2015. Of them 6 are Independent Non-Executive Directors. Non-Executive Directors are detailed on page 134 of this report. Accordingly, the number of Independent Non-Executive Directors exceeds one-third of the total number of Directors on the Board. The Board assesses the Independence or Non-Independence of each Non-Executive Director, based on a declaration made by each Director to the Company Secretary each year. |

| Rule No. | Corporate Governance Principles | Compliance Status | Compliance and Implementation in 2015 |
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| | <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> | | |
| 3 (2) (v) | In the event an Alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that applies to the Independent Director. | Complied | Directors appoint Alternate Directors in-line with the Articles of the Bank, as and when required for a particular meeting. Persons so appointed during the year 2015, have met the criteria to ensure that the independent profile of the respective Director is met. |
| 3 (2) (vi) | Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgement to bear on issues of strategy, performance and resources. | Complied | The Non-Executive Directors of the Bank are persons with credible track records and have necessary skills and experience to bring an independent judgement to bear on issues of strategy, performance and resources. Please refer the profiles of the Non-Executive Directors detailed on pages 108 to 115 of this Report. The Bank has a specific documented Board approved process in place for appointing Non-Executive Directors. |
| 3 (2) (vii) | A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non-Executive Directors. | Complied | Attendance of Directors is monitored by the Company Secretary and is strictly observed. It was noted that more than one half (1/2) of Directors present at each meeting of the Board convened in the year 2015 were Non-Executive Directors. |
| 3 (2) (viii) | The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual Corporate Governance Report. | Complied | <p>The Independent Non-Executive Directors are expressly identified as such in all corporate communications that disclose the names of Directors of the Bank.</p> <p>The composition of the Board, by category of Directors, including the names of the Chairman, Executive Director, Non-Executive Directors and Independent Non-Executive Directors are given on page 134 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. | Complied | The Board has established a Nominations Committee in conformity with the requirements of this Direction. All new appointments and re-election of Directors are on the recommendations of the Nominations Committee. Central Bank approval is obtained in terms of the Banking Act for the appointment of a new Director. The Bank has a specific documented Board approved process in place for appointing Non-Executive Directors. |

| Rule No. | Corporate Governance Principles | Compliance Status | Compliance and Implementation in 2015 |
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| 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 appointments. | Complied | Appointment to fill a casual vacancy is made by the Board on the recommendations of the Nominations Committee. A person so appointed would stand for re-election at the next Annual General Meeting, in accordance with the Articles of Association. Three Directors, N G Wickremeratne, D M R Phillips and K D W Ratnayaka were appointed in 2015 to fill casual vacancies and thereby will stand for re-appointment by the shareholders at the Annual General Meeting. |
| 3 (2) (xi) | If a Director resigns or is removed from office, the Board shall: (a) announce the Director's resignation or removal and the reasons for such removal or resignation, including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders. | Complied | Four Directors, Ms. G D C Ekanayake, S G Wijesinha, S Rajapakse and H A Siriwardena resigned from the Bank in 2015. The Bank informed the regulatory authorities and shareholders in terms of CSE requirements of such resignation stating the reasons for such resignation and confirming that there were no matters that needed to be brought to the attention of shareholders. |
| 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 a bank is a subsidiary company or an associate company of the first mentioned bank. | Complied | The Nominations Committee takes into account this requirement in their deliberations when considering the appointments of Directors. The Bank's Compliance Policy and Code of Conduct, further incorporates this requirement for employees. No Director or Employee of the Bank is a Director of another bank. |
| 3 (3) | Criteria to assess the fitness and propriety of Directors | | |
| 3 (3) (i) | The age of a person who serves as Director shall not exceed 70 years. | Complied | There are no Directors who are over 70 years of age. |
| 3 (3) (ii) | A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank. | Complied | No Director holds Directorships of more than 20 companies. The other directorships of each of the Directors is disclosed on Pages 108 to 115 of the Annual Report |
| 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 addresses 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 recommended by the IRMC 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. |

| Rule No. | Corporate Governance Principles | Compliance Status | Compliance and Implementation in 2015 |
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| 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 the 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. |
| 3 (5) (iv) | The Chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner. | Complied | The Chairman is responsible for the running of the Board, preserving order and ensuring that proceedings at meetings are conducted in a proper manner. Further, he ascertains the views of the Directors on the issues being discussed, before decisions are taken. The self-evaluation process carried out by the members of the Board each year, assists the Chairman to effectively carry out his responsibilities by providing him the required feedback. |
| 3 (5) (v) | The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary. | Complied | The Chairman draws up the Agenda for Board meetings in consultation with the Chief Executive Officer and Company Secretary. The Bank's Internal Code of Corporate Governance also casts this responsibility with the Chairman. |
| 3 (5) (vi) | The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner. | Complied | The Directors are adequately briefed in the course of discussions by the Chairman, Chief Executive Officer and officers of 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, Management information is provided on a regular basis to enable Directors to assess the performance and stability of the Bank, relevant Key Management Personnel are on hand for explanations and clarifications and Directors are able to seek independent professional advice on a needs basis at the Bank's expense. |
| 3 (5) (vii) | The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank. | Complied | The Chairman ensures that all members effectively participate as a team in Board decisions and Directors concerns and comments are duly recorded in the minutes. |
| 3 (5) (viii) | The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors. | Complied | 9 of the 10 Board members are Non-Executive Directors which encourages active participation by the Non-Executive Directors. Further, Non-Executive Directors participate in Board appointed Committees, providing further opportunity for active participation. In addition, the feedback received from the self-evaluation process carried out by the Board supports the Chairman in improving contributions of Non-Executive Directors. |

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| 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 is not involved in the day-to-day operations of the Bank. |
| 3 (5) (x) | The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board. | Complied | Shareholders are encouraged to provide their feedback to the Company Secretary using feedback forms made available with the Annual Report. In addition, there is an e-mail address dedicated for investor relations and the link is available on the Bank's website. The Chairman together with the CEO, ensures effective communication with shareholders through investors' forums held each quarter 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. | Complied | <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 the Audit Committee, Human Resources and Remuneration Committee, Nominations 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 on pages 175 to 190 which reports include a summary of duties, roles and performance of each of the Committees.</p> |
| 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 | <p>T L F Jayasekera, the Chairman of the Board Audit Committee is an Independent Non-Executive Director and a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and an Associate Member of the Chartered Institute of Management Accountants, UK.</p> <p>The members of the Board Audit Committee are detailed on page 186 of this Report.</p> |
| | (b) All members of the Committee shall be Non-Executive Directors. | Complied | All members of the Board Audit Committee (BAC) are Non-Executive Directors. |

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| | (C) The Committee shall make recommendations on matters in connection with: (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to Auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the Audit partner shall not exceed five years and that the particular Audit partner is not re-engaged for the audit, before the expiry of three years from the date of the completion of the previous term. | Complied | <p>The matters referred to in the Direction are reviewed and appropriate recommendations are made by the BAC;</p> <ol style="list-style-type: none"> i. Appointment of the External Auditor for audit services has been recommended to the Board by the BAC; 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 and the application of the relevant accounting standards; iii. The External Audit Partner was rotated during 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. iv. The Committee evaluates and makes recommendations to the Board with regard to the audit fee. <p>Refer the 'Report of the Board Audit Committee' given on pages 186 to 188.</p> |
| | (d) The Committee shall review and monitor the External Auditors' Independence and objectivity and the effectiveness of the audit processes, in accordance with applicable standards and best practices. | Complied | The BAC obtains representations from the External Auditor on their independence and that the audit is carried out in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs). |
| | (e) The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditors' independence or objectivity. When assessing the External Auditors' independence or objectivity in relation to the provision of non-audit services, the Committee shall consider: <ol 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. | Complied | A policy for 'Engaging the External Auditor for non-audit services' is in place which covers all aspects stated in this Direction. This Policy was last reviewed and approved by the BAC and Board in 2014, and will be reviewed every two years. |

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| | <p>(f) The Committee shall, before the audit commences, discuss and finalise 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. | Complied | <p>The BAC Charter requires the BAC to discuss and finalise with the External Auditor, 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 adopting the audit plan, methodology and scope.</p> <p>As all audits within the Group are carried out by the same External Auditor, there was no requirement to co-ordinate activities with other audit firms.</p> |
| | <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 judgements contained therein. In reviewing the Bank's Annual Report and accounts and quarterly reports before submission to the Board, the Committee shall focus particularly on: (i) major judgemental 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>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 the required clarifications, in respect of all aspects included in the Financial Statements, such Financial Statements are recommended for approval of the Board of Directors.</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> | Complied | <p>The Committee met the External Auditors in June and October in 2015, without the presence of Key Management Personnel, to discuss any issues, problems and reservations arising from their audits.</p> |
| | <p>(i) The Committee shall review the External Auditor's Management Letter and the management's response thereto.</p> | Complied | <p>During the year, the BAC reviewed the Management Letter for the year ended 2014 and the responses thereto with the External Auditor, CEO and CFO.</p> |
| | <p>(j) The Committee shall take the following steps with regard to the internal audit function of the Bank:</p> <ul 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; | Complied | <p>The BAC has oversight of the Internal Audit Department (IAD) of the Bank and carries out the following duties:</p> <ul style="list-style-type: none"> i. Reviews and discusses with the Head of Internal Audit (HIA), the annual audit plan covering the Group, the adequacy of the scope and functions and the resources of IAD. ii. The audit plan for the year is approved by the BAC and the progress is tabled at the BAC meetings along with the number of audits planned for the ensuing quarter. The BAC reviews the internal audit reports and discusses the Management Action Plans to resolve the issues raised by IAD. Further, BAC members are kept informed of issues arising from ongoing audits, as a 'Heads up'. All audit findings are sent to Operational Risk Department for inclusion in the Risk Grid and for necessary follow up. iii. The CEO has carried out the appraisal of the HIA in consultation with Chairman BAC for 2014. Reviews of the performance of the HIA, new senior team leaders appointed in IAD for 2015 will be reviewed in March 2016 |

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| | <p>iv. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function.</p> <p>v. Ensure that the Committee is appraised of resignations of senior staff members of the Internal Audit Department including the Head Internal Audit 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.</p> <p>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> | | <p>iv. Senior appointments (AVP level) made to IAD were informed to the BAC. The outsourcing of the treasury audits was approved by the BAC.</p> <p>v. BAC is appraised of any resignations of senior staff members of IAD and are provided an opportunity to submit reasons for resignation. [However, there have been no resignations of Senior Staff (AVP level) during the year 2015].</p> <p>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 staff reports directly to the HIA, who in turn reports directly to the BAC.</p> |
| | (k) The Committee shall consider the major findings of internal investigations and management's responses thereto. | Complied | The BAC has reviewed the major findings of IAD and management action plans thereto on investigations carried out. |
| | (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 | <p>The Chief Executive Officer, Chief Operating Officer, Chief Finance Officer, Head of Audit and representatives of the External Auditor, normally attend meetings on invitation. The Chairman of the Bank attended five meetings as an independent observer during the year. Any other officer will attend if required on invitation to discuss their area.</p> <p>The BAC met the External Auditors twice during the year without the presence of Key Management Personnel.</p> |
| | (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 BAC, which is in compliance 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 meetings and met nine times during the year 2015. 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 186 to 188 for the details of the activities of the Audit Committee. Attendance of the Committee members at each of these meetings is given in the table on page 135 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 Head of the Internal Audit functions as the Secretary to the BAC and maintains detailed minutes of all meetings. Copies of these minutes have been tabled at Board Meetings. |

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| | (q) The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditor. | Complied | The Bank has in place a Board approved Whistleblowing Policy, which was revised in November 2015. The employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. A process has been established to track such whistleblowing and take necessary action. The BAC is the key representative body for overseeing the Banks' relations with the External Auditor. |
| 3 (6) (iii) | Human Resources and Remuneration Committee – Composition & Responsibilities | Complied | The performance of Key Management Personnel against set goals and targets are evaluated by the Human Resources and Remuneration Committee (HRRC) in March of every year and recommendations are then discussed and approved by the (HRRC) and the full Board. The Chief Executive Officer's performance will be evaluated by the full Board. Please refer page 175 for the composition and responsibilities of the (HRRC). |
| | (a) Determine the remuneration policy relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank | Complied | The Board has established a HRRC that makes recommendations on remuneration payable to Directors and Key Management Personnel of the Bank. There is in place a Board approved Remuneration Policy and process for Directors, Chief Executive Officer and Key Management Personnel. |
| | (b) Set goals and targets for the Directors, CEO and the Key Management Personnel | Complied | The Board approved strategy was cascaded for the year 2015 to the Chief Executive and Key Management Personnel. Automated performance appraisal is in place for Key Management Personnel with the Chief Executive Officer. The goals and targets set for the Chief Executive Officer and Key Management Personnel were reviewed and approved by the HRRC and noted/approved by the Board. Goals and targets for the Directors, for the year 2015 have been deliberated in detail at Board and HRRC level. |
| | (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 HRRC and full Board. There is in place an automated performance appraisal for Key Management Personnel with the Chief Executive Officer. A salary survey was carried out in 2015 and the information was shared with members of the HRRC, prior to performance linked increment discussions. |
| | (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) | Nominations Committee – Composition & Responsibilities | | Please refer on pages 179 to 180 for the Composition Responsibilities of the Nominations Committee. (NC) |
| | (a) The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel. | Complied | The NC has implemented a procedure to select new Directors. A Board approved procedure to select the Chief Executive Officer and Key Management Personnel is in place. |

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| | (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, re-appointments of the following Directors: D S P Wikramanayake (rotational reappointment) N G Wickremeratne K D W Ratnayaka D M R Phillips |
| | (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 Chief Executive Officer. 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 were submitted to the NC for 2015 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. |
| | (e) The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel. | Complied | The NC considers Board vacancies, based on the expertise required by the Bank and recommends suitable candidates when necessary in accordance with the Board approved procedure for selection and appointment of Directors. The process set out was complied with in 2015, when new Directors were appointed to fill Board vacancies created in 2015. The NC also approves the succession plans for Key Management Personnel. An interim succession plan for Key Management Personnel was approved by the NC and the Board. The Bank has realigned its organizational structure in 2015, to meet its strategic objectives, identified gaps in the senior management team and recruited the required resources to bridge the gaps. The interim succession plan is to be reviewed in March 2016 taking into account the structural changes that have taken place. |
| | (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. | Complied | 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 Chief Executive Officer is present, only if invited. |
| 3 (6) (v) | Integrated Risk Management Committee (IRMC) – Composition & Responsibilities | Complied | Please refer pages 183 to 185 for the composition and responsibilities of the IRMC. The Terms of Reference of the IRMC was reviewed and updated in 2015. |
| | (a) The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel, supervising broad risk categories - i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board, within the framework of the authority and responsibility assigned to the Committee. | Complied | The Composition of the IRMC complies with the provisions of this Direction. |

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| | (b) The Committee shall assess all risks - i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis, through appropriate risk indicators and management information. In the case of Subsidiary Companies and Associate Companies, risk management shall be done, both on a Bank basis and Group basis. | Complied | The IRMC assesses all risks of the Bank and Group on a monthly basis through Key Risk Indicators, Risk Dashboards and through quarterly risk assessment reports done for the Bank and Group. The Bank has formed five management committees to assess risks on a monthly/quarterly basis and their findings are submitted to the IRMC and a summary of the minutes of the IRMC and quarterly risk assessment reports are submitted to the main Board. |
| | (c) The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset-Liability Committee, to address specific risks and to manage those risks within quantitative and qualitative risk limits, as specified by the Committee. | Complied | The adequacy of the effectiveness of all management level committees was carried out for the year 2015, with 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 IRMC on the basis of the Bank's policies and regulatory and supervisory requirements. The Risk Appetite of the Bank decided through the ICAAP 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 2015. |
| | (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 | The IRMC shall if the need arises take action appropriate to the relevance of the situation 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. |
| | (h) The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically. | Complied | The Bank has appointed a Compliance Officer who is a Key Management Personnel to head the Compliance Function of the Bank. The Compliance Function communicates all new laws and regulations to relevant stakeholders within the Bank. The Compliance Function also carries out training through class room sessions and by developing E-Learning modules to support a better understanding of laws and regulations. In addition, compliance testing is carried out to assess the Bank's compliance with laws and regulations and the Bank's internal controls, policies, product programme guides and business operations. The Compliance Function reports quarterly to the IRMC. 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 and all product programme guides to determine compliance with applicable laws and 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 IRMC. |

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| 3 (7) | Related Party Transaction | | |
| 3 (7) (i), (ii), (iii) | <p>3 (7) (i) The Board shall take the necessary steps to avoid any conflicts of interest, that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as 'related parties' for the purposes of this Direction:</p> <p>a. Any of the Bank's subsidiary companies;</p> <p>b. Any of the Bank's associate companies;</p> <p>c. Any of the Directors of the Bank;</p> <p>d. Any of the Bank's Key Management Personnel;</p> <p>e. A close relation of any of the Bank's Directors or Key Management Personnel;</p> <p>f. A shareholder owning a material interest in the Bank;</p> <p>g. A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest.</p> | Complied | <p>Steps have been taken by the Board to avoid any conflicts of interest that may arise in terms of this section.</p> <p>Using information submitted to the Bank by Directors and 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 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 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> |
| 3 (7)(ii) | <p>The type of transactions with related parties that shall be covered by this Direction shall include the following:</p> <p>a. The grant of any type of accommodation, as defined in the Monetary Board's Directions, on maximum amount of accommodation,</p> <p>b. The creation of any liabilities of the Bank in the form of deposits, borrowings and investments,</p> <p>c. The provision of any services of a financial or non-financial nature, provided to the Bank or received from the Bank,</p> <p>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 | All transactions defined in this directions come within the scope of the Related Party Transaction Policy of the Bank |
| 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> <p>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 subdirection:</p> | Complied | The Related Party Policy of the Bank, which is a Board approved document, sets out this requirement and has included a process to ensure compliance. All business units of the Bank are advised of this requirement every quarter and a list of all related parties of the Bank are shared with them to support compliance. In addition, the Compliance Department manually monitors compliance. A system is being implemented to further improve this process. |

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| | <ul style="list-style-type: none"> i. 'Accommodation' shall mean accommodation as defined in the Banking Act Directions, No. 7 of 2007 on Maximum Amount of Accommodation. ii. The 'total net accommodation' shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of 5 years or more. | | |
| | <ul style="list-style-type: none"> 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) | <ul style="list-style-type: none"> 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 | <p>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.</p> <p>The situation did not arise in 2015.</p> <p>The employees of the Bank are informed to obtain necessary security as set out by the Monetary Board if the need arises.</p> |
| | <ul style="list-style-type: none"> 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. | | |

| Rule No. | Corporate Governance Principles | Compliance Status | Compliance and Implementation in 2015 |
|--------------|--|-------------------|--|
| | <p>c. Any Director who fails to comply with the above subdirections shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public.</p> <p>d. This subdirection, 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 a bank.</p> | | |
| 3 (7) (vi) | A bank shall not grant any accommodation or 'more favourable treatment' relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation, has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above. | Complied | No favourable treatment/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. |
| 3 (7) (vii) | No accommodation granted by a bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval, shall be void and of no effect. | Complied | Such a situation has not arisen in the Bank to date. |
| 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 31st December 2015 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 page 204, the 'CEO's and CFO's Responsibility Statement' on page 209 and Note No. 2 (Statement of Compliance) to the Financial Statements on page 308. |
| | 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 206 to 207. |

| Rule No. | Corporate Governance Principles | Compliance Status | Compliance and Implementation in 2015 | | | | | | | | | | | | |
|---|---|-------------------------|--|-----------------------------|---|-------------------------|--|---------------|--------|---|---------|-------------|--|---------|-------|
| | c. The Assurance Report, issued by the Auditors under "Sri Lanka Standard on Assurance Engagements on SLSAE 3050 – Assurance Reports for Banks on Directors' Statement on Internal Control". | Complied | The Assurance Report issued by the External Auditor on the Internal Control over Financial Reporting based on the auditing framework issued by ICASL, is detailed on page 208 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 pages 134 'Directors' interest in contracts with NDB' on pages 212 and page 193 for Directors' Remuneration. | | | | | | | | | | | | |
| | e. Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital. | Complied | <table border="1"> <thead> <tr> <th>Category of Related Parties</th> <th>Net Accommodation as at 31.12.2015 LKR '000</th> <th>% of Regulatory Capital</th> </tr> </thead> <tbody> <tr> <td>Directors/Close Family Members/ Substantial Interest concerns</td> <td>241</td> <td>0.00%</td> </tr> <tr> <td>Key Management Personnel/Close Family Members/Substantial Interest concerns</td> <td>79,030</td> <td>0.27%</td> </tr> <tr> <td>The Bank's subsidiaries and associate companies</td> <td>835,064</td> <td>2.82%</td> </tr> </tbody> </table> | Category of Related Parties | Net Accommodation as at 31.12.2015 LKR '000 | % of Regulatory Capital | Directors/Close Family Members/ Substantial Interest concerns | 241 | 0.00% | Key Management Personnel/Close Family Members/Substantial Interest concerns | 79,030 | 0.27% | The Bank's subsidiaries and associate companies | 835,064 | 2.82% |
| Category of Related Parties | Net Accommodation as at 31.12.2015 LKR '000 | % of Regulatory Capital | | | | | | | | | | | | | |
| Directors/Close Family Members/ Substantial Interest concerns | 241 | 0.00% | | | | | | | | | | | | | |
| Key Management Personnel/Close Family Members/Substantial Interest concerns | 79,030 | 0.27% | | | | | | | | | | | | | |
| The Bank's subsidiaries and associate companies | 835,064 | 2.82% | | | | | | | | | | | | | |
| | 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 | <p>The aggregate value of Remuneration, paid during 2015 to its Key Management Personnel and the aggregate value of transactions with the Bank to its Key Management Personnel are given below:</p> <table border="1"> <thead> <tr> <th></th> <th>Aggregate values in LKR '000</th> </tr> </thead> <tbody> <tr> <td>Remuneration paid</td> <td>266,689</td> </tr> <tr> <td>Accommodation</td> <td>79,030</td> </tr> <tr> <td>Deposits</td> <td>416,484</td> </tr> <tr> <td>Investments</td> <td>43,178</td> </tr> </tbody> </table> | | Aggregate values in LKR '000 | Remuneration paid | 266,689 | Accommodation | 79,030 | Deposits | 416,484 | Investments | 43,178 | | |
| | Aggregate values in LKR '000 | | | | | | | | | | | | | | |
| Remuneration paid | 266,689 | | | | | | | | | | | | | | |
| Accommodation | 79,030 | | | | | | | | | | | | | | |
| Deposits | 416,484 | | | | | | | | | | | | | | |
| Investments | 43,178 | | | | | | | | | | | | | | |
| | g. A confirmation by the Board of Directors in its Annual Corporate Governance Report that all 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. | Complied | Complied by this Report. | | | | | | | | | | | | |
| | h. A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances. | Complied | There were no material non-compliance to prudential requirements, regulations, laws and internal controls affecting the Bank. | | | | | | | | | | | | |
| | i. A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board, to be disclosed to the public, together with the measures taken by the Bank to address such concerns. | Complied | There were no supervisory concerns on lapses in the Bank's risk management system or non-compliance with this Direction, that have been pointed out by the Director of the Bank Supervision Department of the CBSL and requiring disclosure to the public. | | | | | | | | | | | | |

The Bank's adherence 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 Principles

Compliance Status

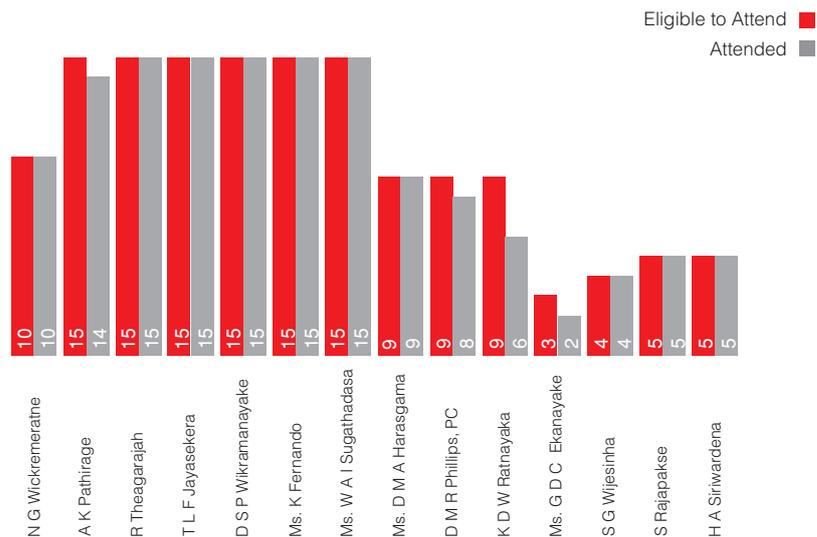
A. 1 The Board – The Board comprises of ten Directors, nine of whom, including the Chairman, function in a Non-Executive capacity. The members of the Board consists of professionals in the fields of banking, finance, insurance, management, IT and Law and possess the skills, experience and leadership required to direct, lead and control the Bank. The Chief Executive Officer (CEO) is the only Executive Director. The Board has appointed several Committees to assist in the discharge of their collective responsibilities. The Bank is mindful of the need to maintain an appropriate mix of skills and experience in the Board through a regular review of its composition to ensure that the skill representation is in alignment with current and future needs of the Bank. Additionally, individual Directors are encouraged to seek expert opinion and/or professional advice on matters where they may not have full knowledge or expertise.

A.1.1 Board Meetings

Complied.

The Board usually meets on monthly intervals, but meets more frequently whenever it is necessary. The Board met fifteen (15) times during the year. Scheduled Board and Board Committee meetings are arranged at the beginning of each calendar year. Attendance at Board and Committee meetings are provided on pages 134 and 135 of this Report.

NO. OF MEETINGS HELD AND ATTENDANCE - 2015



A 1.2 Role of the Board – Provide entrepreneurial leadership of the Bank within a framework of prudent and effective controls risks to be assessed and managed. Formulation and implementation of a sound business strategy;

Complied.

The Board is responsible to stakeholders for creating and delivering sustainable shareholder value through the management of the Bank and Group's businesses. It determines the strategic objectives and policies of the Bank and Group to deliver such long-term value, providing overall strategic direction within a framework of rewards, incentives and controls. A five year business strategy is in place and has been detailed under Section 3(1)(i)(b) of the CBSL table on page 142 of this report.

- The Chief Executive Officer (CEO) and management team possess the skills, experience and knowledge to implement the strategy

Complied.

The Human Resources and Remuneration Committee (HRRC) and the Nominations Committee (NC) ensures that the CEO and Key Management Personnel (KMP) have the required skills, experience and knowledge to implement strategy.

The CEO and the Leadership Team consist of senior professionals with an average experience of over 29 years.

The profiles of The Leadership Team are available on the Bank's website and on pages 116 to 121 of this Report.

| Corporate Governance Principles | Compliance Status |
|--|--|
| <ul style="list-style-type: none"> The adoption of an effective CEO and KMP succession strategy; | <p>Complied.</p> <p>An interim succession plan has been approved by the Board. Having considered the structural changes that have taken place in the Bank in 2015 to support the business needs of the Bank, the Board will review the interim succession plan in 2016 and make any revisions as required.</p> |
| <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 the Integrated Risk Management Committee (IRMC) or Board Audit Committee (BAC). Our Business Continuity Plan was rehearsed twice during the year. Refer Director's Statement on Internal Control (pages 206 and 207) BAC Report (pages 186 to 188) and Integrated Risk Management Committee (IRMC) (pages 183 to 185) Report for more details.</p> |
| <ul style="list-style-type: none"> Compliance with laws, regulations and ethical standards; | <p>Complied.</p> <p>There is significant emphasis across the Bank to ensure compliance with applicable laws and regulations.</p> <p>There is a separate Compliance Department which reports directly to the IRMC of the Board. There is a bottom-up procedure in place to provide 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.</p> <p>In order to monitor compliance, the Compliance Department carries out compliance testing, reviews the Bank's products and the accuracy of regulatory returns, based on the annual program approved by the IRMC to determine the Banks' compliance with laws and regulations and ethical standards.</p> <p>The Compliance Officer submits a status report to the IRMC, setting out the laws and regulations complied and any breaches that have occurred at the end of each quarter. This report is shared with the Board.</p> |
| <ul style="list-style-type: none"> All stakeholder interests are considered in corporate decisions | <p>Complied.</p> <p>The Board of Directors considers 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. Please refer to the Bank's Corporate Responsibility Report on pages 96 to 101 for more details.</p> |
| <ul style="list-style-type: none"> Board approved accounting and compliance with financial regulations; | <p>Complied.</p> <p>The BAC and the Board review accounting policies annually to ensure that the financial reporting model of the Bank is in-line with such policies, financial regulations, evolving international and local accounting standards and industry best practices. The Board ensures that the Financial Statements of the Bank are prepared in accordance with the approved accounting policies.</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 makes every endeavour to fulfil its stewardship obligations on behalf of all stakeholders. The Board is committed to fulfilling their functions in line with laws, regulations and good governance practices adopted by the Bank.</p> |
| <p>A.1.3 The Board collectively and the Directors individually need to act in accordance with laws of the country relevant to the Bank. A procedure for Directors to obtain independent professional advice where necessary, at the Bank's expense.</p> | <p>Complied.</p> <p>There is significant emphasis across the Bank to ensure compliance with applicable laws and regulations.</p> <p>In order to preserve the independence of the Board and to strengthen the decision-making, the Board seeks independent professional advice when deemed necessary. The Board approved Internal Code of Corporate Governance contains the procedure to be followed when a Director or the Board wishes to obtain independent professional advice on any matter.</p> |

| Corporate Governance Principles | Compliance Status |
|---|---|
| A.1.4 All Directors of the Board to have access to the advice and services of the Company Secretary | <p>Complied.</p> <p>The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed. All Directors have access to the Company Secretary and she possesses the required qualifications, as set out in the Companies Act and the Banking Act. For the year 2015, the Company Secretary has provided assistance to the Directors when requested.</p> |
| A.1.5 All Directors to bring independent judgement to matters submitted to the Board for its decision. | <p>Complied.</p> <p>All Directors bring their independent judgement to matters discussed at Board meetings. Details of Directors deliberation are contained in the minutes maintained by the Company Secretary.</p> |
| A.1.6 Every Director to dedicate adequate time and effort to matters of the Board | <p>Complied.</p> <p>Every member of the Board has dedicated adequate time and effort for the affairs of the Bank by attending Board meetings, Board Committee meetings and by making decisions via circular resolutions. In addition, the Board members have meetings and discussions with management when required.</p> <p>Board Papers are circulated to the Board at least seven days prior to each Board meeting. Any request for additional information is made to the Company Secretary. The relevant member of staff is informed by the Company Secretary and the requisite information is forwarded. All matters that require follow up are discussed at the immediately succeeding Board meeting under 'Matters Arising'. Business Heads regularly update the Board on the status & development in their respective fields.</p> <p>The CEO on a regular basis, updates the Board on business changes, operational risks and controls relevant to the Bank.</p> |
| A.1.7 Training for New and Existing Directors | <p>Complied.</p> <p>The Board policy on Directors' training is to provide adequate opportunities for continuous development, subject to requirement and relevance for each Director.</p> <p>There were several knowledge sharing initiatives to inform the Board on the latest trends and issues facing the Bank, the industry and the economy in general.</p> <p>The Chairman is responsible for ensuring that the Directors continually update their skills, knowledge and awareness of the Bank's policies and procedures as required to fulfill their roles both on the Board and on Committees appointed by the Board.</p> <p>The Bank provides the necessary resources for training of Directors.</p> <p>New Directors are provided with a comprehensive induction pack on appointment to the Board.</p> |
| Principle A .2 Chairman and CEO – There is a clear division of responsibilities between the Chairman and the CEO thereby ensuring a balance of power and authority, such that no one individual has unfettered powers of decision. | |
| A.2.1 Division of Responsibilities between the Chairman and CEO | <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> |

Corporate Governance Principles

Compliance Status

Principle A.3 Chairman – The Chairman is responsible for leading the Board and for its effectiveness. In practice, this means taking responsibility for the Board's composition, appraisal and development, ensuring that the Board focuses on its key tasks and supporting the Chief Executive Officer in managing the day to day running of the Bank. The Chairman is also the ultimate point of contact for shareholders, particularly on corporate governance issues.

A. 3.1 Preserving order and facilitating the effective discharge of Board functions and Conducting Board proceedings in a proper manner

Complied.

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 and ensures the participation of both Executive and Non-Executive Directors and maintains a balance of power between Executive and Non-Executive Directors. The Chairman ensured that all Board proceedings were conducted in a proper manner and approved the agenda for each meeting in consultation with the CEO and the Board Secretary.

Principle A.4 Financial Acumen – 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.

5 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 Board Balance – It is preferable for the Board to have a balance of Executive and Non-Executive Directors so that no individual or small group of individuals can dominate the Board's decision-making.

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 the total number of Directors, whichever is higher.

Complied.

9 of the 10 Directors on the Board are Non-Executive Directors. The CEO is the only Executive Director.

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'. Criteria for Independence is as defined in the Code.

Complied.

Annual declarations of Independence or Non-Independence have been obtained from the Directors for 2015.

Based on the annual declarations, there are 9 Non-Executive Directors on the Board as at 31st December 2015. Of them, 7 are Independent Non-Executive Directors in terms of the criteria set out in this Code.

The details of Non-Executive Directors are detailed on page 134 of this Report. Accordingly, the number of Independent Non-Executive Directors exceeds one-third of the total number of Directors on the Board.

A.5.6 Alternate Directors – Executives of the Bank shall not be appointed as Alternate Directors of Non-Executive Directors of the Bank.

Any alternate of an independent Director should also meet the criteria of independence.

The minimum number of independent Directors should be complied with

Complied.

No formal Alternate Directors have been appointed. Directors appoint Alternate Directors within the Rules and Articles of the Bank and the Banking Act, as and when required for a particular meeting. An Alternate Director of an Independent Director is also Independent.

A.5.7 - A.5.8 The Appointment of a Senior Independent Director (SID) –

A SID is required to be appointed where CEO and Chairman are one and the same person.

Such a SID should make himself available for discussions with other Directors.

The CEO and Chairman are not one and the same person. As such there is no requirement to appoint a Senior Independent Director.

| Corporate Governance Principles | Compliance Status |
|---|--|
| A.5.9 Chairman to meet only with Non-Executive Directors as necessary and at least once each year. | Complied. The Chairman discusses matters relevant to the Board with only Non-Executive Directors as and when the need arises. |
| A.5.10 Recording of a dissenting view – Any dissenting view to be minuted where a matter is not resolved unanimously. | Complied. Dissenting views are recorded in the Board minutes in detail. |
| Principle A.6 Supply of Information – The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties. | |
| A.6.1 - A.6.2 The Board to be provided appropriate and timely information by management. Agenda, Board Papers and Minutes of previous meetings to be circulated 7 days in advance of a meeting. | Complied. The management provides comprehensive information including both quantitative and qualitative information for the monthly Board meetings, at least 7 days prior to Board meetings. Members of The Leadership Team make presentations to Directors on important issues relating to financial performance, strategy, risk management, investment proposals, systems and procedures, where necessary. 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. |
| 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 Nominations Committee to be established to make recommendations on new appointments. | Complied. The Board has established a Nominations 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 179 to 180 for the Report of the Nominations Committee. |
| A.7.3 Disclosure to shareholders on new appointments to the Board. | Complied. Disclosures are made to shareholders in terms of the Listing Rules issued by the Colombo Stock Exchange (CSE) . |
| Principle A.8 Re-election – All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years. | |
| A.8.1 and A.8.2. Non-Executive Directors should be appointed for specified terms and re-election should not be automatic. | Complied. Directors to retire at the Annual General Meeting (AGM): As per the Articles of the Bank, 1/3rd of the Directors (excepting the CEO, any Director appointed to fill a casual vacancy and any Nominee Director of the Ministry of Finance) should retire at each AGM and be subject to re-election. Such Directors who retire are those who held office for the longest time period since the election/ re-appointment. In accordance with this provision D S P Wikramanayake retires and has offered himself for re-election by the shareholders at the AGM. Re-appointment of Directors appointed to fill casual vacancies during the year under review: The following Directors who were appointed to fill casual vacancies in the Board during the financial year 2015, shall retire and offer themselves for re-appointment at the AGM. i. N G Wickremeratne ii. K D W Ratnayaka iii. D M R Phillips Prior to recommending the above re-election/re-appointment of Directors, the Nominations Committee considered the fitness and propriety of each Director and made recommendations for re-election/re-appointment. |

Corporate Governance Principles

Compliance Status

Principle A.9 Appraisal of Board Performance - The Board should periodically appraise their own performance, in order to ensure that Board responsibilities are satisfactorily discharged.

A.9 The Board should annually appraise itself on its performance and that of its Committees

Complied.

The Board carried out its self evaluation process in respect of the year 2015. The process is led by the Chairman. All Directors are required to complete a detailed questionnaire. The broad areas covered and the processes adopted are detailed on page 137 of this Report.

All Committees too carried out a self-evaluation process in 2016 to determine the effectiveness of their performance in 2015 and to identify areas for improvement.

Principle A.10 Disclosure of Information in respect of Directors - Shareholders should be kept advised of relevant details in respect of Directors.

A.10.1 Shareholders to be advised of relevant details in respect of Directors

Complied.

Please refer pages 108 -115 for Directors Profiles.

Details of Directorship held by each Director are detailed with the Director's Profiles.

Attendance of Directors at Board Meetings is given on page 134 of this report.

Attendance of Directors at Committee meetings are detailed on pages 135 of this report.

Principle A.11 Appraisal of Chief Executive Officer (CEO) - The Board should be required, at least annually, to assess the performance of the CEO.

A.11.1 - A.11.2 Setting annual targets and the appraisal of performance of the CEO

Complied.

At the beginning of 2015, the Board discussed and set short, medium and long-term financial and non-financial targets to be achieved during the year by the CEO. The entire Board evaluated the performance of the CEO against the goals and targets set for 2014 and, as is the practice, the evaluation of the CEO's performance for 2015 will take place at the Board meeting to be held in March 2016.

B. Directors' Remuneration –

B.1 Remuneration Procedure – The Code requires that the Bank establish a formal and transparent procedure for developing policy on both Executive and Non-Executive Directors remuneration

B1.1 Establishment of a Remuneration Committee

Complied.

The Board has established a Human Resources and Remuneration Committee (HRRC) to develop policy and determine remuneration for Directors and Senior Management. No Director is involved in deciding his/her own remuneration.

| Corporate Governance Principles | Compliance Status |
|---|---|
| B1.2 - B1.3 Composition of the Committee | <p>Complied.</p> <p>The HRRC consists exclusively of Non-Executive Directors. The Chairperson of the HRRC is Ms. W A I Sugathadasa an Independent Non-Executive Director. Please refer page 175 for the report of the HRRC for more details on the activities carried out by the HRRC for the year 2015.</p> |
| B1.4 Determination of remuneration for Non-Executive Directors | <p>Complied.</p> <p>There is in place a Board approved Remuneration Policy for Directors' and Senior Management. Non-Executive Directors are remunerated in-line with market practices and approvals obtained from the shareholders at the AGM.</p> |
| B1.5 Ability to consult the Chairman and/or CEO and to seek professional advice by the Committee | <p>Complied.</p> <p>The HRRC has access to professional advice from within and external consultants. During the year, the HRRC reviewed the information provided by the Bank's Human Resources Department to determine market and industry trends with regard to remuneration and perquisites for its Senior Management Team.</p> |
| B.2 Level and Make-Up of Remuneration – The Bank ensures that the remuneration of Executive and Non-Executive Directors is at a satisfactory level to attract and retain the services of Directors | |
| B.2.1 Remuneration for Executive Directors | <p>Complied.</p> <p>The only Executive Director on the Board is the CEO (who is an ex-officio Director on account of being the CEO of the Bank). As such, the CEO is not paid any additional remuneration or benefits by virtue of his being an Executive Director. The CEO's remuneration is linked to the Bank's performance as well as his individual performance. The CEO does not participate in the HRRC when matters pertaining to his remuneration are discussed.</p> |
| B.2.2 Positioning the Bank's remuneration levels relative to other companies in the industry | <p>Complied.</p> <p>The HRRC reviews information relating to remuneration and perquisites of CEO and Senior Management of the Bank and due care is taken to ensure that remuneration is commensurate with industry standards and both the Bank's and individual performance. Regular salary surveys are carried out and the HRRC is informed of the results of the survey. The last salary survey was carried out in 2015.</p> |
| B.2.3 Comparison of Remuneration levels with other Companies in the Group | <p>Not Applicable.</p> <p>Size and scale of the Bank is not comparable with Group Companies</p> |
| B.2.4 Performance related elements of remuneration for Executive Directors | <p>Complied.</p> <p>The goals and targets of the CEO are set at the beginning of the year and cascaded to the rest of the Bank. The CEO's remuneration and performance bonus is decided, based on achievement of the goals and targets agreed upon.</p> |
| B.2.5 Employee Share Options | <p>Complied</p> <p>No employee share schemes were determined in 2015. However, share options of schemes already approved were exercised by eligible employees at the Exercise Price determined in terms of such approved schemes and inline with the Listing Rules of the CSE. Details are given in the Annual Report of the Board of Directors on the Affairs of the Company on page 200 and notes to the Financial Statements on page 319.</p> |
| B.2.6 Designing schemes of performance related remuneration | <p>Complied.</p> <p>The HRRC takes into consideration, the provisions detailed in Schedule E, when determining the remuneration of the CEO and Senior Management of the Bank. Please refer page 175 for the report of the HRRC for more details.</p> |

| Corporate Governance Principles | Compliance Status |
|--|--|
| B.2.7 - B.2.8 Early termination of Executive Director | Not Applicable for 2015. Termination of service of the Executive Director will be in accordance with his contract of service. |
| B.2.9 Levels of Remuneration of Non-Executive Directors | Complied Non-Executive Directors are remunerated in-line with market practices. They are not entitled to receive shares under the existing Share Option Scheme of the Bank. |
| B.3 Disclosure of Remuneration – The code requires that the Bank's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole. | |
| B.3.1 Disclosure of Remuneration | Complied. Please refer page 193 of the Annual Report for Directors' Remuneration. Also refer Note No. 11 and 12 of the Financial Statements for aggregate remuneration paid to Executive and Non-Executive Directors. |
| C. Relations with Shareholders – | |
| C.1 Constructive use of Shareholder Meetings - The Code requires constructive use of the Annual General Meeting (AGM) and conduct of general meetings to communicate with shareholders. | |
| C.1.1 Use of Proxy Votes | Complied. The Bank has in place, an effective mechanism to record all proxy votes to indicate to the Chairman, the level of proxies lodged on each resolution and the number of votes for and against each resolution. As a matter of practice, proxy votes 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 issue to provide shareholders with an opportunity to deal with each significant matter separately. The Annual Report of the Board of Directors and Accounts is laid before the shareholders of the Bank for their consideration as a separate item on the Agenda at the AGM. |
| C.1.3 Chairpersons of all Board Committees to be available to respond to questions of any shareholder at AGM. | The Chairman of the Board functions as the Chairman of the Nominations Committee, Strategic Issues Committee and the Related Party Transactions Review Committee. He ensures that the Chairpersons of the other Board Committees are present at the AGM to answer all queries that may be raised. The Chairpersons of all Board Committees were present at the AGM held on 30 March 2015. No queries were raised by shareholders to the Chairpersons of the Committees. |
| 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. The notice of meeting and related documents are circulated to the shareholders 15 working days prior to the AGM. Summary of the procedures governing voting at the AGM is provided in the proxy form, which is circulated to shareholders together with the notice of meeting 15 working days prior to the AGM. The Board encourages all shareholders to attend and actively participate in the AGM. The shareholders may raise any queries they have with the Directors. |
| Principle C.2 Communication with Shareholders - The Code requires that Board should implement effective communication with shareholders. | |
| C.2.1 Communication channel to reach shareholders | The Bank has many channels to reach all shareholders of the Bank in order to disseminate timely information. Please refer pages 267 to 293 on 'Investor Relations' for more details on communication with our Shareholders. |

| Corporate Governance Principles | Compliance Status |
|--|--|
| C.2.2 - C.2.3 Disclosure on communication channel to reach shareholders and communication policy and methodology | Complied. There is in place a Board approved Disclosure Policy and Communications Policy that deals with communications with shareholders. Please refer 'Investor Relations Report' provided on pages 268 and 269 for details of the policy and methodology adopted for communication. |
| C.2.4 - C.2.7 The Bank to disclose to shareholders' the contact person for communication with shareholders. | Complied. Shareholder correspondence on major issues are handled by the Chairman who will communicate to the Board of Directors as an when necessary. Details of the contact personnel are provided in the 'Investor Relations' section on page 293 of this Report. In addition, shareholders are encouraged to provide their feedback to the Chairman and/or the Board Secretary. The Bank website's Investor Relations page also carries contact details of the Board Secretary and a dedicated e-mail for investor relations. |

Principle C.3 Major and Material Transactions – The Code, requires the Directors to disclose to shareholders' all proposed material transactions which would materially alter the net asset position of the Bank and Group (if entered into).

| | |
|--|---|
| C.3. 1 Disclosure of Major and Material Transactions | Not Applicable. During 2015, there were no major transactions as defined by Section 185 of the Companies Act No. 07 of 2007, which materially affected the Bank's net asset base. Further all material transactions will be disclosed in the quarterly/annual Financial Statements as well as the disclosure made to the CSE. |
|--|---|

D. Accountability and Audit

D.1 Financial Reporting - The Board is required to present a balanced and understandable assessment of the Bank'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. The Board is aware of its responsibility to present regulatory and statutory reports in a balanced and understandable manner. A statement to this effect is provided on 204 of this Report. The Interim Accounts and Annual Financial Statements were published on a timely basis in 2015. Regulatory reports were filed by the Bank on or before the due dates in 2015. Price sensitive information is disclosed to the Colombo Stock Exchange on a timely basis in accordance with the Board approved Disclosure Policy. The Bank makes every effort to provide a detailed and transparent analysis of strategies, performance and future strategies to support investors in making an informed decision. In addition to the information provided in the reports mentioned above, a summary of the Financials is provided in the Annual Report under Profitable Growth on pages 42 to 63 of this Report |
| D.1.2. Declarations by the Directors' in the Directors' Report. | Complied. Declarations by the Directors as required by the Code of Best Practice on Corporate Governance are provided on Pages 128 and 197 of this Report. |
| D.1.3. Responsibilities of the Board for preparation of Financial Statements and reporting responsibilities of Auditors. | Complied. The Statement of Directors' Responsibility, Statement on Internal Controls and Report of the Auditors are provided on pages 206 to 207 and 208 respectively in the Annual Report. |

| Corporate Governance Principles | Compliance Status | | | | | | | | | | | | | | | | |
|---|---|----------------------|-------|-------------------------------------|-------|---|-------|---|-----|--|--------|-----------------------|-------|---|-------|--------------------------|-------|
| D. 1.4. Inclusion of a 'Management Discussion and Analysis' report in the Annual Report. | <p>Complied.</p> <p>The Annual Report contains a 'Management Discussion and Analysis' report</p> <p>The required information in the Management Discussion and Analysis is provided in this Annual Report as follows:</p> <table border="1"> <thead> <tr> <th>Information Required</th> <th>Pages</th> </tr> </thead> <tbody> <tr> <td>Industry structure and developments</td> <td>22-26</td> </tr> <tr> <td>Opportunities and threats, risks and concerns</td> <td>22-26</td> </tr> <tr> <td>Internal control systems and their adequacy</td> <td>201</td> </tr> <tr> <td>Social and environmental protection activities carried out by the Bank</td> <td>96-101</td> </tr> <tr> <td>Financial performance</td> <td>42-63</td> </tr> <tr> <td>Material developments in human resources/industrial relations</td> <td>66-71</td> </tr> <tr> <td>Prospects for the future</td> <td>39-65</td> </tr> </tbody> </table> | Information Required | Pages | Industry structure and developments | 22-26 | Opportunities and threats, risks and concerns | 22-26 | Internal control systems and their adequacy | 201 | Social and environmental protection activities carried out by the Bank | 96-101 | Financial performance | 42-63 | Material developments in human resources/industrial relations | 66-71 | Prospects for the future | 39-65 |
| Information Required | Pages | | | | | | | | | | | | | | | | |
| Industry structure and developments | 22-26 | | | | | | | | | | | | | | | | |
| Opportunities and threats, risks and concerns | 22-26 | | | | | | | | | | | | | | | | |
| Internal control systems and their adequacy | 201 | | | | | | | | | | | | | | | | |
| Social and environmental protection activities carried out by the Bank | 96-101 | | | | | | | | | | | | | | | | |
| Financial performance | 42-63 | | | | | | | | | | | | | | | | |
| Material developments in human resources/industrial relations | 66-71 | | | | | | | | | | | | | | | | |
| Prospects for the future | 39-65 | | | | | | | | | | | | | | | | |
| D.1.5. The Directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary. | <p>Complied.</p> <p>This information is provided in the 'Annual report of the Board of Directors on the affairs of the Bank on page 200.</p> | | | | | | | | | | | | | | | | |
| D.1.6 Requirement to summon an Extraordinary General Meeting (EGM) to notify serious loss in Net Assets. | <p>This situation has not arisen.</p> | | | | | | | | | | | | | | | | |
| D.1.7. Disclosure of Related Party Transactions. | <p>Complied.</p> <p>A detailed Board approved documented process is available and has been circulated to all Employees through the NDB Cloud for compliance.</p> <p>Accordingly,</p> <ul style="list-style-type: none"> - Each related party has submitted signed and dated quarterly declarations in 2015, mentioning whether they have related party transactions with the Bank as required under regulations applicable to the Bank to comply with the disclosure requirements; - The Company Secretary keeps a record of related party transactions and makes necessary disclosures accordingly; - A record on related party and related party transactions is maintained by the Bank to capture information to comply with the respective related party disclosure requirements imposed by SEC/Accounting Standards/Auditing Standards and similar regulations. Please refer pages 158 to 160 of the CBSL table for more information. | | | | | | | | | | | | | | | | |
| <p>Principle D.2 – Internal Control - The Code required the Bank to have a process of risk management and a sound system of internal control to safeguard shareholders' investments and the Bank's assets.</p> | | | | | | | | | | | | | | | | | |
| D2.1 Directors to conduct an annual review of Internal Controls through the Board Audit Committee (BAC). | <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 206 to 207.</p> <p>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, which is detailed on page 208 of this Annual Report.</p> | | | | | | | | | | | | | | | | |
| D2.2 The Bank should have an internal audit function | <p>Complied.</p> <p>The Bank has a fully-fledged Internal Audit Department, which reports to the Board Audit Committee (BAC).</p> | | | | | | | | | | | | | | | | |

| Corporate Governance Principles | Compliance Status |
|---|---|
| D2.3 The Board should require the Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls. | <p>Complied.</p> <p>The BAC reviewed the internal controls and procedures at 9 meetings held during 2015. The Minutes of BAC meetings are tabled at the meetings of the Board.</p> <p>The Internal Audit Department carries out regular reviews on the internal control system including internal control over financial reporting. The BAC reviews and evaluates the effectiveness of the internal control system, including the internal controls over financial reporting. The IRMC reviews processes relating to the risk management framework of the Bank. The BAC Report and the Integrated Risk Management Committee (IRMC) Report found on pages 186 and 188 and 183 to 188 of this Annual Report further details the processes carried out in relation to reviewing the effectiveness of Risk Management and Internal Control in the Bank.</p> |
| D2.4 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>Complied.</p> <p>Please refer pages 186 to 188 for the BAC Report and refer pages 206 to 207 for Directors Statement of Compliance on Internal Controls in relation to compliance with this requirement.</p> |
| Principle D.3 Audit Committee - Board to establish formal and transparent arrangements for selecting and applying accounting policies, financial reporting and internal control principles | |
| D3.1 Composition of Audit Committee | <p>Complied.</p> <p>All members of the BAC, including the Chairman are Non-Executive Directors.</p> <p>Please refer page 186 for the BAC Report which details the composition.</p> |
| D3.2 The duties of the Audit Committee | <p>Complied.</p> <p>As stated in the Report of the BAC on pages 186 to 188 of the Annual Report, the BAC 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> |
| D3.3 Terms of Reference of the Audit Committee | <p>Complied.</p> <p>Terms of Reference of the BAC is clearly defined in the Charter of the Audit Committee approved by the Board of Directors, which was last revised and updated in June 2015. This clearly explains the purpose of the Committee, its duties and responsibilities together with the scope and functions of the committee. The committee mainly deals with matters pertaining to statutory and regulatory compliance in financial reporting and matters with regard to the External Auditors and Internal Audit.</p> |
| D3.4 Disclosures regarding Audit Committee | <p>Complied.</p> <p>Please refer pages 186 to 188 for the Board Audit Committee Report.</p> |
| Principle D4 Code of Business Conduct and Ethics - The Code requires the Bank to adopt a Code of Business Conduct and Ethics for Directors and KMP and to promptly disclose any waivers of the Code for Directors or others. | |
| D4.1 Code of Conduct to be developed for Directors and Senior Management | <p>Complied.</p> <p>The Bank has in place a Board approved Internal Code of Corporate Governance applicable to the Board and Key Management Personnel, setting out best practices relating to their business conduct and ethics. In addition the Board approved Compliance Policy and Code of Conduct applicable to all employees of the Bank ensures that the Bank stays ahead of the best practices related to business conduct and ethics.</p> <p>Please refer page 138 of the Corporate Governance Report for more on this aspect.</p> |
| D4.2 Affirmative declaration by Chairman of compliance with Code of Business Conduct & Ethics | <p>There have been no violations of the Internal Code of Corporate Governance during 2015 by any of the Directors or any member of the Leadership Team .</p> |

Corporate Governance Principles

Compliance Status

Principle D5 Corporate Governance Disclosures -

D.5.1. Disclosure of Corporate Governance

Complied.

The Bank's Corporate Governance practices are in accordance with the Banking Act Direction No. 11 of 2007 (as amended) issued by CBSL, the Code of Best Practice on Corporate Governance jointly issued by the ICASL and SEC as well as the Corporate Governance Rules for Listed Companies issued by the CSE. The requirement is met with the presentation of this Corporate Governance Report from pages 128 to 174 of the Annual Report.

Section 2: Shareholders

E. Institutional Investors

Principle E.1 Shareholder Voting - Institutional shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated into practice.

E. 1.1 Regular and structured dialogue with shareholders

Complied.

All shareholders are encouraged to participate at General Meetings and cast their votes. The AGM 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.

Principle E.2 Evaluating of the Governance Disclosure - When evaluating the Bank's governance arrangements, particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention.

E.2 Evaluating Corporate Governance Initiatives of the Bank

Complied.

Institutional investors are encouraged to give due weight to all relevant factors in Board structure and composition.

F. Other Investors

Principle F.1 Investing/Divesting Decisions

F.1.1 - Individual shareholders, investing directly in shares of the Bank should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.

Complied.

The Annual Report contains sufficient information for a potential investor to carry out his/her own analysis. The following reports aim to provide a balanced overall assessment of the Bank's activities, performance and prospects.

- Chairman's Message on pages 10 to 13
- CEO's Review on pages 14 to 18
- Management Discussion and Analysis on pages 39 to 101
- Annual Financial Statements on pages 297 to 411

Further, Interim Financial Statements provided each quarter, provide sufficient information to enable the Retail Investors to make informed judgements regarding the performance of the Bank.

Additionally, there is a separate part of the Bank's website dedicated to Investor Relations which provides this information online to all Investors/Shareholders.

Principle F. 2 Shareholder Voting

F.2 Encourage Voting by Individual Shareholders

Complied.

Individual shareholders are encouraged to participate at the General Meetings of the Bank and exercise their voting rights.

Corporate Governance Principles

Compliance Status

G. Sustainability Reporting

Principle G.1 Principles of Sustainability Reporting - 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 Reporting of Economic sustainability | Complied. Please refer pages 96 to 101 for details |
| G.1.2 Reporting on the Environment | Complied. Please refer page 97 for details |
| G.1.3 Reporting on the Labour Practice | Complied. Please refer page 93 for details |
| G.1.4 Reporting on society | Complied. Please refer pages 99 to 101 for details |
| G.1.5 Reporting on product responsibility | Complied. Please refer page 85 for details |
| G.1.6 Reporting on stakeholder identification, engagement and effective communication | Complied. Please refer pages 27 to 33 for details |
| G.7 Sustainable reporting and disclosure reporting to be formalised as part of the Bank's reporting processes and to take place on a regular basis | Complied. Please refer page 5 and pages 422 to 425 for details |

BOARD COMMITTEE REPORTS

Board Human Resources and Remuneration Committee Report

Composition of the Human Resources and Remuneration Committee

The Board appointed Human Resources and Remuneration Committee comprised of four (4) Non-Executive Directors as members and the Chairperson of the Committee is an Independent Director as set out below. The Chief Executive Officer (CEO) has been present at meetings subsequent to being invited by the Committee, other than in instances where matters relating to the CEO have been discussed.

As at 31 December 2015, the Committee comprised of the following:

| Name of the Board Sub Committee Member | Directorship Status | Membership Status |
|--|---------------------|-------------------|
| Mrs. W A I Sugathadasa | Independent | C |
| A K Pathirage | Non-Independent | M |
| T L F Jayasekera | Independent | M |
| Mrs. K Fernando | Independent | M |
| R Theagarajah | Non-Independent | I |

C – Chairman, M – Member, I – by invitation

Charter of the Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee was formed in compliance with 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 Human Resources & Remuneration Committee was approved by the Board of Directors and

is reviewed annually. As part of the annual review process, the Committee reviewed the charter in March 2015 and there were no material changes made.

As per the Charter, the scope of work includes the following:

- Determining and periodically reviewing the Remuneration Policy (salaries, allowances and other financial payments and perquisites) and remuneration payable relating to executive and/or Non-Executive Directors, the CEO and Key Management Personnel (KMP/s) of the Bank in terms of the Remuneration Policy/ Bank's Articles etc.
- Recommending to the Board the apportionment of the remuneration perquisites and benefits of the Non-Executive Directors, including the Chairman out of the total sum determined for the purpose by the shareholders in terms of the Bank's Articles.
- Reviewing and recommending to the Board in consultation with the Nominations Committee, personnel considered fit and proper for appointment to KMP positions of the Bank.
- Responsibility of setting and reviewing goals and targets for Directors, CEO and KMPs and determining their periodic revision.
- Evaluating the performance of the CEO and KMPs against the set goals and targets periodically and determining the basis for revising remuneration, benefits and other payments of performance based incentives.
- Considering the succession plans and proposals recommended by the Senior Management of the Bank for all existing KMP positions of the Bank and making necessary recommendations for the approval of the Board.
- Discussing and assessing with the Management, the overall remuneration expenditure on all staff and their distribution among different categories and obtaining information on the remuneration and benefits paid/given to consultants engaged by the Bank.
- Receiving information on the role and activities of the Human Resources Department and making recommendations for the strengthening of the role of the said department if necessary.
- Reviewing 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.
- Reviewing and recommending to the Board, any termination payments that are proposed to be paid to Directors, the CEO and/or KMPs in the event the same are deemed necessary and ensuring that such payments are in terms of the remuneration policy of the Bank and are approved in accordance with applicable statutes, rules and regulations.

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.

Committee Meetings

The Committee held four (4) meetings during the year under review. The attendance of committee members at meetings is stated in the table on page 135. The quorum for a meeting is three (3) members.

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

Methodology used by the Committee

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

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

The Committee, has as a practice ensured that the Bank 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 will be focused going forward with fresh talent which complements the Senior Management Team being brought from the external market. 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:

- i. Comprehensively reviewed the performance of the KMPs of the Bank for the year 2014, against the set goals and targets and recommended to the Board of Directors of the Bank the increments, bonuses and promotions for the staff members including the KMPs in 2015.
- ii. Reviewed and recommended the restructuring of the designations of the employees of the Bank.
- iii. Critically reviewed the Organization Chart of the Bank and identified gaps and improvements.
- iv. Recommended remuneration and other benefits for newly appointed KMPs in 2015.
- v. Reviewed contractual details and terms of KMPs of the Bank.
- vi. Reviewed the benefits available to the staff and recommended changes.
- vii. Recommended the purchase of a new Human Resources Information System.
- viii. Revised the Charter of the Committee.
- ix. Recommended a revision of the pension payments.

Appreciation

The Committee wishes to convey its sincere gratitude to former Chairman S G Wijesinha and former members S Rajapakse and H A Siriwardena for their valuable contribution to the Committee over the years.



Mrs. W A I Sugathadasa
Chairperson

Human Resources and
Remuneration Committee

12 February 2016
Colombo

Board Corporate Governance and Legal Affairs Committee Report

The Board appointed Corporate Governance and Legal Affairs Committee (Committee) comprised of three (3) Non-Executive Directors and one (1) Executive Director. The Chairman of the Committee is an Independent Director.

As at 31 December 2015, the Committee Comprised of the Following:

| Name of the Board Sub Committee Member | Directorship Status | Membership Status |
|--|---------------------|-------------------|
| Mrs. K Fernando | Independent | C |
| Mrs. W A I Sugathadasa | Independent | M |
| D M R Phillips, PC | Independent | M |
| R Theagarajah | Non-Independent | M |

C – Chairman, M – Member

Charter of the Corporate Governance and Legal Affairs Committee

The Board of Directors has adopted the Charter for the 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 (CGLA) Committee which was formed in the year 2007 is mandated with the task of assisting the Board of Directors of the National Development Bank PLC (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 Guiding Principles

The principal purposes of the Committee are to assist the Board in defining the governance role, improving Board processes and ensuring effective governance in the Bank and the Group.

Committee Meetings

The Committee held two meetings, during the year under review and the attendance of committee members at meetings is stated in the table on page 135 of the Annual Report. A majority of the members of the Committee shall constitute a quorum sufficient for the taking of any action by the Committee.

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

Methodology Used by the Committee

The Committee may meet on a regularly scheduled basis preferably twice a year, or more frequently as circumstances dictate in order to ensure effective governance.

Summary of Activities

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 Related Party Policy of NDB Capital Holdings Ltd. 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 also reviewed and necessary amendments were suggested to the Board.

Appreciation

The Committee wishes to convey its sincere gratitude to former members S G Wijesinha, Ms. G D C Ekanayake and A Siriwardena for their valuable contribution to the Committee over the years.



Mrs. K Fernando
Chairperson

Corporate Governance and
Legal Affairs Committee

12 February 2016
Colombo

Board Nominations Committee Report

Composition of the Nominations Committee

The Board appointed Nominations Committee comprised of four (4) 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. As at 31 December 2015 the Committee comprised of the following:

| Name of the Board Sub Committee Member | Directorship Status | Membership Status |
|--|---------------------|-------------------|
| N G Wickremeratne | Independent | C |
| A K Pathirage | Non-Independent | M |
| T L F Jayasekera | Independent | M |
| Mrs. K Fernando | Independent | M |
| R Theagarajah | Non-Independent | I |

C – Chairman, M – Member, I – by invitation

Charter of the Nominations Committee

The Nominations Committee was formed in compliance with Section 3 (6) of Direction No. 11 of 2007, '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 Nominations Committee was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee reviewed the Charter in December 2015 and there were no material changes made.

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. Sets the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment to select/appoint fit and proper persons as the Nominee Directors to the Boards of the Bank's Group companies.
6. Considers and recommends from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and KMPs.

Committee Guiding Principles

The Committee is entrusted with identifying individuals that may become members of the Boards of National Development Bank PLC and its Group companies.

The process of identifying appropriate individuals is carried out by the Committee by assessing the experience, skills, expertise and competencies of the individuals being considered to be so nominated through the Board approved procedure for selection and appointment of Directors. Such procedure envisages the Board carrying out an assessment of the identified candidates against the needs of the Board/s, and the relevant regulatory requirements and applicable statutes so as to determine the fit and proper nature of the Directors to be so appointed, if and when a vacancy exists and at such times the Committee considers appropriate.

Committee Meetings

The Committee met six (6) times during the year under review, and the attendance of Committee members at meetings is stated in the table on page 135 of the Annual Report. The quorum for a meeting is three (3) members.

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 assess the suitability of individuals for appointments as Directors and KMPs 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 reviewed the skills, expertise and experience of four new Directors and

recommended the said appointments to the Board of Directors of NDB.

Additionally 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 having reviewed the fitness and propriety of the Directors.

The appointment of three Key Management Personnel (KMPs) to the Bank was reviewed and recommended by the Committee to fill identified vacancies and gaps in the management/organisation structure. The Committee further reviewed extensions of service of KMPs and job descriptions and selection criteria for KMPs in 2015. The Committee also considered the fitness and propriety of continuing KMPs and reviewed and recommended the interim succession plan of the Bank.

The Committee further reviewed the appointments of five (5) Directors to subsidiaries of NDB and recommended the extension of service of a KMP/ Director of a subsidiary of the Bank.

Appreciation

The Committee wishes to convey its sincere gratitude to former Chairman S G Wijesinha and former members S Rajapakse and H A Siriwardena for their valuable contribution to the Committee over the years.



N G Wickremeratne
Chairman

Nominations Committee

12 February 2016
Colombo

Board Strategic Issues Committee Report

Composition of the Strategic Issues Committee

The Board appointed Strategic Issues Committee comprised of five (5) Board members as set out below and the Chairman of the Committee is the Chairman of the Bank and is an Independent Director. Other Board Members and Management of the Bank may be present at the meetings by invitation. As at 31 December 2015 the Committee comprised of the following:

| Name of the Board Sub Committee Member | Directorship Status | Membership Status |
|--|---------------------|-------------------|
| N G Wickremeratne | Independent | C |
| A K Pathirage | Non-Independent | M |
| T L F Jayasekera | Independent | M |
| Mrs. K Fernando | Independent | M |
| D S P Wikramanayake | Non-Independent | M |
| R Theagarajah | Non-Independent | I |

C – Chairman, M – Member, I – by invitation

Charter of the Strategic Issues Committee

With the formation of the Strategic Issues Committee as a Board sub committee, its Charter has been approved by the Board of Directors and is reviewed annually. Accordingly, the Committee reviewed the charter in August 2015 and there were no material changes made.

The Committee 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.

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.

Committee Guiding Principles

The main objectives of the Committee could be identified as the examination and comprehensive 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 an observer of the development and implementation of Bank's business strategies and additionally assists the Board in maintaining a close nexus with the management in the strategic planning process which comprises of reviewing and assessing of the business strategy plans developed by the management and subsequently approved by the Board.

Committee Meetings

The Committee held two (2) meetings during the year under review.

The attendance of Committee members at meetings is stated in the table on page 135. The quorum for a meeting is four (4) members.

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 and at least twice during the year in order to, *inter alia*, deliberate in detail on matters of strategic importance to the Bank and the 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 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 meetings held during the year 2015 the Committee reviewed in detail the Strategic Plan 2014-2018 of the Bank, the Capital Plan 2015-2019 and several strategic initiatives for the year 2015/16 and recommended same to the Board of Directors of the Bank. The Committee/Board also reviews the implementation of the strategic initiatives arising out of the strategic plan every quarter so as to ensure full implementation, timely revision where needed and due focus of the management on the strategic plan of the Bank.

Appreciation

The Committee wishes to convey its sincere gratitude to former Chairman S G Wijesinha and former members S Rajapakse and H A Siriwardena for their valuable contribution to the Committee over the years.



N G Wickremeratne
Chairman

Strategic Issues Committee

12 February 2016
Colombo

Board Integrated Risk Management Committee Report

Composition of the Integrated Risk Management Committee

The Board appointed Integrated Risk Management Committee comprised of four (4) Non-Executive Directors, the Chief Executive Officer, Group CFO, Vice President - Group Risk Management, Vice President – Credit, Assistant Vice-President – Operational Risk and Senior Manager – Market Risk. Chairman of the Bank N G Wickremeratne attend meetings by invitation. As at year end Committee comprised of the following:

| Name of the Board Sub-Committee Member | Directorship Status | Membership Status |
|---|---------------------|-------------------|
| D S P Wikramanayake | Non-Independent | C |
| Mrs. D M A Harasgama (Appointed w.e.f. 22 April 2015) | Non-Independent | M |
| D M R Phillips, PC (Appointed w.e.f. 22 April 2015) | Independent | M |
| K D W Ratnayaka (Appointed w.e.f. 13 May 2015) | Independent | M |
| N G Wickremeratne (Appointed w.e.f. 15 April 2015) | Independent | I |
| R Theagarajah | Non-Independent | M |
| F Ozman (Group CFO) | Non-Directors | M |
| Mrs. N Rayen (Vice President – Group Risk Management) | Non-Directors | M |
| Mrs. S Gnanaprakasam (Vice-President – Credit) | Non-Directors | M |
| P Gamage (Assistant Vice-President – Operational Risk) | Non-Directors | M |
| Ms. C Chandrapala (Senior Manager – Market Risk) | Non-Directors | M |

C – Chairman, M – Member, I – by invitation

Charter of the Integrated Risk Management Committee

The Integrated Risk Management Committee was formed in June 2008, replacing the Risk and Credit Committee of the Board, in compliance with the Section 3 (6) of Direction No. 11 of 2007, on the subject 'Corporate Governance for Licensed Commercial Banks in Sri Lanka', 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, the Committee reviewed the Charter in May 2015 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 programme.

- 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.

Committee 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. Attendance of Committee Meetings is given on page 135. The proceedings of the Committee meeting have been reported to the Board of Directors.

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

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 and Group 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, Annual Review of Risk Management Policy on Bank's 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, NPL analysis based on business line, product category, sector wise
- Exposure to Stock Market Activities/ Margin Trading Exposure Reports
- Pawning Portfolio/Raththaran Ithurum
- Collections and Recoveries
- Movements in Commodity Prices
- Portfolio Value at Risk
- Country Risk Exposures
- Top Credit and Market Risks
- Reviewed work carried out by the Credit Committees, 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, Operational Risk Data Collection, Risk and Control Self-Assessment and Key Operational Risk Controls, Key Risk Indicators Methodology, Business Continuity Framework
- 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

- The adequacy of the Bank's Business Continuity and Disaster Recovery planning including the review of test results

- Reviewed work carried out by the Operational Risk Policy Committee by reviewing the decisions taken by the Committee
- Reviewed Business Continuity Plan (BCP)/Disaster Recovery (DR) Drill Report

Liquidity and Market Risk

- Reviewed and approved policies and operating guidelines related to Asset and Liability Management (ALM) Policy Manual and ALM Procedures Manual, Haircut Rules for Reverse Repo transactions, Advance to Deposit Ratio, Market Risk Management (MRM)/ALM Limit Excess and Approval Policy, Deposit Concentration Policy, Medium-Term Funding Policy, Foreign Exchange Risk Management Policy, Wholesale Borrowing Policy, Commitment Policy, Market Risk Management and Asset Liability Management Governance Structure, Guidelines and Procedures for the Treasury Front Office
- Reviewed and approved Terms of References of Investment Committee, Asset and Liability Management, Treasury Front Office, Market Risk Management Unit
- Reviewed information and monitored the effectiveness of the management of asset and liabilities, including local and foreign currency maturity mismatches, 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 assessed work carried out

Others

- The Committee reviews the Key Risk Indicators of the group companies on a monthly basis through the monthly KRI statements and quarterly Risk Assessment Report. Group companies covered are NDB Investment Bank, NDB Capital Holdings Ltd., NDB Wealth Management Ltd., NDB Securities (Pvt.) Ltd., and NDB Capital Bangladesh
- Review and approve Annual Review of Internal Capital Adequacy Assessment Process (ICAAP) Document for 2015
- 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
- Review and approve Integrated Risk Management Framework, Risk Model Validation Policy, Stress Testing Policy and Framework, Policy on Valuation of Immovable Property and Appointment of Valuers

Appreciation

The Committee wishes to convey its gratitude to former Chairman S G Wijesinha and Ms. G D C Ekanayake for their valuable contribution to the Committee over the years.



D S P Wikramanayake
Chairman
Integrated Risk Management Committee
12 February 2016
Colombo

Board Audit Committee Report

Composition of the Audit Committee

The Board appointed Audit Committee, comprised of six (6) Non-Executive Directors and is inline with the composition requirements specified in the Direction. The Chairman of the Audit Committee T L F Jayasekera, is an independent Non-Executive Director and a Fellow Member of The Institute of Chartered Accountants of Sri Lanka, in line with the direction. The other members of the Committee are also from a specialist financial background.

The following members serve/ served on the Audit Committee during the year:

| Name of the Board Sub Committee Member | Directorship Status | Membership Status |
|--|---------------------|-------------------|
| T L F Jayasekera | Independent | C |
| D S P Wikramanayake | Non-Independent | M |
| Mrs. K Fernando | Independent | M |
| Mrs. W A I Sugathadasa | Independent | M |
| Mrs. D M A Harasgama (Appointed w.e.f. 22 April 2015) | Non-Independent | M |
| K D W Ratnayaka (Appointed w.e.f. 13 May 2015) | Independent | M |
| S Rajapakse (Resigned w.e.f. 30 March 2015) | Non-Independent | M |
| Ms. G D C Ekanayake (Resigned w.e.f. 11 March 2015) | Non-Independent | M |

C – Chairman, M – Member

The profiles of the members are given on pages 108 to 115.

The Head of Group Audit functions as the Secretary of the Committee.

Charter of the Audit Committee

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 second quarter of 2015.

The Audit Committee is responsible to the Board of Directors and reports on its activities regularly. The functions of the Audit Committee are geared to assist the Board of Directors in its general oversight on financial reporting, internal controls and functions relating to internal and external audits.

The roles and functions of the Committee, are further regulated by 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.

Committee's Guiding Principles

The Committee functions are structured in accordance with the guidelines issued in Banking Act Direction, Code of Corporate Governance and the Code of Best practice on Corporate Governance.

Audit Committee Meetings

The Audit Committee met nine (9) times during the year. Attendance of the Committee members for each of these meetings is given on page 135. The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

The Chief Executive Officer, Group Chief Financial Officer, Head of Operations, Head of Group Audit normally attends meetings unless the BAC decides otherwise. On the invitation of the Committee, the Bank's External Auditors, Messrs.' Ernst & Young attended all meetings during the year. Other members of the Senior Management were invited to attend the meetings on a need basis. The Chairman of the Bank, being an optional invitee, attended five (5) 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.

Methodology used by the 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.
- Examine any matter relating to the financial and other connected affairs of the Bank.
- 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 liaise 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.

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.

The Committee is conscious of the need to keep its knowledge up to date and engages External Auditors from time to time to make presentations to the Committee members on relevant topics.

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 2015, 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 pages 206 and 207, 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 208 of the Annual Report.

Internal Audit

During the year, the Internal Audit Department revamped their audit methodology with Board approval to a top-down risk-based auditing approach enhancing the Risk-Based Auditing Process covering best practices. This helped to establish a complete Audit Universe that could be transparently reconciled with the financial records, which will be audited annually, at determined intensities based on the risk assessment covering the entire group. The Audit Committee also reviewed the independence, objectivity and performance of the internal audit function and the adequacy of its resources.

The Audit Committee reviewed the findings of the internal audits completed and their evaluation of the Bank's internal control systems. The Committee also reviewed updates on audit activities and the adequacy of coverage of the approved audit plan, the results of all audits including any unsatisfactory audits, the action plans given to address the issues and the implementation status.

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 mission, authority, responsibility, independence, reporting, commitment and access that assist and direct/guide the Internal Audit department to discharge its function independently. The Internal Audit Charter and the Audit Manual was revised during the year under the revamped audit methodology and approved by the Board.

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 Auditors' 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 2016, subject to the approval of the shareholders at the next Annual General Meeting.

Good Governance and Whistleblowing

The Bank's Whistleblowing Policy was also revised in November 2015. The 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. A process has been established to track such whistleblowing and take necessary action.

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 the 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.

Appreciation

The Committee wishes to convey its gratitude to former members S Rajapakse and Ms. G D C Ekanayake for their valuable contribution to the Committee over the years.



T L F Jayasekera
Chairman

Audit Committee
12 February 2016
Colombo

Board Related Party Transactions Review Committee Report

Composition of the Related Party Transactions Review Committee

The Board appointed Related Party Transactions Review Committee, comprised of seven (7) Board members and the Chairman of the Committee is the Chairman of the Bank and an Independent Director, as set out below. The Chief Executive Officer (CEO) has been present at meetings, only if invited by the Committee. As at 31 December 2015, the Committee comprised of the following:

| Name of the Board Sub Committee Member | Directorship Status | Membership Status |
|--|---------------------|-------------------|
| N G Wickremeratne | Independent | C |
| T L F Jayasekera | Independent | M |
| D S P Wikramanayake | Non-Independent | M |
| Mrs. D M A Harasgama | Non-Independent | M |
| Mrs. K Fernando | Independent | M |
| Mrs. W A I Sugathadasa | Independent | M |
| K D W Ratnayaka | Independent | M |
| R Theagarajah | Non-Independent | I |

C – Chairman, M – Member, I – by invitation

Charter of the Related Party Transactions Review Committee

The Related Party Transactions Review Committee was formed by the Board of Directors voluntarily in December 2014 further to the provisions contained in Section 9 of the Listing Rules of the Colombo Stock Exchange (CSE), so that the Bank shall follow the rules pertaining to related party transactions as set out in the Listing Rules of the CSE mandatory from 1 January 2016. In terms of the aforesaid rules the Board of Directors has constituted a Related Party Transactions Review Committee. The composition and the scope of work of the Committee are in conformity with the provisions of the said Section in the Listing Rules.

The Terms of Reference of the Related Party Transactions Review Committee was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee reviewed the Terms of Reference in December 2015 and there were no material changes made.

The primary purpose of the Committee is to evaluate and consider all transactions with related parties of the Bank, in order to ensure that related parties are treated on par with other shareholders and constituents of the Bank.

The Committee carries out the following duties and responsibilities:

1. Reviewing to evaluate and to determine the advisability of any Related Party Transactions except for transactions set out in Rule 9.5 of the Listing Rules of the CSE, that require consideration by the Committee under the Related Party Policy of the Bank;
2. Approving or rejecting the Related Party Transaction upon the required internal approvals being obtained.
3. Determining whether the relevant Related Party Transaction is fair to, and in the best interests of, the Bank and its stakeholders; and
4. Recommending to the full Board what action, if any, should be taken by the Board with respect to any Related Party Transaction.
5. Recommending to the full Board where necessary, that the approval of the shareholders of the Bank be obtained by way of a Special Resolution, prior to the concerned transaction being entered into as specified in Section 9.1 and 9.4 of the Listing Rules.

Committee Guiding Principles

The Committee is entrusted with evaluating and considering all transactions with related parties of the Bank except the exempted transactions as per the Listing Rules of the CSE in order to ensure the related parties are treated on par with other shareholders and constituents of the Bank and related party transactions are evaluated according to the applicable rules and regulations. To this end the Committee shall ensure that necessary processes are in place to identify, approve, disclose and monitor related party transactions according to the provisions contained in the Board approved Related Party Transactions Policy pertaining to the Bank and its subsidiaries.

The Committee is required to carry out the aforementioned approval of the related parties and related party transactions in line with the Regulations issued by the Central Bank of Sri Lanka, the Colombo Stock Exchange and/or Securities and Exchange Commission of Sri Lanka, the Banking Act Directions, the Companies Act requirements and the Sri Lanka Accounting Standards.

Committee Meetings

The Committee met three (3) times during the year under review, and the attendance of committee members at meetings is stated in the table on page 135 of the Annual Report. The quorum for a meeting is four (4) members.

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

Methodology used by the Committee

In carrying out the duties of the Committee, the Committee is required to avoid 'conflicts of interest', which may arise from any transaction of the Bank with any person, particularly with related parties, ensure arm's length dealings with related parties whilst also ensuring adherence to the Corporate Governance Directions which requires the Bank to avoid engaging in transactions with related parties, in a manner that would grant such parties 'more favourable treatment' than accorded to other constituents of the Bank, carrying on the same business, to be in line with security requirements, as stated in the Banking Act Directions and to be in compliance with the approval procedure, set out in the Banking Act.

The Committee will also be guided by the Listing Rules of the CSE pertaining to related party transactions, the Board approved Related Party Transactions Policy and the Terms of Reference of the Committee.

Summary of Activities

During the preceding year, the Committee approved/ratified certain transactions to be carried out by various related parties of the Bank [such as NDB Investment Bank Ltd., NDB Wealth Management Ltd., NDB Securities (Pvt) Ltd. and Softlogic Stock Brokers] on an arm's length basis. The Committee also considered and approved the granting of term loans to three related parties of the Bank.

Appreciation

The Committee wishes to convey its sincere gratitude to former Chairman S G Wijesinha and former member S Rajapakse for their valuable contribution to the Committee.



N G Wickremeratne
Chairman
Related Party Transactions
Review Committee

12 February 2016
Colombo

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

1. General

The Directors of National Development Bank PLC ('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 2015 of the Bank and the Group and the Independent Auditors' Report on the said 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 Listing Rules of the Colombo Stock Exchange and the recommended best practices.

The Report was approved by the Board of Directors on 12 February 2016. The requisite number of copies of the

Annual Report will be submitted to the Colombo Stock Exchange and to the Sri Lanka Accounting and Auditing Standards Monitoring Board within the statutory deadlines.

The Bank, originally established by an Act of Parliament in 1979 as the National Development Bank of Sri Lanka, was incorporated under the Companies Act No. 17 of 1982 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. The registered

office of the Bank is at No. 40, Navam Mawatha, Colombo 02.

The ordinary shares of the Bank are quoted on the Main Board of the Colombo Stock Exchange since 1993.

The rated, unsecured, subordinated, redeemable debentures issued by the Bank are listed on the Colombo Stock Exchange. Fitch Ratings Lanka Ltd. has affirmed the Bank's national rating of AA- (Ika) with a Stable Outlook and also has assigned a rating of A+ (Ika) for the debentures issued by the Bank.

As required by Section 168 of the Companies Act No. 07 of 2007, the following information is disclosed in this Annual Report prepared for the year ended 31 December 2015.

| Information required to be disclosed as per the Companies Act No. 07 of 2007 | Reference to the Companies Act | Extent of Compliance by the Bank |
|--|--------------------------------|----------------------------------|
| i. The nature of the business of the Bank and the Group together with any change thereof during the accounting period | Section 168 (1) (a) | Page 307 |
| ii. Signed Financial Statements of the Bank and the Group for the accounting period completed | Section 168 (1) (b) | Pages 300 to 411 |
| iii. Auditors' Report on Financial Statements of the Bank and the Group | Section 168 (1) (c) | Page 296 |
| iv. Accounting Policies and any changes therein for the Bank and the Group | Section 168 (1) (d) | Pages 307 to 411 |
| v. Particulars of the entries made in the Interest Register of the Bank and its subsidiaries during the accounting period | Section 168 (1) (e) | Page 193 |
| vi. Remuneration and other benefits paid to Directors of the Bank and its subsidiaries during the accounting period | Section 168 (1) (f) | Page 193 |
| vii. Total amount of donations made by the Bank its subsidiaries during the accounting period | Section 168 (1) (g) | Page 193 |
| viii. Information on Directorate of the Bank and its subsidiaries during and at the end of the accounting period | Section 168 (1) (h) | Pages 198 & 438 |
| ix. Separate disclosure on amounts payable to the Auditors as audit fees and fees for other services rendered during the accounting period by the Bank and its subsidiaries. | Section 168 (1) (i) | Page 201 |
| x. Auditor's relationship or any interest with the Bank and its subsidiaries | Section 168 (1) (j) | Page 201 |
| xi. Acknowledgement of the Contents of this Report/Signatures on behalf of the Board | Section 168 (1) (k) | Page 203 |

2. Review of Business

2.1 Vision, Mission and Corporate Conduct

The vision, mission and values of the Bank are given on page 4 of this Annual Report. The Board of Directors reviewed and revised the vision, mission and corporate values of the Bank in 2015 in line with the corporate strategy of the Bank. The revised vision, mission and corporate values have been disseminated amongst the staff of the Bank and communicated to all stakeholders of the Bank during the year.

The Bank and the Group practices high ethical standards in carrying out their business activities in line with the vision of the Bank.

All employees of the Bank abide by the Bank's Code of Conduct and the Directors and the Key Management Personnel of the Bank additionally abide by the Code of Corporate Governance of the Bank.

2.2 Review on Operations of the Group and the Bank

A review of the operations of the Bank and the Group as required by Section 168 (1) (a) of the Companies Act No. 07 of 2007 are discussed in the Letter from the Chairman, Chief Executive Officer's Review (pages 10 to 17) and the Integrated Management Discussion and Analysis (pages 39 to 101). These reports form an integral part of the Annual Report of the Board of Directors.

2.2.1 Principal Business Activities of the Bank and its Group Companies

As required by Section 168 (1) (a), the principal activities of the Group are described in the Business Model Report on page 19 of our Annual Report.

2.2.2 Future Developments and Current Standing

The Bank opened 10 new branches during the year and 8 off site Automated Teller Machines during the year affirming the Bank's continuous focus on improving its reach across the country as part of its business strategy.

The Bank also rolled out an intensive and expedited process to integrate and exploit technological innovation in serving customers. This area, handled by the Alternate Channels Department, would seek to engage and serve customers using innovative and cost beneficial channels of distribution. These channels would not only increase customer satisfaction levels but also go beyond customer expectations. As part of this process, the first phase was the roll out of the innovative E-statement. The innovative Mobile Banking Solution is slated to go on line in February 2016. These products and more of such innovative products would seek to propel the Bank as the provider of cutting edge solutions to customers and thus gain a competitive edge over the industry.

Further as required by Section 168 (1) (a), an overview of the future developments of the Bank and the Group are discussed in the Letter from the Chairman, Chief Executive Officer's Review (pages 10 to 17) and the Integrated Management Discussion and Analysis (pages 39 to 101). These reports form an integral part of the Annual Report of the Board of Directors.

2.3 Financial Statements of the Bank and the Group

These Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS) and is given in detail on pages 300 to 411 of this Annual Report.

The Financial Statements of the Bank and the Group for the year ended 31 December 2015 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 page 302.

2.4 Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 (as amended), the Listing Rules of the Colombo Stock Exchange and the Code of Best Practices 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).

The Directors are satisfied that the Financial Statements, presented on pages 300 to 411 inclusive, give a true and fair view of the state of affairs of the Bank and the Group as at 31 December 2015 as well as the profit for the year then ended.

The Statement of Directors' Responsibilities for Financial Reporting is given on pages 204 and 205 and forms an integral part of the Annual Report of the Board of Directors.

2.5 Directors Statement on Internal Control over Financial Reporting

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 Annual Report of the Board of Directors is given on pages 206 and 207 of the Annual Report.

The Board has obtained an Assurance Report from the External Auditors on the Directors' Statement on Internal Control over financial reporting which is given on page 206 of this Annual Report.

2.6 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 2015 and their report on those Financial Statements are given on page 296 of the Annual Report.

2.7 Accounting Policies and Changes therein during the Year

The accounting policies adopted in the preparation of the Financial Statements are given on pages 307 to 411. There were no significant changes to accounting policies adopted, in the preparation of the Financial Statements.

2.8 Entries in the Interests Register

As required by Section 168 (1) (e) of the Companies Act No. 07 of 2007, the Bank and all its subsidiaries maintain Interests Registers. We wish

to confirm that all Directors have made declarations as required by Section 192 (1) and (2) of the Companies Act aforesaid and all related entries were made in the Interests Register during the year under review. The share ownership of Directors is disclosed on page 275. The Interests Register of the Bank is available for inspection by the shareholders or their authorised representatives as required by Section 119 (1) (d) of the Companies Act No. 07 of 2007.

2.9 Directors' Remuneration and Other Benefits

As required by Section 168 (1) (f) of the Companies Act No. 07 of 2007, the Directors' remuneration and other benefits in respect of the Bank and the Group for the financial year ended 31 December 2015, are disclosed below:

| | 2015 LKR million | 2014 LKR million |
|---------------------------------------|---------------------|---------------------|
| Directors' fees and emoluments | | |
| - Bank | 98.9 | 74.8 |
| - Group | 160.7 | 127.8 |

3. Corporate Donations

The Bank and the Group made Donations amounting to LKR 8.0 million and LKR 10.5 million respectively, for the year 2015 (2014 – LKR 12.5 million for both Bank and Group), in terms of the Resolutions passed at the last Annual General Meeting. Furthermore a sum of LKR 16.0 million was allocated for the Construction of the 'Arivalnager Railway Station'. The construction is scheduled to be completed in the year 2016. 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.

The Corporate Sustainability activities of the Bank are spearheaded by the Head of Corporate Sustainability with all decisions taken by the Corporate Sustainability (CS) Committee which includes Senior Management of the Bank. The projects are carried out together with the participation of employees from all departments and branches. The primary responsibility of the CS Committee is to ensure that CS activities are conducted in a manner to ensure sustainable development.

4. Gross Income

The gross income the Group for the year 2015 was LKR 26,916 million (2014 – LKR 26,204 million) of which the Bank's gross income was LKR 25,855 million (2014 – LKR 24,962 million).

The sources of external operating income, net operating profit and asset allocation of the Group among different business segments together with their proportions are given in Note 51 to the Financial Statements on pages 370 and 371.

5. Total Operating Income

The total operating income of the Group for 2015 was LKR 13,291 million (as compared with LKR 12,966 million for 2014), while the Bank's total operating income was LKR 12,209 million (as compared with LKR 11,662 million for 2014). An analysis of the income is given on page 300 to the Financial Statements.

6. Results and Appropriations

6.1 Performance of the Bank and the Group and Transfers to Reserves

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 5,793 million (compared to LKR 6,624 million in 2014). After deducting LKR 2,123 million (compared to LKR 2,378 million in 2014) for Tax on Financial Services and Taxation, the Profit After Tax for the year amounted to LKR 3,670 million (compared to LKR 4,246 million in 2014). The Group profit attributable to shareholders amounted to LKR 3,542 million (compared to LKR 4,134 million in 2014).

The Bank's Profit Before Tax on Financial Services and taxation amounted to LKR 5,448 million (compared to LKR 5,787 million in 2014). After deducting LKR 1,936 million (compared to LKR 2,369 million in 2014) for Tax on Financial Services and Taxation, the Profit After Tax for the year amounted to LKR 3,511 million (compared to LKR 3,418 million in 2014).

Details are given in the Statement of Profit or Loss on page 300.

Details of appropriation of the profit of the Bank are given below:

| | 2015 LKR '000 | 2014 LKR '000 |
|--|-------------------|-------------------|
| Profit for the year | | |
| Profit for the year after charging all operating expenses, depreciation and amortization | 5,447,875 | 5,786,773 |
| Less: Tax on financial services and taxation | (1,936,444) | (2,368,709) |
| Net Profit for the year | 3,511,431 | 3,418,064 |
| Other Comprehensive Income (OCI) | | |
| Actuarial losses on defined benefit plans | 94,353 | (139,735) |
| | 94,353 | (139,735) |
| Less: Tax expenses relating to components of other comprehensive income | (7,325) | 16,897 |
| Total other comprehensive income for the year, net of taxes | 87,028 | (122,838) |
| Total comprehensive income for the year | 3,598,459 | 3,295,226 |
| Add: Unappropriated balance brought forward from the previous year | 12,819,737 | 9,847,553 |
| Less: Adjustment made for Super Gain Tax | (732,081) | - |
| Total retained profits available for appropriations | 15,686,113 | 13,142,779 |
| Appropriations | | |
| Transfer to statutory reserve fund | (231,987) | (52,258) |
| Transfer to investment fund account | - | 1,706,751 |
| Dividends | | |
| Final cash dividends for the year 2013 | - | (821,946) |
| Interim cash dividends for the year 2014 | - | (1,155,589) |
| Final cash dividends for the year 2014 | (659,278) | - |
| Interim cash dividends for the year 2015 | (1,156,171) | - |
| Unappropriated balance carried forward | 13,638,678 | 12,819,737 |

6.2 Dividends on Ordinary Shares

An interim dividend of LKR 7.00 per share (2014 – LKR 7.00) was paid on 24 November 2015 to the shareholders of the Bank for the financial year 2015. On 12 February 2016, the Directors authorized and approved a final dividend of LKR 4.00 per share (2014 – LKR 4.00 per share) to be paid for the financial year ended 31 December 2015.

In declaring the dividends the Directors ensured due compliance by the Bank of the solvency provisions contained in Section 56 (3) of the Companies Act No. 07 of 2007 and the Listing Rules of CSE. The Board provided the Statement of Solvency to the Auditors and obtained Certificates of Solvency from the Auditors 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.

6.3 Reserves

A summary of the Bank's and Group's reserves is given below:

| | Bank | | Group | |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Capital | 1,242,772 | 1,225,162 | 1,162,964 | 1,145,353 |
| Statutory Reserve Fund | 1,242,772 | 1,010,785 | 1,242,772 | 1,010,785 |
| Available-for-Sale Reserve | (207,277) | 105,250 | (139,559) | 162,355 |
| Revaluation Reserve | 853,456 | 853,456 | 948,795 | 853,456 |
| General Reserve | 5,805,707 | 5,805,707 | 5,805,707 | 5,805,707 |
| Share Based Payment Reserve | 14,590 | 20,243 | 81,098 | 60,148 |
| Cash Flow Hedge Reserve | 110,160 | 397,852 | 110,160 | 397,852 |
| Retained Earnings | 13,638,678 | 12,819,737 | 19,170,268 | 18,440,117 |
| Total | 22,700,858 | 22,238,192 | 28,382,204 | 27,875,773 |

6.4 Provision for Taxation

The income tax rate applicable on the Bank's domestic operations and FCBU on-shore and off-shore banking operations was 28%. (2014 – 28%). The Bank's profit was also liable for Value Added Tax on financial services at the rate of 11 % (2014 – 12%) and Nation Building Tax on financial services at the rate of 2% (2014-2%). Deferred tax is provided for all known temporary differences based on the Liability Method in accordance with Sri Lanka Accounting Standard (LKAS 12) – income taxes.

7. Property, Plant & Equipment and Intangible Assets

The details of property, plant & equipment, Intangible Assets are given in Notes 33 and 34 to the Financial Statements.

The net book values of freehold properties owned by the Bank and the Group as at 31 December 2015 are included in the Financial Statements at LKR 1,345 million and LKR 1,724

million, respectively (2014 - Bank – LKR 1,367 million, and Group LKR 1,651 million).

The Bank's free hold properties are recorded at revalued amounts based on valuations conducted by an independent valuer and the details of freehold properties owned by the Bank are given in Note 34 to these Financial Statements.

Total capital expenditure incurred by the Bank and the Group on acquisition property, plant & equipment and intangible assets amounted to LKR 595 million and LKR 629 million, respectively (2014 - Bank – LKR 393 million and Group – LKR 480 million).

8. Investment Property

Investment properties of any Group Companies when significantly occupied by other companies in the Group are classified under property, plant & equipment in the Consolidated Financial Statements in accordance with LKAS 40 'Investment Property'. There were no acquisitions of Investment Properties during the year as well as the previous year.

9. Issue of Shares and Debentures

9.1 Issue of Shares and Debentures by the Bank

Details of the shares issued by the Bank in the years 2014 and 2015 are given in the table below:

| Reason for the Issue | Number of Shares Issued | |
|---|-------------------------|---------|
| | 2015 | 2014 |
| Exercise of options by eligible employees under the Equity-Linked Compensation Plan | 73,420 | 400,888 |

Details of the debentures issued by the Bank are given in the table below:

| Year of Issue | Reasons for the Issue of Debentures | Type of Debenture | Number of Debentures Issued | Aggregate Face Value (LKR) |
|---------------|---|---|-----------------------------|----------------------------|
| 2013 | Utilized to support the Bank's Tier II Capital | Rated, unsecured, subordinated, redeemable debentures | 100,000,000 | 10,000,000,000/- |
| 2015 | Utilized to support the Bank's long-term and short-term funding requirements and the Bank's Tier II Capital | Rated, unsecured, subordinated, redeemable debentures | 100,000,000 | 10,000,000,000/- |

9.2 Issue of Shares and Debentures by the Subsidiaries and Associates During the Year 2015

| Name of Subsidiary/ Associate | Number of shares Issued |
|--|--|
| NDB Zephyr Partners Ltd. (Mauritius) | 9,900 Ordinary shares 125 redeemable preference shares |
| NDB Zephyr Partners Lanka (Private) Ltd. | 3,800,000 Ordinary shares |

The subsidiaries and associates of the Bank did not issue any debentures during the year 2015.

9.3 Stated Capital and Debentures

The stated capital of the Bank at the beginning of the year was LKR 1,225,161,547/- and at the end of the year was LKR 1,242,771,989/- and comprised 165,093,922 ordinary shares at the beginning of the year and 165,167,342 ordinary shares at the end of the year. The details of the stated capital are given in Note 43 to the Financial Statements on page 360.

During the period of January 2015 to December 2015 a total number of

73,420 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.

The debentures issued in 2013 and 2015 by the Bank are given in detail in 9.1 above.

The details of the said debentures are also disclosed in Note 42 to the Financial Statements.

Further, 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 38 to the Financial Statements.

10. Share Information

10.1 Distribution Schedule of Shareholdings

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 information on pages 273 to 275 of the Annual Report.

10.2 Information on Earnings, Dividend, Net Assets and Market Value

The information relating to earnings, dividends, net assets and market price per share is given in the Financial Highlights on the inner front cover of the Annual Report.

The ratios relating to dividends, net asset value, market value per share and ratios relevant to debt Securities are disclosed in Investor Information on page 283 of this Annual Report.

11. Substantial Shareholdings

The Bank had 7,911 registered shareholders as at 31 December 2015. The distribution, public holding, 20 largest shareholders and the share price during 2015 are set out on pages 273 to 278 of this Annual Report.

12. Directors

12.1 Information on Directors of the Bank and the Group

12.1.1 List of Directors

In terms of the provisions of the Articles of Association of the Bank, the Board of Directors, as at 31 December 2015, 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.

Compliance by the Board of Directors of the Banking Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka is set out in pages 142 - 161 of the Annual

Report. In terms thereof the classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2015 is given below:

| Name of Director | Independent/ Non-Independent | Executive/ Non-Executive |
|------------------------|---------------------------------|------------------------------------|
| N G Wickremeratne | Independent | Chairman – Non-Executive |
| A K Pathirage | Non-Independent | Deputy Chairman – Non-Executive |
| R Theagarajah | Non-Independent | CEO – Executive |
| T L F Jayasekera | Independent | Non-Executive |
| Mrs. K Fernando | Independent | Non-Executive |
| D S P Wikramanayake | Non-Independent | Non-Executive |
| Mrs. W A I Sugathadasa | Independent | Non-Executive |
| Mrs. D M A Harasgama | Non-Independent | Non-Executive |
| D M R Phillips | Independent | Non-Executive |
| K D W Ratnayaka | 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 with the Code of Best Practice on Corporate Governance 2013 jointly issued by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (Code) is set out on pages 162 - 174 of this Annual Report. In terms thereof, the classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2015 is given below:

| Name of Director | Independent/ Non-Independent | Executive/ Non-Executive |
|------------------------|---------------------------------|-----------------------------|
| N G Wickremeratne | Independent | Non-Executive |
| A K Pathirage | Non-Independent | Non-Executive |
| R Theagarajah | Non-Independent | Executive |
| T L F Jayasekera | Independent | Non-Executive |
| Mrs. K Fernando | Independent | Non-Executive |
| D S P Wikramanayake | Non-Independent | Non-Executive |
| Mrs. W A I Sugathadasa | Independent | Non-Executive |
| Mrs. D M A Harasgama | Independent* | Non-Executive |
| D M R Phillips | Independent | Non-Executive |
| K D W Ratnayaka | Independent | Non-Executive |

*Mrs. Harasgama is deemed 'Independent' in terms of the provisions of the Code.

12.1.2 New Appointments and Resignations

The new appointments to the Board of Directors of the Bank during the year 2015 were as follows:

- i. N G Wickremeratne (Appointed w.e.f. 15.04.2015)
- ii. Mrs. D M A Harasgama (Appointed w.e.f.22.04.2015)
- iii. D M R Phillips (Appointed w.e.f. 22.04.2015)
- iv. K D W Ratnayaka (Appointed w.e.f. 13.05.2015)

Resignations during the year 2015:

- i. Ms. G D C Ekanayake (Director, resigned w.e.f. 11.03.2015)
- ii. S G Wijesinha (Former Chairman, resigned w.e.f. 27.03.2015)
- iii. S Rajapakse (Director, resigned w.e.f. 30.03.2015)
- iv. H A Siriwardena (Director, resigned w.e.f. 31.03.2015)

12.1.3 List of Directors of Subsidiaries and Associates of the Bank

The Directors of the Group Companies are set out on page 438 of the Annual Report.

12.1.4 Recommendations for Re-election

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) and Directors appointed during the year to fill casual vacancies shall retire from office and such Directors shall be eligible for re-election by the shareholders at each Annual General Meeting of the Bank.

12.1.5 Directors Appointed to Fill Casual Vacancies

- i. N G Wickremeratne (Appointed w.e.f. 15.04.2015)
- ii. D M R Phillips (Appointed w.e.f. 22.04.2015)
- iii. K D W Ratnayaka (Appointed w.e.f. 13.05.2015)

The aforementioned Directors shall stand for re-election by the shareholders at the Annual General Meeting of the Bank.

12.1.6 Directors to Retire by Rotation

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 last 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. Accordingly, the Nominations Committee and the Board have recommended that D S P Wikramanayake be considered for re-election by the shareholders at the Annual General Meeting of the Bank.

12.1.7 Directors who Served on the Board for a Period Exceeding 9 Years:

As per the Banking Act Direction No. 11 of 2007 the total period of service of a Director (excluding the Executive Director) shall not exceed 9 years. The Bank has no Directors who have served the Bank for over 9 years.

12.1.8 Directors' Meetings

Details of Directors' meetings which comprised Board Meetings and all Board Sub Committee meetings are presented on pages 134 and 135.

12.1.9 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, Nominations Committee, Corporate Governance and Legal Affairs Committee and the Related Party Transactions Review Committee. Details of the members of these Committees are given on page 438.

The said committees include four mandatory committees formed by the Board in compliance with the Banking Act Direction No. 11 of 2007 issued by the Monetary Board on Corporate Governance for Licensed Commercial Banks in Sri Lanka, as well as three other committees formed by the Board. The Related Party Transactions Review Committee was formed by the Board in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange. The Committees ensure that the activities of the Bank are conducted, conforming to the required laws, rules and regulations, the highest ethical standards and in the best interest of all stakeholders.

12.1.10 Appraisal of Board Performance and Fitness and Propriety of the Directors

The Bank has in place a robust scheme whereby the Directors perform a self-Assessment of the Board's conduct annually by answering a Self-assessment Questionnaire. The responses to the Self-Assessment Questionnaire are evaluated by the Chairman and Deputy Chairman and any action, recommendations and/or concerns are discussed with the Board and accordingly noted and action taken where deemed appropriate.

The Nominations Committee and Board of Directors have reviewed and confirmed the fitness and propriety of each of the Directors of the Bank to continue as Directors of the Bank noting and in accordance with the provisions contained in Banking Act No. 30 of 1988, its amendments and Directions issued thereunder.

13. Other Directorships of Directors

Information of the other Directorships of the Directors of the Bank as at 31 December 2015 is given below:

| | | | |
|--------------------------|--|---|---|
| N G Wickremeratne | Holcim Lanka Ltd. Finlays Colombo PLC | T L F Jayasekera | Brandix Lanka Ltd. John Keells Hotels PLC |
| A K Pathirage | Softlogic Holdings PLC Asiri Hospital Holdings PLC Asiri Surgical Hospital PLC Asiri Central Hospitals Ltd. Central Hospital Limited 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 Ltd. Softlogic Australia (Pty) Ltd. (Incorporated in Australia) Softlogic City Hotels (Private) Ltd. Asian Alliance General Insurance Ltd. Softlogic Brands (Private) Ltd. Odel PLC Softlogic Properties (Private) Ltd. Abacus International Lanka (Private) Ltd. | Mrs. K Fernando | LB Finance PLC Vallible One PLC Delmege Ltd. |
| R Theagarajah | NDB Capital Holdings Ltd. NDB Wealth Management Ltd. NDB Securities (Pvt) Ltd. NDB Investment Bank Ltd. Development Holdings (Pvt) Ltd NDB Zephyr Partners Lanka (Private) Ltd. Emerald Sri Lanka Fund 1 Ltd. NDB Zephyr Partners Ltd., (Mauritius) NDB Capital Ltd, Bangladesh Carson Cumberbatch PLC The American Chamber of Commerce in Sri Lanka Ceylon Chamber of Commerce Colours of Courage Guarantee Ltd. CIMA Sri Lanka World University Service of Canada | D S P Wikramanayake | NDB Capital Holdings Ltd. NDB Wealth Management Ltd. NDB Investment Bank Ltd Orient Finance PLC Power World Gyms Ltd. NDB Capital Ltd. (Bangladesh) |
| | | Mrs. D M A Harasgama | NIL |
| | | Mrs. W A I Sugathadasa | Kalubovitiyana Tea Factory Ltd. |
| | | D M R Phillips - Presidents' Counsel | Gestetner of Ceylon PLC Vauxhall Beira Properties (Private) Ltd. |
| | | K D W Ratnayaka | The Associated Newspapers of Ceylon Ltd. Independent Television Network (ITN) Sri Lanka Institute of Directors (SLID) Sri Lanka Business Development Centre (SLBDC) KBSL (Pvt) Ltd. |

14. Disclosure of Director's Dealing in shares and Debentures

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 275 of this Annual Report.

Directors holdings in Debentures of the Bank as at 31 December 2015 are set out on page 283 of this Annual Report.

15. Employee Share Schemes

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 under the ELCP will take place over five years commencing July 2010. Each of the five tranches would amount to a maximum of 0.6% of the voting shares.

The details of the grants and options granted, grants and options exercised, the grant price and the grants and options cancelled or lapsed and outstanding as at 31 December 2015 is given in Note 43 to the Financial Statements.

In February 2016, the Board of Directors approved an Employee Share Option Scheme (ESOS) for the Senior Management Team of the Bank

in Category 4 and above commencing from the performance year of 2016 to be implemented subject to the terms and conditions thereto and to obtaining the approval of the shareholders of the Bank and the Regulators.

The Bank does not have in place any profit sharing plans other than the Variable Bonus Scheme.

16. Directors' Interests in Contracts or Proposed Contracts

Directors' interest in contracts or proposed contracts with the Bank, both direct and indirect are disclosed on page 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 Bank.

17. Insurance and Indemnity

Pursuant to a decision of the Board, the Bank obtained an Insurance Policy to cover Directors' liability. The Bank has accordingly paid an insurance premium in respect of the said insurance policy for the benefit of the Bank and the Directors and certain employees of the Bank and related body corporates as defined in the insurance policy.

18. 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. Specific activities carried out during the year to protect the environment are detailed in the Management Discussion and Analysis on pages 39 to 101.

19. 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.

20. Events Occurring after the Date of the Statement of Financial Position

There have been no events that require adjustment to the Financial Statements or disclosure in the Financial Statements that has occurred subsequent to the date of the Statement of the Financial Position of the Bank.

21. Going Concern

The Board of Directors is satisfied that the Bank has adequate resources to continue the business activities in the foreseeable future. Therefore, the Bank has adopted a 'going concern' basis in preparing these Financial Statements.

22. 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 212 to 254.

23. 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.

24. Integrated Annual Report

The Bank's Annual Report for the year ended 31 December 2015 is presented in line with the integrated reporting guidelines issued by The Institute of Chartered Accountants of Sri Lanka. 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.

25. Appointment of Auditors

The Financial Statements of the Bank for the year ended 31 December 2015 have been audited by Messrs Ernst & Young, Chartered Accountants. They also function as the Auditors of the Bank's subsidiary companies namely, NDB Capital Holdings Ltd., NDB Wealth Management Ltd., NDB Securities (Private) Ltd., NDB Investment Bank Ltd., Development Holdings (Private) Ltd. and NDB Zephyr Lanka (Private) Ltd.

Based on the declaration provided by Messrs Ernst & Young, Chartered Accountants, and as far as the

Directors are aware, the Auditors do not have any relationship with or interest in the Bank that in our judgment may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by The Institute of Chartered Accountants of Sri Lanka, applicable on the date of this Report.

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.

26. Auditors Remuneration and Interests in Contracts with the Bank

The fees paid to the Auditors Messrs Ernst & Young during the year for the Bank and the Group was LKR 8.8 million and LKR 10.5 million respectively. (2014 - Bank LKR 8.4 million and Group LKR 10.8 million). The fees paid for non-audit work during the year by the Bank LKR 8.3 million and the Group was LKR 8.3 million respectively (2014 - Bank 6.3 million and the Group - LKR 6.3 million).

27. Information on Ratios, Market Prices of Shares and Credit Ratings

Information that require disclosures as per Rule 7.6 (xi) of the listing Rules of the Colombo Stock Exchange are given in the Section on 'Investor Relations' on pages 275 to 284.

28. Risk Management and System of Internal Control

The Bank has an ongoing process to identify, evaluate and manage the risks. The Board of Directors continuously monitors and reviews this process through the Board Integrated Risk Management Committee. The process adopted by the Bank to manage risks for banking and non-banking activities are discussed in detail in the Bank's Risk Management review on pages 213 to 255 of this Annual Report.

29. Related Party Transactions

A Board approved Related Party Transactions Policy has been adopted and a Related Party Transactions Review Committee formed by the Board of Directors in compliance with the provisions contained in Section 9 of the Listing Rules of the Colombo Stock Exchange (which is being mandatorily followed since January 2016) and in line with the Sri Lanka Accounting Standard (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 - 'Related Party Disclosures' which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 52 to the Financial Statements.

30. Corporate Governance

The Directors are responsible for the governance of the Bank including the establishment and maintenance of the Bank's systems of internal financial control. Internal control systems are designed to meet the particular needs

of the organization concerned, and the risks to which it is exposed and by their nature they can provide reasonable but not absolute assurance against material misstatement or loss. The Directors are satisfied that a strong control environment is prevalent within the Bank and that the internal control systems referred to above are effective.

The Directors declared that -

- i. the Bank complied with all applicable laws and regulations in conducting its business and has not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provision in various laws and regulations confirm compliance in each quarter to the Board Integrated Risk Management Committee.
- ii. the Directors have declared all material interests in contracts involving the Bank and refrained from voting on matters in which they were materially interested.
- iii. all endeavours have been made to ensure that shareholders have been treated equitably;
- iv. the business is a Going Concern with supporting assumptions or qualifications as necessary, and that the Board of Directors has reviewed the Bank's Corporate/ Business plans and is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Bank, its Subsidiaries and Associates are prepared based on the Going Concern concept; and
- v. they have conducted a review of internal controls covering financial, operational and compliance controls, risk management and

have obtained a reasonable assurance of their effectiveness and proper adherence.

A description of the Bank's Corporate Governance Practices is set out on pages 128 to 174.

31. Human Resources

One of the key strategic objectives of the Group is to develop and nurture a Best in Class Engaged and Inspired Team. Execution of this strategic objective is done by continuously investing in the development of the Human Capital and by implementing effective Human Resources Policies to ensure efficiency and productivity, whilst maintaining a work life balance. The human resources activities carried during the year to focus on the strategic objective are detailed in the Human Resources and Remuneration Committee report on pages 175 to 177 and the discussion on Employee Capital Formation in the Management Discussion and Analysis on pages 88 to 93.

32. Operational Excellence

Operational Excellence is also a Key Strategic Objective of the Bank and focuses on increasing efficiency and managing operational costs. The Bank has on going initiatives to drive policy and process standardization and to optimize the use of existing technology platforms.

33. Outstanding Litigations

In the opinion of the Directors and the Bank's lawyers, pending litigations against the Bank disclosed in Note 48 on pages 365 and 366 to the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

34. Transfer Pricing Arrangements

The Bank has complied with the Transfer Pricing Regulations issued under Section 104 of the Inland Revenue Act No. 10 of 2006. The information pursuant to these Regulations is given under certificate produced under Section 107 (2)(a) of the said Act. We believe that the record of transactions entered into with related parties during the period from 1 January 2015 to 31 December 2015 are at arm's length and not prejudicial to the interest of the Bank. all transactions are entered into on the basis of a transfer pricing policy adopted by the Bank.

All transactions have been submitted to the Independent Auditors for audit. No adverse remarks have been made in their report on the audit of such transactions.

The records of transactions entered into with associated undertakings by the Bank are disclosed under the Related Party Disclosures in Note 52 to these Financial Statements.

35. 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 requested by shareholders.

36. Notice of Meeting

The Eleventh Annual General Meeting will be held at the Auditorium of Development Holdings (Pvt) Ltd., 3rd Floor, NDB EDB Tower, No 42, Navam Mawatha, Colombo 2 on 30 March 2016 at 10.00 am. The Notice of meeting is given on page 437 of this Annual Report.

Signed in accordance with a resolution adopted by the Directors.



N G Wickremeratne
Chairman



Mrs. W A I Sugathadasa
Director

37. 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.



A K Pathirage
Deputy Chairman



Mrs. D M A Harasgama
Director



R Theagarajah
Director/Chief Executive Officer



D M R Phillips
Director



T L F Jayasekera
Director



K D W Ratnayaka
Director



D S P Wikramanayake
Director



Mrs. Shehani Ranasinghe
Company Secretary



Mrs. K Fernando
Director

Colombo
12 February 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

This statement sets out the responsibility of the Directors in relation to the Financial Statements of National Development Bank PLC (the Bank) and the Consolidated Financial Statements of the Bank and its subsidiaries (the Group). The Directors are required by relevant statutory provisions to prepare and table at a General Meeting of the Bank, such Financial Statements as may be necessary, which give a true and fair view of the state of affairs of the Bank and the Group.

It is also the responsibility of the Directors to ensure that the Bank maintains proper accounting records and to take reasonable steps as far as practical to ensure the accuracy and reliability of accounting records and to prepare Financial Statements using appropriate Accounting Policies applied consistently and supported by reasonable and prudent judgment and estimates in compliance with the Sri Lanka Accounting Standards, the Banking Act No. 30 of 1988 (as amended), the Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange. Changes in the Accounting Policies where applicable and the rationale for the changes have been disclosed in the 'Notes to the Financial Statements.'

Accordingly the Directors confirm that the Financial Statements of the Bank and the Group give a true and fair view of:

- a. the financial position of the Bank and the Group as at 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 of the Bank, the officers responsible for their preparation, as required by the Companies Act. In addition, the Financial Statements of the Bank and the Group have been signed by two Directors and the Company Secretary of the Bank on 12 February 2016 as required by the Companies Act and other regulatory requirements. The Directors are also responsible for ensuring that proper accounting records which correctly record and explain the Bank's transactions are maintained and that the Bank's financial position, with reasonable accuracy, at any point of time is determined by the Bank, enabling preparation of the Financial Statements, in accordance with the Act to facilitate proper audit of the Financial Statements.

The Financial Statements for the year 2015, prepared and presented in this Annual Report have been prepared based on new Sri Lanka Accounting Standards (SLFRS) which came to effect from 1 January 2012 are in agreement with the underlying books of account and are in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC).

In addition, these Financial Statements comply with the prescribed format issued by the Central Bank of Sri Lanka for the preparation of annual Financial Statements of Licensed Commercial Banks.

The Directors have been responsible for taking reasonable measures and care to safeguard the assets of the Bank and the NDB Group and to prevent and detect frauds and other irregularities. The Directors have instituted an effective and comprehensive system of internal controls and an effective system of monitoring its effectiveness, internal audit being one of them. The Directors' Statement on Internal Control over financial reporting is given on pages 206 and 207 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 186 to 188 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 296 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 300 to 411 including, appropriate Accounting Policies selected and applied based on the new financial reporting frame work on a consistent basis, while reasonable and prudent judgements have been made

so that the form and substance of transactions are properly reflected.

The Board of Directors wishes to confirm that, as required by the Section 56 (2) of the Companies Act No. 07 of 2007, they have authorized distribution of the dividends paid upon being satisfied that the Bank would satisfy the solvency test after such distributions are made in accordance with the Section 57 of the Companies Act No. 07 of 2007 and have obtained in respect of dividends paid, necessary certificates of solvency from the External Auditors.

The Board of Directors also wishes to confirm that, as required by 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 365. 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 CA Sri Lanka and the SEC, the Directors have a reasonable expectation that the Bank and the Group possesses adequate resources to continue in operation for the foreseeable future. For this reason, we continue to adopt the Going Concern basis in preparing the Financial Statements. The Directors are of the view that they have discharged their responsibilities as set out in this Statement.

By Order of the Board,



Shehani Ranasinghe
Company Secretary

12 February 2016
Colombo

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Responsibility

In line with the Banking Act Direction No. 11 of 2007, Section 3 (8) (ii) (b), the Board of Directors present this Report on Internal Control over Financial Reporting.

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of the internal control mechanism in place at National Development Bank PLC ('the Bank'). In considering such adequacy and effectiveness, the Board recognizes that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and 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 control over financial reporting taking into 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.
- Internal Audit department checks the compliance with policies and procedures and the effectiveness of internal controls during their audits. The Internal Audit department uses a top-down risk-based auditing approach enhancing the Risk-Based Auditing Process. The entire audit

universe is audited annually, at determined intensities based on the risk assessment covering the entire Group. The Audit Committee reviews the findings of the internal audits completed and their evaluation of the Bank's internal control systems. The Committee also reviews updates on audit activities and the scope and the adequacy of coverage of the approved audit plan and any improvements thereto, and has detailed discussions on any unsatisfactory audits, reviewing the action plans to address these areas and the implementation status.

- The Board Audit Committee of the Bank also reviews internal control issues identified by the External Auditor, regulatory authorities and the management and evaluates the adequacy and effectiveness of the risk management and internal control systems. 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 186 to 188.
- 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 comments/recommendations made by the External Auditors in connection with the internal control system over financial reporting

during the year, will be taken into consideration to further strengthen the internal control system over financial reporting process.

- Further to the adoption of new Sri Lanka Accounting Standards comprising SLFRS and LKAS, the Bank further strengthened the processes and procedures initially applied to adopt the aforementioned accounting standards during the years 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 processes such as impairment of loans and receivables, reconciliation process and Financial Statement Disclosures related to Risk Management based on the feedback received from Internal and 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 management is currently reviewing options available to automate the financial reporting process.

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 2015 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,



N G Wickremeratne
Chairman



T L F Jayasekera
Chairman Audit Committee



R Theagarajah
Chief Executive Officer

12 February 2016
Colombo

INDEPENDENT ASSURANCE REPORT



**Building a better
working world**

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Chartered Accountants
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eysl@lk.ey.com
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HMAJ/DLH/SG

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF NATIONAL DEVELOPMENT BANK PLC

Introduction

We were engaged by the Board of Directors of National Development Bank PLC ('Bank') to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ('Statement') included in the Annual Report for the year ended 31 December 2015.

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.

12 February 2016
Colombo

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A de Silva FCA W R H Fernando FCA FCMA
W K B S P Fernando FCA FCMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

A member firm of Ernst & Young Global Limited

CHIEF EXECUTIVE OFFICER'S AND GROUP CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

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 2015, 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. 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 296 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 186 to 188. 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 365 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.



R Theagarajah
Chief Executive Officer



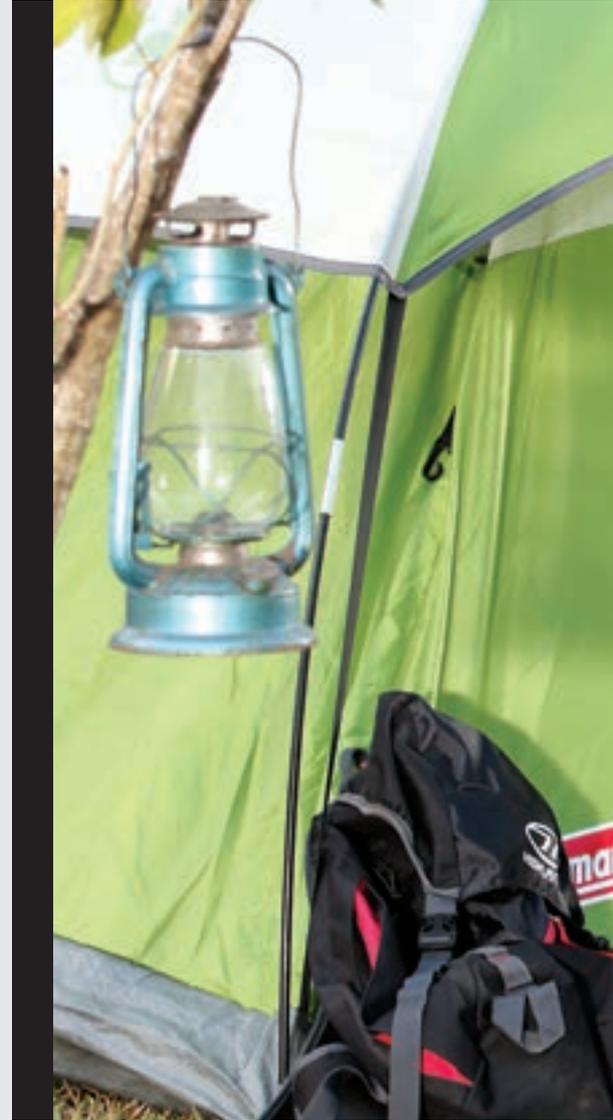
F Ozman
Group Chief Financial Officer

12 February 2016
Colombo

REASONS TO RELAX

Relaxed smiles always accompany trust. It's what distinguishes NDB's stakeholders, secure in the knowledge that their Bank is stable and trustworthy...and is committed to their success.

Our sound risk management endeavours are carefully outlined, and executed on a day-to-day basis, to further this stability and trustworthiness.



53%

OF LOANS AND
RECEIVABLES
ARE SHORT
TERM



C.A.R

WELL ABOVE THE
BASEL REQUIREMENT

20

TOP CORPORATE
EXPOSURES ARE STABLE

RISK MANAGEMENT

The perception of risk management is fundamentally changing within today's institutions. It is no longer purely used as a control mechanism but as a critical input in the decision making process. The industry continues to evolve rapidly, posing challenges from emerging technologies and business processes, new financial instruments, the growing scale and scope of financial institutions, and changing regulatory frameworks. Establishments in every industry and country are reminded all too frequently, that they operate in a risky environment. Recent drop in commodity prices, stressed construction and manufacturing activities, natural disasters, data breaches and other cyber threats affecting core operations, vividly illustrate the realities that organizations face, where the effects of such events can suddenly force them into worldwide headlines, creating complex enterprise wide risk events that threaten reputation and profits.

At NDB, we believe that a banking organization needs a good risk governance structure in place. An enterprise-wide approach is appropriate for setting objectives across the organization, implanting an enterprise-wide culture, and ensuring that vital events and threats are being monitored on a regular basis and that 'Risk Management' remains prominent as a key strategic focus at all times.

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 risk should be taken

in line with the Bank's risk appetite and it should complement the Bank's business strategy.

The business of banking naturally entails assuming 'Risks' in all business transactions. As a result, 'Risk Management' has gained 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 encapsulates this vision and cascades the actions to fulfil same by promoting an organization-wide risk culture. Risk culture within the Bank aptly balances growth and risk, supported by a well-defined risk appetite, comprehensive integrated risk management framework, effective governance structure and appropriate tools to measure and manage risk.

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 a predefined and consistent risk framework can be considered as a speciality that can make a difference

in the Bank's drive to ensure secure returns to all stakeholders in today's competitive market scenario. Hence, the Bank has recognized that building its risk management capabilities is a 'journey' rather than a destination and is committed to maintaining and continuously improving 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 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 Risk Profile of the Bank at a Glance

THE RISK PROFILE OF THE BANK



HIGHLY DIVERSIFIED PORTFOLIO

- We have a well-diversified portfolio of loans and advances and income streams across geographies, industry sectors and products.
- 53% of loans and receivables are short-term and we hold a diverse mix of collateral, valued conservatively.
- Our top 20 corporate exposures are stable as a proportion of capital resources and highly diversified.
- Our asset quality remains sound.



STRONG CAPITAL AND LIQUIDITY POSITION

- We remain well capitalized even under requirements of Basel III and our Statement of Financial Position remains highly liquid.
- Our customer deposit base is diversified by type and maturity.
- We have a substantial portfolio of High quality liquid assets that can be realized if a liquidity stress occurs, which is reflected by maintenance of a Liquidity coverage ratio well above the regulatory requirements. The Bank has maintained the Liquid assets ratio at acceptable levels even under stressed scenarios.
- Apart from the regulatory limits, we have set internal prudential Liquidity ratios and Position limits for better management of Liquidity.

ROBUST RISK GOVERNANCE STRUCTURE AND EXPERIENCED TEAM

- We have a clear statement of risk appetite which is aligned to the Bank's strategy and is approved by the Board.
- We continuously monitor our risk profile to ensure it remains within our risk appetite and regularly conduct stress tests.
- We review and adjust our exposures, underwriting standards and limits in response to observed and anticipated changes in the external environment and expectations.
- We have a very experienced risk team and our risk committees are staffed by senior leaders.
- We have a robust risk management framework which assigns accountability and responsibility for the management and control of risk.
- We maintain a consistent and highly selective approach to large corporate lending.

Our risk management capabilities have progressed encouragingly towards best in class and will continue to be strengthened and enhanced to create value and be a competitive advantage to support the Group's aspirations.

2015 – KEY ACHIEVEMENTS

FURTHER STRENGTHENING OF EXISTING RISK MANAGEMENT POLICY FRAMEWORK

- Integrated Risk Management Framework
- Disclosure Policy
- Valuation Policy
- Stress Testing Framework and Policy
- Model Validation Policy

STRENGTHENING OF PRE-APPROVAL PROCESS

- Setting up of a Credit Review Division to strengthen pre-approval process

FURTHER STRENGTHENING OF POST-APPROVAL PROCESS

- Setting up of a Loan Review Team to strengthen post approval monitoring process

STRENGTHENING RISK AND COMPLIANCE CULTURE ACROSS THE GROUP

- Developing Risk Policies, Procedure Manuals and Risk Dashboards across the Group

CHANGING THE CULTURE AND IMPROVING AWARENESS WITHIN THE BANK

- Risk Analyst newsletter circulated across the Bank to create a learning culture and improve awareness
- E-learning modules introduced to improve knowledge levels of staff
- Training programmes carried out throughout the year by the Risk Management team to refresh basics and improve knowledge

FURTHER IMPROVING THE OPERATIONAL RISK MANAGEMENT STRUCTURE

- Operational Risk Correspondents appointed to key business/support units of the Bank

FURTHER STRENGTHENING OF DISASTER RECOVERY CAPABILITIES

- BCP brought in-house
- Larger/better equipped DR site setup

2016 – OUR PRIORITIES

- Further strengthening of capital base.

- Maximize capital utilization.

- Work towards BASEL III compliance.

- Moving to advanced approach in terms of capital computation for operational risk.

- Fully automation of operational risk management process.

- Further strengthening our risk and compliance culture across the Group.

- Group-wide risk appetite framework to be put in place to define the boundaries and drivers of doing business.

- Continuing to develop our risk talent across Group Risk Management Department.

EMERGING RISKS

INTEREST RATE MOVEMENTS

Interest rate risk is the potential loss from the Bank's exposure to interest rate sensitive assets and liabilities.

Extreme movement in interest rate could affect the underlying value of assets, liabilities and off balance sheet items.

RISK OF NATURAL DISASTERS

Natural disasters can have an impact on the performance of the customers' operations and their ability to meet debt obligation. It can also have an impact on the Bank's operations and inability to continue business from its current location.

RISK ARISING FROM INABILITY TO MEET MATURING DEPOSIT

Bank's liquidity position can affect the Bank's ability to meet liability requirements as and when they fall due. Low liquidity in the markets may result in unexpected stresses to the Bank.

REGULATORY CHANGES AND COMPLIANCE

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.

CONCENTRATION ON RISKS ARISING FROM EQUITY MARKET ACTIVITIES

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.

RISK OF FRAUD/CYBER RISK

The risk of fraud and other criminal activities is growing as criminals become more sophisticated and take advantage of the increasing use of technology in society.

GEOPOLITICAL EVENTS

We face a risk that geopolitical tensions in our footprint could impact trade flows, our customers' ability to pay and our ability to manage capital.

FINANCIAL MARKETS INSTABILITY

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.

EXCHANGE RATE MOVEMENTS

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.

■ LOW ■ MODERATE ■ HIGH

| Risk | Mitigants |
|--|--|
| Concentration risk arising from equity market activities | <ul style="list-style-type: none"> - Closely monitor share market movements. - Internal policies on single/group borrower limits are more stringent than regulatory requirements. |
| Risk of Natural Disasters | <ul style="list-style-type: none"> - In situations of natural disasters (both local and overseas), stress tests are carried out to assess impact of such events on portfolio and appropriate action taken to mitigate the risk. - Formalized and tested Business Continuity Plan is in place and able to switch over to the Disaster Recovery site. |
| Geopolitical events | <ul style="list-style-type: none"> - We actively monitor the situations (e.g. US Policy rate normalization, recent ISIS terrorist threats, Syrian Civil War, China Slowdown, drop in commodity prices, 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. - We also carry out rapid risk reviews of portfolios under stress. |
| Interest rate movements | <ul style="list-style-type: none"> - We assess the Balance Sheet price sensitivity by stressing the interest rates on the assets and liabilities to monitor and manage the impact on the Bank's Income Statement using modified duration calculations. - Bank's securities portfolio is subject to daily mark to market valuations and stress testing (PVBP) and managed within the set stop loss limits and duration limits to manage interest rate volatility. The impact of the trading portfolio is minimal due to bank holding debt securities with short-term maturities. |
| Risk of fraud/Cyber Risk | <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 Bank's/Group's activities, such as origination, recruitment, physical and information security. |
| Financial markets instability | <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 exercises and ensure the results are within our predefined risk appetite. - We maintain robust processes to assess the suitability and appropriateness of products and services we provide to our clients and customers. |
| Regulatory changes and compliance | <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. |

| Risk | Mitigants |
|--|---|
| Exchange rate movements | <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 on a daily basis to ensure least impact to the Financial Statements. - Low exposure to the un-hedged positions given internal policy and strengthened supervision by the regulators on minimizing open foreign currency positions. - We assess the impact of exchange rate movements on our counterparties business and impact on meeting debt obligations. |
| Risk arising from inability to meet maturing deposit liabilities | <ul style="list-style-type: none"> - The Bank monitors a number of prudential liquidity ratios as per CBSL risk directions which are discussed at ALCO and IRMC. Liquidity stress testing is carried out at regular intervals to identify any changes to liquidity measures of the Bank. The Bank has maintained a healthy liquidity position throughout the year and adhered to the Liquid Assets Ratio (LAR) and Liquidity Coverage Ratio (LCR) above the statutory requirement. - Bank's dependence on short-term interbank borrowing was managed within the internally set money market borrowing limits during the year. |

The Risk Organization

Risk Appetite, Objectives, Framework

Risk appetite is defined as the quantum of risk the Bank is willing to assume in different areas of business in achieving its strategic objectives and ensuring maintenance of desired risk profile. Maximum tolerance limits are set annually and reviewed monthly to capture any deviations. The risk appetite framework and risk tolerance limits have been defined by the Board in consultation with the Senior Management of the Bank in line with the Bank's overall business strategy, providing clear direction to the business units for ongoing operations and risk management.

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, NDB 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).

Coverage of Risks

NDB has formulated its risk appetite covering the following categories: Bank Wide Level Risk Category Level, Credit Risk, Market Risk, Operational Risk, Concentration Risk, Liquidity Risk, Interest Rate Risk (in Banking Book) and Compliance Risk.

Integrated Risk Management Framework

The Bank's approach to Risk Management is spelt out in the Integrated Risk Management Framework approved by the Board Sub-Committee for Integrated Risk Management and the Board of Directors. The framework sets out the

process of identifying, measuring, monitoring and controlling the different types of risks, the governance structure in place. The main objectives of the framework are:

- To establish common principles, standards for the management and control of all risks and to inform behaviour across the Bank.
- Provide a shared framework and language to improve awareness of risk management processes among all stakeholders.
- To provide clear accountability and responsibility for risk management.
- To ensure consistency throughout the Bank in risk management.
- Define Bank's risk appetite and align Bank's portfolios and business strategy accordingly.
- Optimize risk return decisions.
- Maintain Bank's capital adequacy and strong liquidity position.

- Further strengthen governance, controls and accountability across the organization.

In addition to the main risks (viz. Credit Risk, Market Risk and Operational Risk) NDB has considered fourteen other risks which are material to it. These additional 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, Governance Risk, Cross-border Risk, Settlement Risk, Reputational Risk, Model Risk and Group Risk.

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, Group Risk Management 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.

Group Risk Management

The Bank together with its subsidiaries, in the process of financial intermediation are confronted with various kinds of financial and non-financial risks such as credit, interest rate, foreign exchange rate, liquidity, equity price, commodity price, legal, regulatory, reputational, operational, etc. These risks are highly interdependent and events that affect one area of risk can have consequences on a range of other

risk categories. Thus, considerable importance is given to improve the ability to identify, measure, monitor and control the overall level of risks undertaken.

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:

- NDB's capital at risk is limited to the amount invested in these companies in the form of equity, at the time the companies were incorporated.
- There is representation by NDB's Directors/Key Management Personnel on the Boards of Directors/ Board Audit, Risk and Compliance Committee of its subsidiaries, thereby ensuring full and sufficient knowledge of subsidiaries' operations and risk profiles.
- Due to the governance structure mandated by the laws governing banking and limited liability companies, all inter-company transactions are at arm's-length and full disclosure of such transactions is made.
- Natural mitigation from the fact that the Bank is the holding company and owns the largest Balance Sheet in the Group.
- NDB Securities Ltd. and NDB Wealth Management Ltd. being Licensed Stock Brokers and Unit Trust Managers are regulated by the SEC.
- Risk reporting framework by Group Companies to centralized Group Risk Management of NDB/IRMC/Board for review/corrective action.

Each Group Company remains responsible for the management of risks, including associated controls and ongoing monitoring processes. Risks identified by Group companies are reported to Group Risk Management Department on a monthly basis through appropriate risk indicators (using a Risk Dashboard) and management information for review and escalation. Top risks and associated mitigants are also highlighted.

The main risk categories being reviewed are as follows:

- Investment/Credit Risk
- Operational Risk
- Market Risk
- Liquidity Risk
- Interest Rate Risk
- Concentration Risk
- Regulatory/Compliance Risk
- Legal/Reputation Risk
- Strategic Risk
- Any other risks relevant to the specific line of business of the Group Company

All Group Companies are required to have relevant policies and limits for monitoring purposes and to ensure that risks are within acceptable levels/in-line with its risk appetite. All risk-related policies of the Group Companies are vetted by Group Risk Management Department to ensure compliance with the regulatory requirements and internal policies applicable to the Bank. Hence, allocation of separate capital for Group Risk is not required.

INTEGRATED RISK MANAGEMENT AT NDB



BUSINESS LINE/
CREDIT COMMITTEE



GROUP RISK MANAGEMENT/
COMPLIANCE



INTERNAL AUDIT



ROLES

BUSINESS LINE
OPERATIONS

- Primary responsibility for identifying, managing and reporting risk
- Self-Assessment of risk and control
- Compliance with all policies and procedures

RISK MANAGEMENT
AND COMPLIANCE

Risk Management

- Develop and implement the risk management framework, policies, systems and procedures and tools
- Providing support to the business units, review and report key risks to the IRMC

Compliance

- Regulatory Adherence
- Regulatory reporting
- Anti-money laundering

INDEPENDENT
VERIFICATION

Internal Audit

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

External Audit

- Reporting to shareholders on, opinion on the true and fair view of the Financial Statements and review internal controls over financial reporting process



RESPONSIBILITIES

DECENTRALIZED PRIMARY
RESPONSIBILITIES

CENTRALIZED
OVERSIGHT

ASSURANCE

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.

INTEGRATED RISK MANAGEMENT COMMITTEE (IRMC)

Reviews Bank's risk management policies, regulatory framework and compliance. IRMC also reviews the Bank's risk profile against the agreed risk appetite, Business Continuity and Disaster Recovery plans.

Three members of the Board of Directors, CEO, GCFO, Vice-President - Group Risk Management, Vice-President - Credit, Head of Compliance, Assistant Vice President - Operational Risk and Senior Management, Market Risk

CREDIT AND MARKET RISK POLICY

Reviews the Bank's risk policy framework, overall performance and the potential risks faced by specific lines of business and support functions.

CEO, Vice-President - Group Risk Management, Vice-President - Credit and the Heads of Business Units, Treasury and representatives of the Group Risk Management department.

ASSETS & LIABILITIES COMMITTEE (ALCO)

Reviews all Market and Liquidity related exposures on a monthly basis and decisions are made to facilitate the business requirements and make investment/policy decisions.

CEO, GCFO, Vice-President - Group Risk Management, Heads of Business units, ALCO & Treasury.

TWO CREDIT COMMITTEES

Pre-clearance of large credits, Approvals in line with Delegated Authority. Reviewing portfolio and watch listed clients. Review status of NPLs. Review impairment.

Head of Credit Review unit, senior officers of the Credit Review unit, Heads of Business Units and Senior officers of Business Units.

OPERATIONAL RISK POLICY COMMITTEE (ORPC)

Monitors and ensures that appropriate Operational Risk Management frameworks are in place, adhering to the Policies of the Bank. Provide a forum for the discussion and management of all aspects of Operational Risks and control lapses identified through the risk reporting process, ensuring all significant issues raised in Internal Audits and Regulatory Reviews are resolved satisfactorily within agreed timescales while outstanding action points are tracked. Ensure full compliance of the local regulations. Raising awareness of new trends and developments in Operational Risk Management techniques and the migration of best practices from the industry/market. Assist the Bank in the management of Corporate Governance related to Operational Risk on an ongoing basis. Assumes and demonstrates general sponsorship and ownership of Operational Risk Management.

CEO, COO, Vice-President - Group Risk Management, GCFO, Heads of Business Units, Heads of Support functions and representatives of the Operational Risk Management team.

BOARD AUDIT COMMITTEE (BAC)

Ensuring the Bank's compliance to its internal and external regulatory guidelines.

Six members of the Board of Directors, CEO, GCFO, COO and Vice-President - Audit.

Group Risk

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

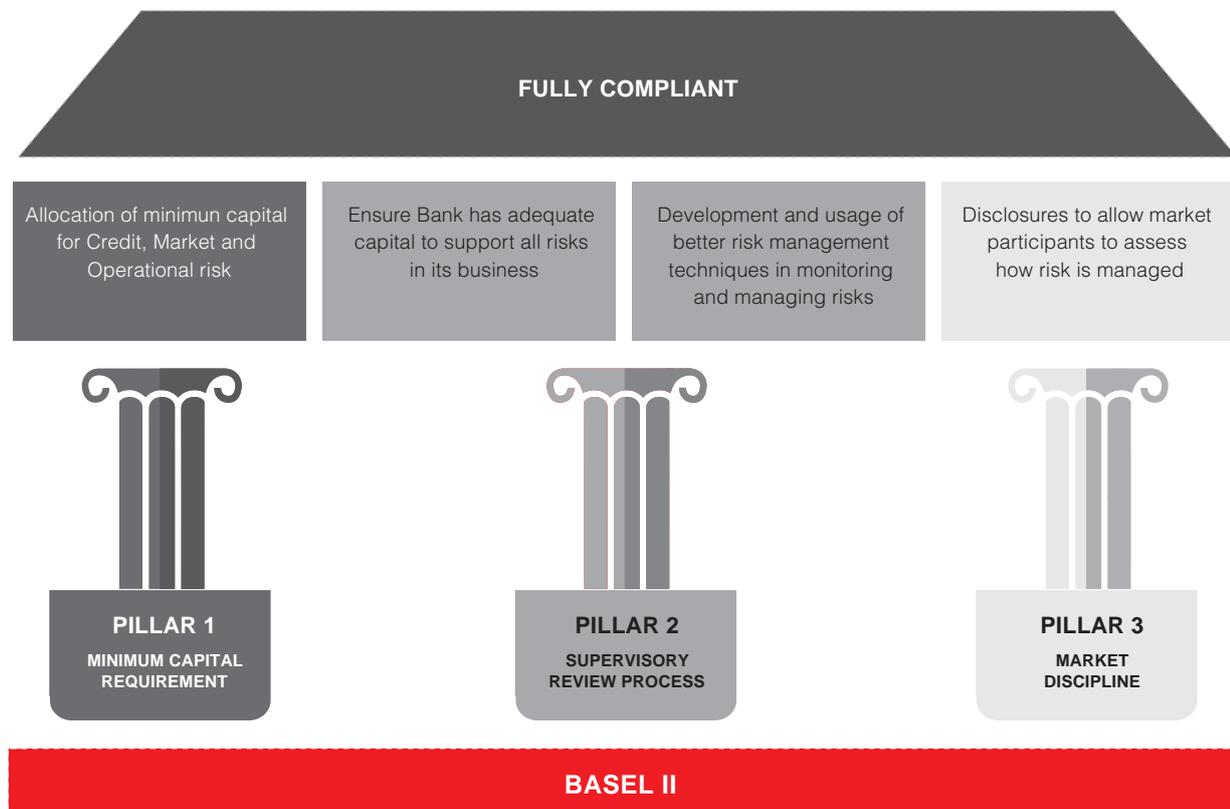
Risk Capital Governance

Sustained Profitability and Capital Management

The strategy of the Bank is ensuring sustained profitability through good 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.

Basel II

The Bank is fully compliant with the BASEL II regulatory requirements.



Journey Towards Advanced Approaches of Pillar I

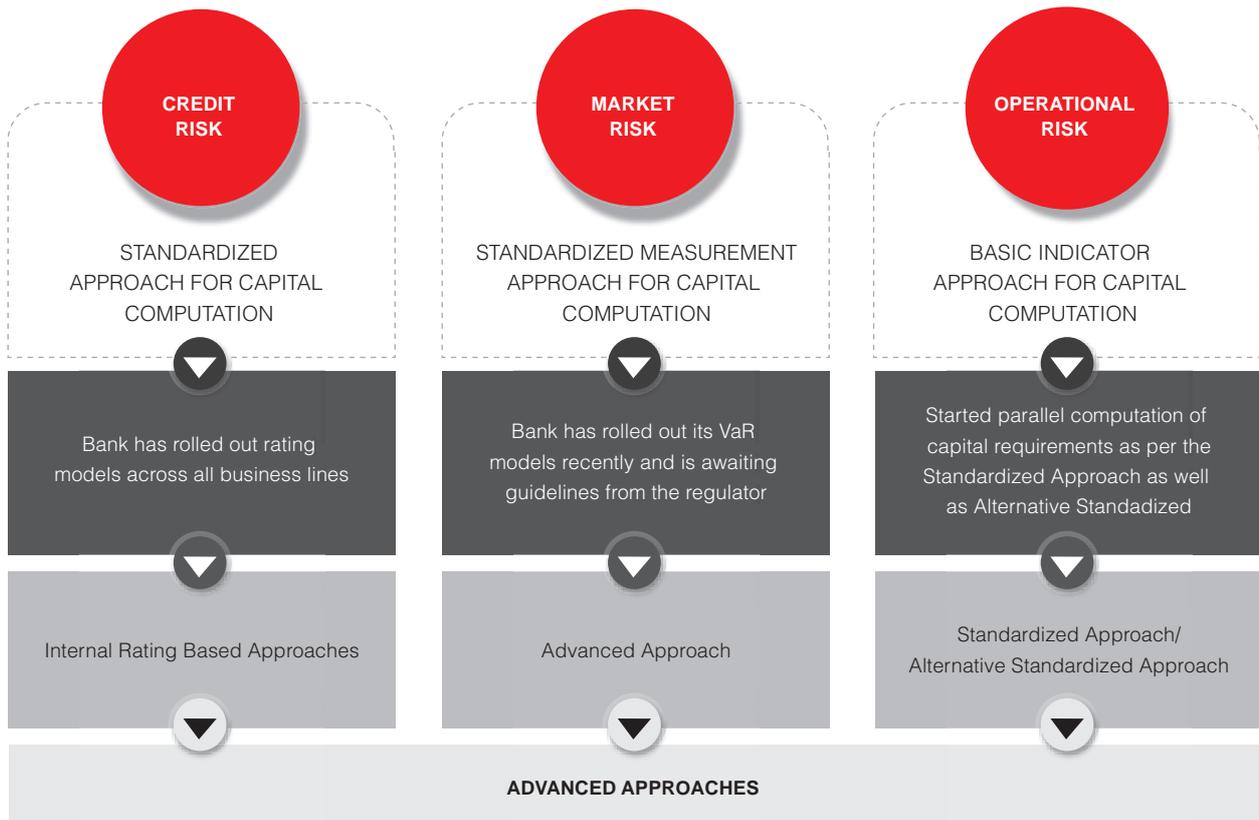
The Bank has already embarked on its journey towards advanced approaches of minimum capital computation under Pillar I in order to optimize on capital allocation. Thinking ahead, the Bank is in the process of automating its capital computation process in terms of Credit and Market Risks. This pioneering 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 process will ensure accuracy and better conformance to guidelines.

Credit Risk – The Bank is currently using the Standardized Approach for 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 CRISIL 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 capital computation for Market Risk. The Bank has already rolled out its VaR models

and is ready to move to advanced approach of capital computation for Market Risk on receipt of guidelines from the regulator.

Operational Risk – The Bank is currently using the Basic Indicator Approach for operational risk capital computation. The Bank has also started parallel computation of capital requirements as per The Standardized Approach (TSA) as well as Alternative Standardized Approach (ASA) and planning to move to ASA during 2016.



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. NDB has in place an ICAAP and has adhered to same from January 2013. ICAAP process has strengthened the risk management practices and capital planning process.

Stress Testing

Bank has in place a comprehensive Stress Testing Policy and Framework in line with the regulatory guidelines as well as international best practices. The policy describes the purpose of stress testing and governance structure and the methodology for formulating stress tests whilst the framework specifies in detail the Stress Testing programme including the tolerance limits and remedial action.

Stress testing is the process of determining the change to a portfolio due to the occurrence of 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.

Stress Testing Methodology and Results

| Item | Amount LKR. million |
|---|------------------------|
| Regulatory Capital | |
| Core Capital | 20,018 |
| Capital Base | 29,614 |
| Calculation of Risk-weighted Amount | |
| - Credit Risk | 207,510 |
| - Market Risk | 10,161 |
| - Operational Risk | 17,491 |
| Calculation of Capital Adequacy Ratios (%) | |
| - Core Capital Ratio | 8.51 |
| - Total Capital Ratio | 12.59 |

Credit Risk Stress Testing

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.

The details of credit risk stress testing are given below:

| | Scenario 1 | Scenario 2 | Scenario 3 |
|--|------------------------------------|---------------------------------------|-------------------------------------|
| 1. An increase in the NPLs in the loan book | 5% Increase | 10% Increase | 20% Increase |
| Revised CAR % | 12.5 | 12.4 | 12.2 |
| 2. A negative shift in NPL categories on the Bank's credit portfolio | 50% Increase | 80% Increase | 100% Increase |
| Revised CAR % | 12.5 | 12.4 | 12.4 |
| 3. Fall in FSV of mortgaged collateral in credit portfolio | 10% Decline | 20% Decline | 40% Decline |
| Revised CAR % | 12.6 | 12.6 | 12.6 |
| 4. Default of Large Borrowers | Default of Top Borrower | Default of Top 2 Borrowers | Default of Top 3 Borrowers |
| Revised CAR % | 12.0 | 11.6 | 11.4 |
| 5. Default by the Largest Group | Default by Top member of the Group | Default by Top 2 members of the Group | Default by all members of the Group |
| Revised CAR % | 12.2 | 12.2 | 12.2 |

Market Risk Stress Testing

Losses beyond the confidence level are not captured by certain models, which therefore gives no indication of the size of unexpected losses in these situations. This is complemented by regular stress testing of market risk exposures to highlight the potential risk that may arise from extreme market events that are rare but plausible.

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward-looking scenarios, to give early warning signals to align the business and take appropriate action in a proactive manner.

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. 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.

Bank's Foreign Currency Net Open Position Stress Test Results as at 31 December 2015

Bank's net foreign currency position is tested on a daily basis under four stress scenarios giving shocks of 5%, 10%, 15% and an extreme shock of 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 worst case scenarios.

Bank's Foreign Currency DBU Net Open Position and Stress Test Results as at 31 December 2015

| As at 31 December 2015 | Net Position USD/LKR | Scenario 1 USD/LKR | Scenario 2 USD/LKR | Scenario 3 USD/LKR | Scenario 4 USD/LKR |
|--|-------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Magnitude of Shock (Adverse) | - | 5% | 10% | 15% | 25% |
| Spot Rate Movement | 144.00 | 136.80 | 129.60 | 122.40 | 108.00 |
| Net Open Position – DBU, Profit/(Loss) (LKR) | 600,067 | (4,320,480) | (8,640,959) | (12,961,439) | (21,602,398) |

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 2015

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 liability portfolios to ensure that the Bank's assets are sufficient to meet the liquidity stresses. The results are monitored against the limit and the minimum level of result (at 3%) will be considered as the management action point.

The Bank managed to maintain a healthy Liquid Assets Ratio well above the internal limit which is more stringent than the regulatory limit.

Stress Testing for Liquidity Risk

| | % |
|--|-------|
| Bank's Liquid Assets Ratio (DBU) as at 31 December 2015 | 22.24 |
| Bank's Liquid Assets Ratio (FCBU) as at 31 December 2015 | 24.91 |

Stress Testing on Liquid Assets Ratio

| Scenario No. | Stress Scenarios | Magnitude of Shocks on Liquid Assets Ratio | | |
|--------------|--|--|-------|-------|
| | | 3% | 5% | 10% |
| | | Revised LAR after Relevant Shocks | | |
| 1 DBU | Adverse Impact on MM & Institutional Borrowings/Drop in Market Liquidity (Market Specific) (%) | 21.65 | 21.25 | 20.24 |
| 1 FCBU | Adverse Impact on MM & Institutional Borrowings/Drop in Market Liquidity (%) | 24.59 | 24.37 | 23.82 |
| 2 DBU | Run Down on CASA & Time Deposits (%) | 20.63 | 19.52 | 16.61 |
| 2 FCBU | Run Down on CASA & Time Deposits (%) | 23.71 | 22.89 | 20.75 |
| 3 DBU | Impact on Total Liquid Liabilities (%) | 20.02 | 18.46 | 14.30 |
| 3 FCBU | Impact on Total Liquid Liabilities (%) | 23.38 | 22.32 | 19.53 |

Operational Risk Stress Testing

The Bank conducts stress tests for operational risk by computing the Operational Risk Value at Risk (Op VaR). Op VaR is calculated at Bank level based on 445 loss data points collected as at 31 December 2015, considering whole Bank as a single Operational Risk Category-ORC which includes two broad steps:

- i. Data Analysis
- ii. Frequency Analysis

The Bank uses Monte-Carlo simulation to generate aggregated distributions (by combining frequency and severity distribution) of operational losses for given loss data (with 99.9% confidence interval and 110,000 simulation runs). The Op VaR calculated as at 31 December 2015 was LKR 23.89 million.

The Op VaR under stressed conditions in LKR million is as follows:

| 5% | 10% | 15% |
|-------|-------|-------|
| 25.09 | 26.28 | 27.48 |

The above figures are significantly lower than the operational risk capital allocated under the Basic Indicator Approach (BIA). Hence no additional capital is required under stressed conditions.

When the Bank calculates its operational risk capital requirement under the BIA, the average of 15% of the annual gross income over the preceding three years are considered. If the annual gross income is negative or zero it will be excluded from both the numerator and denominator when calculating the average capital charge. The Bank also performs BIA based Stress Testing on the assumption that the Operational Risk Losses assumed to have direct relationship with the gross income of the Bank considering three levels of shocks ranging from mild shock of 1% to severe shock of 3%. The stressed Op Risk capital considering a severe shock was LKR 349 million as at 31 December 2015.

Basel III

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 Bank is already in compliance with Basel III requirements on capital and liquidity coverage.

OPTIMAL RISK REWARD PAY-OFF AND MAXIMIZATION OF RETURNS ARE KEY FOCUSES OF OUR CREDIT RISK MANAGEMENT ENDEAVOURS

Credit Risk

Credit risk is the risk of 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 maximize returns
- Maintain the quality of the portfolio by minimizing the non-performing loans and probable losses
- Prudently 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 situations of conflict of interest and report all insider-related credits to appropriate bodies

Realignment of Structure to Better Meet Objectives of Credit Risk Management

In the current regulatory context, it has become necessary to make a clear distinction between pre credit review/approval and post credit review functions in the Bank. Earlier, both functions were combined within the Group Risk Management department. An independent pre credit review division was established to further strengthen the pre-approval process and make it independent from post credit review function in the Bank.

Further a loan Review team was formed within the Group Risk Management Department to carry out Loan Review Mechanism (LRM) as prescribed by the regulator.

The objectives of LRM are:

- Promptly identify loans with potential credit weaknesses.

- Identify relevant trends that affect the collectability of the portfolio and isolate segments of the portfolio that are potential problem areas.
- To appropriately grade or adversely classify loans especially those with well-defined credit weaknesses that jeopardize repayment, so that timely action can be taken and credit losses can be minimized.
- Evaluate activities of lending personnel including their compliance with lending policies and the quality of their loan approval, monitoring and risk assessment.
- Assess the adequacy of and adherence to internal credit policies and loan administration procedures and to monitor compliance with relevant laws and regulations.
- Provide IRMC and the Board of Directors with an objective and timely assessment of the overall quality of the loan portfolio and that regulatory obligations are met in terms of credit management.
- Provide management with accurate and timely credit quality information.

The Loan Review function operates independently, reporting to the IRMC of the Bank. Its responsibilities extend

to providing rational, objective and professional comments, observations for remedial action to be considered for implementation by line management.

A Loan reviewer's responsibilities also extends to reviewing the adequacy of action taken in respect to recommendations made in credit review reports.

Process

At NDB 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 realization of security remains a fallback 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 to re-delegate limits to the Credit Committees and the Business Lines. All approval limits are name specific and are based on individual experience, facility type and collateral in order to ensure accountability and mitigate any judgmental errors.

- There are two Credit Committees representing the Business Lines and these Committees comprise senior officers of business units.
- The delegated authority limits are reviewed periodically and the Bank follows the 'four-eyes principle' (i.e. minimum of two officers signing a credit proposal).

- Lending decisions are based on detailed credit evaluation carried out by Relationship Managers and reviewed/approved by designated approving authority.

Internal Risk Ratings of Obligors

The credit portfolio of the Bank is risk-rated using an internally developed system that takes into account quantitative as well as qualitative factors. The rating scale ranges from Triple A to B4 and the ratings of every obligor is reviewed at least annually or more frequently if required. This rating system is used as a guide for account monitoring, CBSL provisioning and pricing.

The Bank has rolled out the new Internal Risk Rating system which runs on 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 expected loss of Bank's portfolio and also complies with Central Bank Direction No. 07 of 2011 on Integrated Risk Management.

The Bank has deployed varying models to gauge the default risk associated with Large Corporate, Mid Corporate, SME and Non-Banking Financial Institutes. All these models are structured in a manner incorporating both quantitative and qualitative parameters to reflect the underlying probabilities of default.

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). 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 into 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 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 Management 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 – considered based on the Bank's exposure to a 'Group of Related Parties' and is capped at 60% of the Bank's Capital Base.
- Substantial Exposure Limits – this is in compliance with the Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks and the Bank has introduced a substantial exposure limit of 500% of the Tier II capital of the Bank.

- Industry/economic sector limits – limits are imposed for lending to different sub-sectors in the economy. This is a control mechanism introduced recognizing that during various economic cycles, different sectors of the economy could face difficulties. At present the maximum exposure to a sub-sector is 15% of the Bank's total exposure/limits.

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 prespecified 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 FX Forwards, 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 | To assess the trends in comparison with industry and measure performance against budgets/Risk Appetite |
| Market Share | |
| NPL of the Bank Industry NPLs | |
| NPL Ratio of the Bank Industry Average NPL Ratio | |
| Provision Cover - % – Bank Industry | |
| Open Loan Position | |
| ROE % | To assess compliance with Regulatory limits and the Bank's Risk Appetite |
| TIER I % | |
| TIER I & II % | |

Credit Risk Mitigation

The Bank adopts various mechanisms to mitigate the credit risk of the loan 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,
 - Plant, machinery and equipment,
 - 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 and 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.

A WELL-DEFINED CREDIT POLICY APPROVED BY THE BOARD OF DIRECTORS

- Credit culture of the Bank
- Specify target markets for lending
- Specify prohibited lending
- Set acceptable risk parameters
- Set remedial and recovery actions

DELEGATION OF AUTHORITY

- Two Credit Committees representing Business Lines
- The delegated authority limits are reviewed periodically and the Bank follows the four-eye principle
- Lending decisions are based on detailed credit evaluation

RISK PRICING

- Price the credit risk using more scientific methods
- System driven RAROC

PRUDENTIAL LIMITS

Maximum exposure limits on;

- Single Borrower/Group Exposures
- Prudential Group Exposure Limits
- Substantial Exposures
- Industry/economic sector limits

CREDIT RISK MITIGATION

- Ways outs analysis
- Comprehensive and legally enforceable documentation of credit transactions
- Obtaining of collateral in-line with the Bank's policy and ensuring enforceability

STRUCTURED AND STANDARDIZED CREDIT APPROVAL

- Credit is extended only to suitable and well-identified customers
- Never to take a credit risk where ability of the customer to meet obligations is based on the most optimistic forecast of events
 - Risk considerations shall have priority over business and profit considerations
 - 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
 - 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

RISK RATING

- System driven obligor risk rating, facility risk rating and retail score cards to suit the diverse client portfolios of the Bank
 - Incorporating both quantitative and qualitative parameters

POST SANCTION REVIEW AND MONITORING

- Warning signals are identified
 - Watch listing process
- Non-Performing assets are identified at an early stage

PORTFOLIO MANAGEMENT

- Evaluates exposures on the basis of industry concentration, rating quality, internally established prespecified early warning indicators
- Regular portfolio reviews, stress tests and scenario analysis
 - The exposures in off balance sheet products such as FX Forwards and Letters of Credit are treated with utmost care

Impairment Losses on Loans and Receivables

A credit risk provision for loan impairment is established if there is objective evidence that the Bank will be unable to collect all amounts due on loans and receivables according to the original contractual terms.

Objective evidence that a loan is impaired, includes observable data that comes to the attention of the Bank about the following loss events:

- 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 reorganization
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans, to name a few.

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 ensue,
- The availability of other financial support,

- The realizable value of collateral and the timing of the expected cash flows.

An allowance for loans and receivables is reported as a reduction of the carrying amount of a loan on the balance sheet. Additions to provisions for loan impairment are made through impairment losses on loans and receivables in the income statement.

The Bank assesses whether objective evidence of impairment exists for loans that are considered individually significant, i.e. all loans above LKR 100 million and collectively for loans that are not considered individually significant.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans' carrying amount and the present value of estimated future cash flows discounted at

- a. the loan's original effective interest rate, if the loan bears a fixed interest rate, or
- b. current effective interest rate, if the loan bears a variable interest rate.

The estimation of the recoverable amount of a collateralized exposure reflects the cash flows that may result from Liquidation of Collateral where foreclosure is considered the likely course of action. The time, costs and difficulties involved in obtaining repayment through collateral should be taken into account when determining the recoverable amount.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics. Corporate and SME loans are grouped based on product type, economic sector and on days in arrears. Retail Banking loans are grouped, based on product type and number of days in arrears. Those characteristics are relevant to the estimation of historical loss experience for loans. Historical loss experience is adjusted on the basis of Probability of Default and Loss Given Default. The Bank also bases its analyses on economic factors and portfolio factors such as:

- Economic factors
- Historical experience
- Unemployment rates
- Historical losses on the portfolio
- Changes in laws
- Levels of arrears
- Changes in regulations
- Credit utilization
- 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.

The Bank has in place, a detailed impairment policy which was approved by the Board of Directors.

Credit Risk Analytics

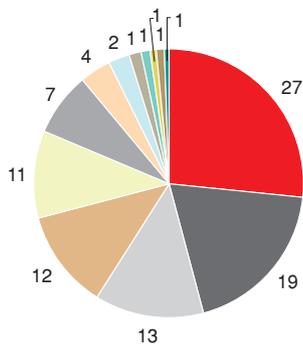
Bank's Portfolio at a Glance

Product Concentration

27% of Bank's portfolio continues to be concentrated in commercial banking term loans. Bank maintained a healthy product wise portfolio composition.

PRODUCT WISE PORTFOLIO COMPOSITION AS AT 31.12.2015

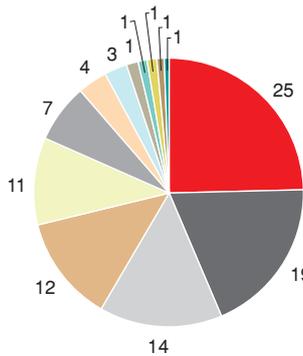
%



| | | | | | |
|-----------------------------|----|--|-------------------|---|--|
| Term Loans Com Banking | 27 | ■ | Securitization | 2 | ■ |
| Term Loans | 19 | ■ | Bills of Exchange | 1 | ■ |
| Trade Finance | 13 | ■ | Islamic Loans | 1 | ■ |
| Overdrafts | 12 | ■ | Staff Loans | 1 | ■ |
| Consumer & Individual Loans | 11 | ■ | Hire Purchase | 1 | ■ |
| Leases | 7 | ■ | Other | 1 | ■ |
| Housing Loans | 4 | ■ | | | |

PRODUCT WISE PORTFOLIO COMPOSITION – AVERAGE FOR 2015

%



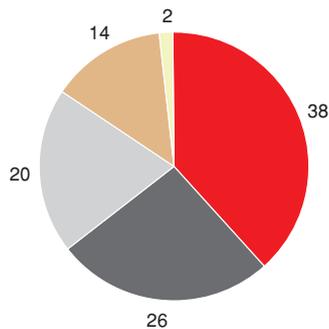
| | | | | | |
|-----------------------------|----|--|-------------------|---|--|
| Term Loans Com Banking | 25 | ■ | Securitization | 3 | ■ |
| Term Loans | 19 | ■ | Bills of Exchange | 1 | ■ |
| Trade Finance | 14 | ■ | Hire Purchase | 1 | ■ |
| Overdrafts | 12 | ■ | Staff Loans | 1 | ■ |
| Consumer & Individual Loans | 11 | ■ | Islamic Loans | 1 | ■ |
| Leases | 7 | ■ | Other | 1 | ■ |
| Housing Loans | 4 | ■ | | | |

Business Line Wise Composition

The business line wise composition of portfolio changed during the period in-line with the Bank's long term strategy.

BUSINESS LINE WISE COMPOSITION OF THE PORTFOLIO AS AT 31.12.2015

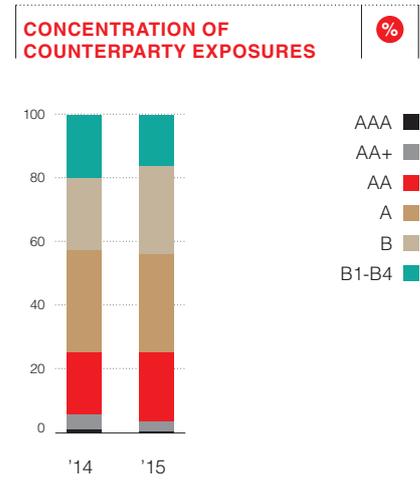
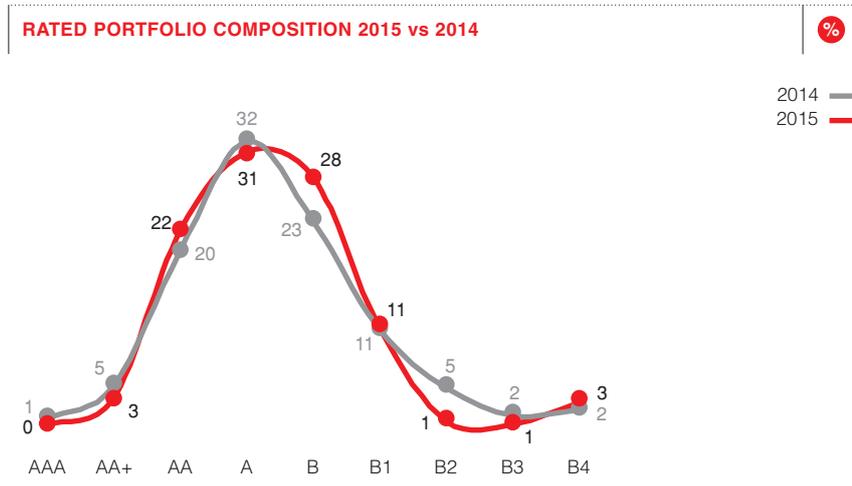
%



| | | |
|--------------------|----|--|
| Commercial Banking | 38 | ■ |
| Retail Banking | 26 | ■ |
| Project Finance | 20 | ■ |
| Branch Network | 14 | ■ |
| Other | 2 | ■ |

Rated Portfolio Concentration

Bank's portfolio continues to be concentrated on 'A' rated clients, based on the internal rating model used by the Bank and the composition was within the risk appetite of the Bank, set by the Board.



Credit Risk Concentrations

Single Name Concentration

- The Bank was in compliance with regulatory limits on Group and Single Borrower concentrations. The Bank was also in compliance with the internal limits set by the Board on Group and Single Borrower concentrations which are more stringent than those prescribed by the regulator.

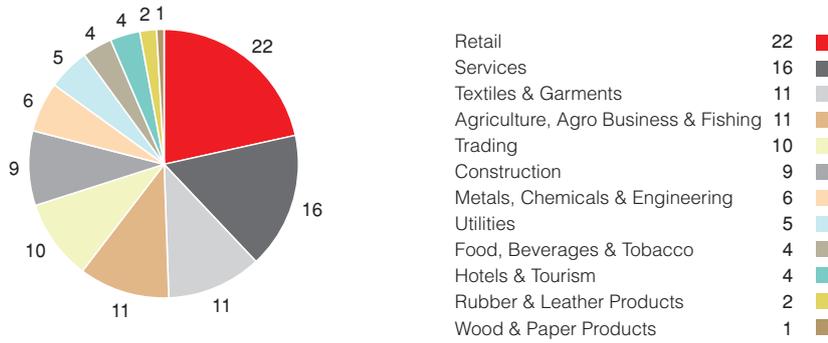
- The substantial exposures of the Bank accounted to only 73.4% of the capital base and was well within the internal limit. The top 20 clients accounted to only 18% of the portfolio and the concentrations were within the risk appetite set by the Board.
- The Bank's portfolio was not concentrated on a particular client or a Group.

Sector Concentration

The Bank maintained a well-diversified portfolio and the portfolio was not over concentrated on a particular sector. The Bank was also in compliance with the minimum lending requirement of 10% to Agricultural sector, with 11% of portfolio concentrated on same as at 31 December 2015.

SECTOR WISE CONCENTRATION OF THE PORTFOLIO AS AT 31.12.2015

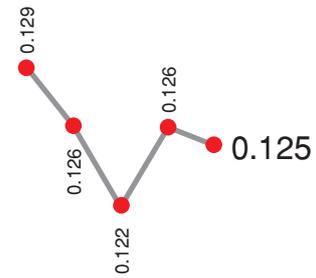
%



Concentration measured using Herfindahl-Hirschman Index (HHI), also indicated a decline in sector concentration.

CONCENTRATION MEASURED USING HHI

Index

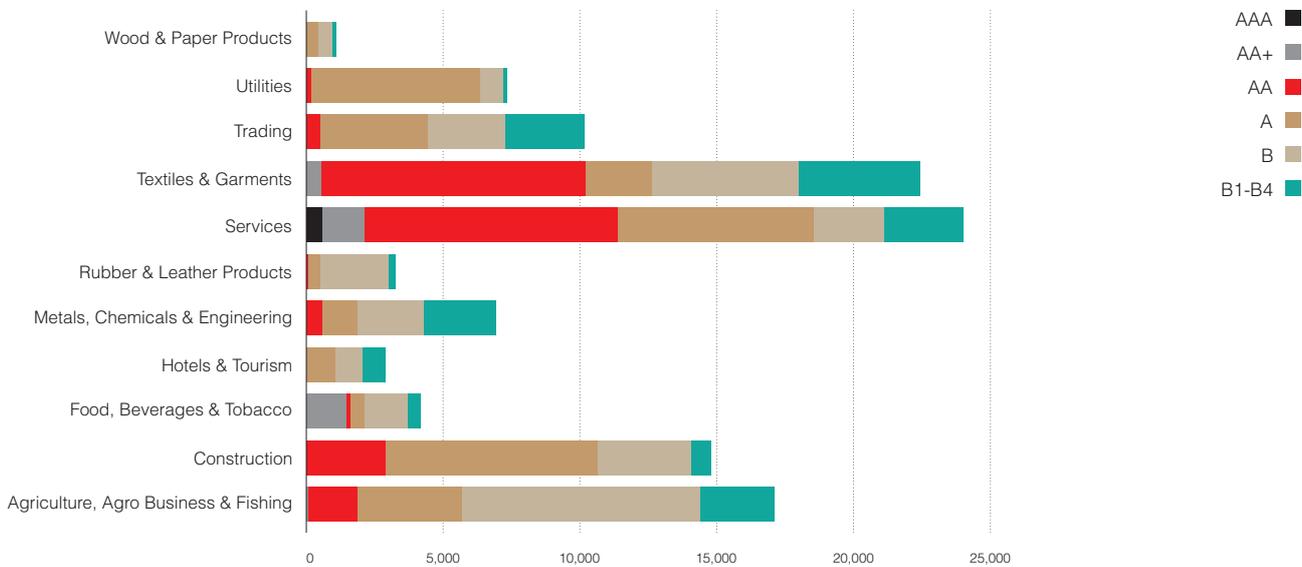


Dec '14 Mar '15 Jun '15 Sep '15 Dec '15

The Bank analyses sector wise NPL ratios and also monitors the concentration of borrowers in lower rating notches for a given sector to identify sector stresses in advance.

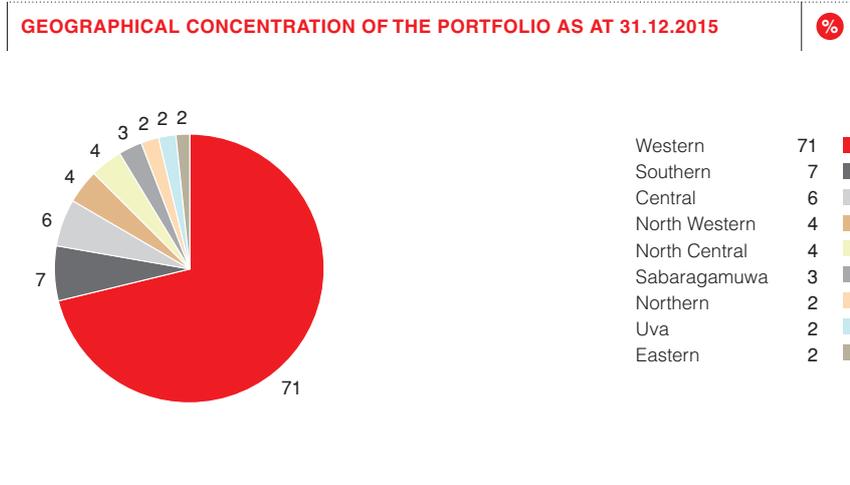
SECTOR-WISE RATED PORTFOLIO AS AT 31.12.2015

LKR million



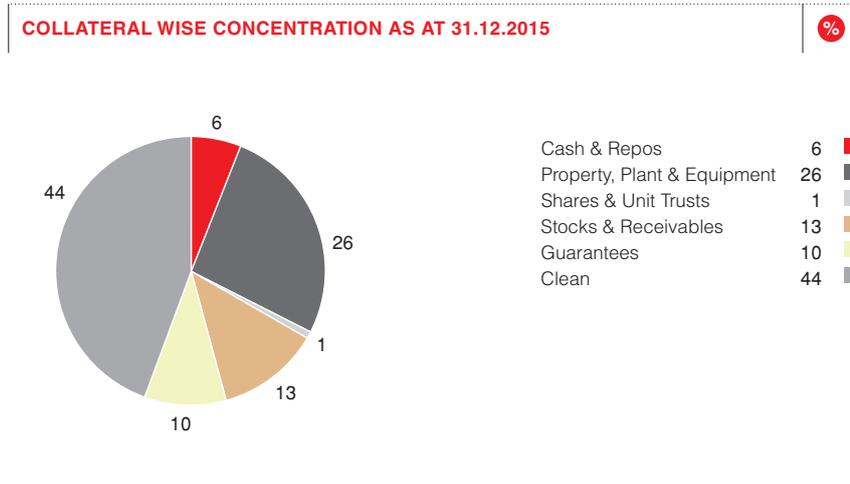
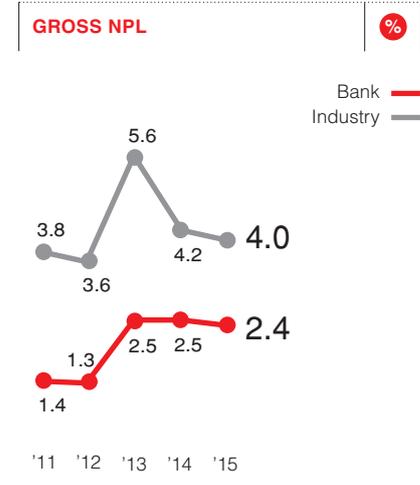
Geographical Concentration

Based on economic activities, the 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 disbursements to infrastructure and power projects funded by the Bank. Bank also funded cross border exposures in Uganda, Bangladesh, Cambodia and Maldives in line with the Bank's long-term strategy, resulting in further diversification of the portfolio.



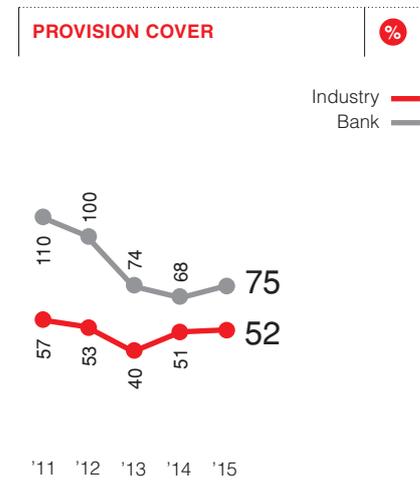
Non-Performing Loans

The Bank's NPL ratio has always been below the industry ratio, reflecting a better quality portfolio than most players in the industry.



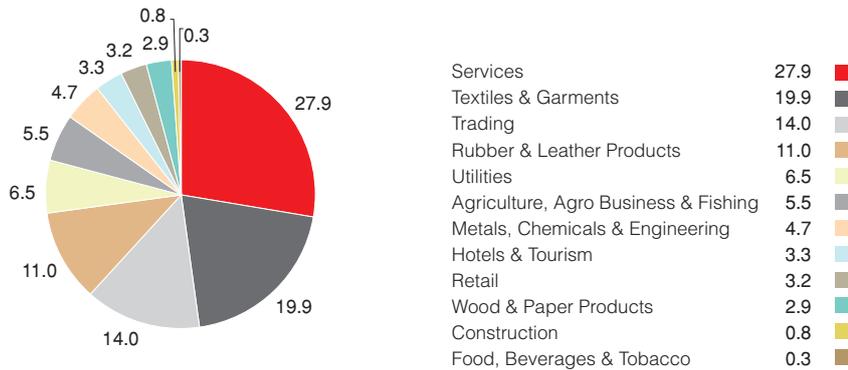
Provisioning and Impairment

The Bank continues to maintain provision covers above the industry.



SECTOR WISE INDIVIDUAL IMPAIRMENT AS AT 31.12.2015

%



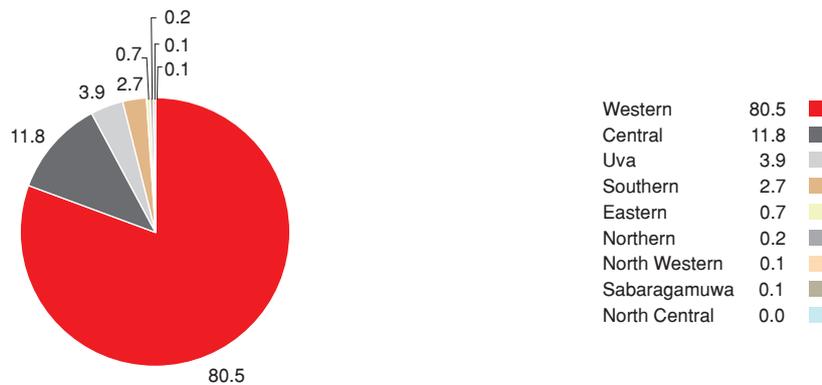
on assuring that risks are taken where it is most optimal, given the rewards and capital consumption.

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 Assets and Liabilities Committee (ALCO) and Market Risk Management to facilitate the business needs.

GEOGRAPHY WISE INDIVIDUAL IMPAIRMENT AS AT 31.12.2015

%



Bank's comprehensive risk management framework, covers the Market, Liquidity, Asset and Liability risks and proactively manages the exposures against the predefined risk parameters. Prudential internal limits have been defined for interest rate risk, price risks and exchange rate 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 senior management on a timely basis.

Market Risk

Market risk is the potential loss in both On and Off-balance sheet positions, caused by movements in foreign exchange rates, interest rates, equity and commodity prices. In the ordinary course of business, banks deal in financial products such as deposits, short/long-term loans, borrowings, Debt/Equity Securities and Foreign Exchange transactions, which expose banks to Market Risk at different levels.

Objective of Market Risk Management

The primary objective of Market Risk Management (MRM) is to ensure that Business units of the Bank optimize the risk-reward relationship within the Bank's predefined risk appetite and avoid exposing the Bank to unacceptable losses.

The activities of Market Risk Management are not directed purely at loss mitigation but also assist towards analyzing the interrelationship of risk, reward and capital. Thus, the focus is

Process

Market Risk Management defines and implements a framework to systematically identify, assess, monitor and report our market risk to support management on decision making and risk mitigation. Market risk managers identify existing and potential market

OUR MARKET RISK MANAGEMENT ENDEAVOURS ARE AIMED AT THE TWIN OBJECTIVES OF LOSS MITIGATION AND OPTIMIZING THE RISK REWARD RELATIONSHIP WITHIN THE BANK'S PREDEFINED RISK APPETITE.

risks by engaging with the business areas and through active portfolio analysis.

The Key Functions of Market Risk Management include Policy formulation, Risk Measurement methodologies, systems and control, reporting and communication.

- Policy Formulation – Policy formulation/renewal are carried out considering the regulatory concerns and material changes on MRM/ALM – Asset Liability Management Limit monitoring process.
- Risk Measurement methodologies – Exposures are assessed and limits recommended to ALCO for approval.
- Risk Monitoring – All limits in force are monitored on a predefined time bands.
- Risk Reporting Communication & Approval – MRM/ALM risk activities are identified and monitored on a timely basis. This includes timely investigation and reporting of limit excesses for management action and approval within the delegated levels of authority.

ALCO, as the key Management Committee that regularly monitors the Market Risk exposures, initiates appropriate actions to optimize the Risk exposures within the Risk appetite of the Bank. In this regard, key functions carried out by ALCO include:

- Review and recommend MRM/ALM policies, limits and guidelines for IRMC/Board approval
- Management of the balance sheet and risks associated with it
- Setting key balance sheet ratios/ targets
- Planning strategies for funding, buffer investments, hedging and trading etc.
- Setting internal investment policies
- Approve investments
- Setting pricing policies (internal funds transfer and external product pricing).

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, monitor and control Bank's exposures to market risk, given the size, complexity and risk profile of the Bank.

Key risk metrics:

- 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, PVBP on Debt Securities Trading and AFS portfolios
- 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 as at 31 December 2015 |
|--|-------|---------------------------------|
| Price Sensitivity of Balance Sheet – P/L impact for a 1% Change in Interest Rate (LKR million) | (500) | 176 |
| Mark-to-Market of Debt Trading Portfolio (LKR million) | (60) | (4.64) |
| Bank's Consolidated Net Open Position +/- (USD million) | 13 | 0.47 |
| Stress Testing Results on DBU Net Open Position (LKR million) | (175) | (4.32) |

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

Foreign Exchange Risk

Foreign exchange risk is the risk of losses arising through holding of assets and liabilities in foreign currency and due to the movements in foreign exchange rates against the base currency. The Bank is exposed to foreign exchange risk when it's on and off-balance sheet assets and liabilities are not equal in a given currency or when the timing and certainty of the inflows and outflows differ.

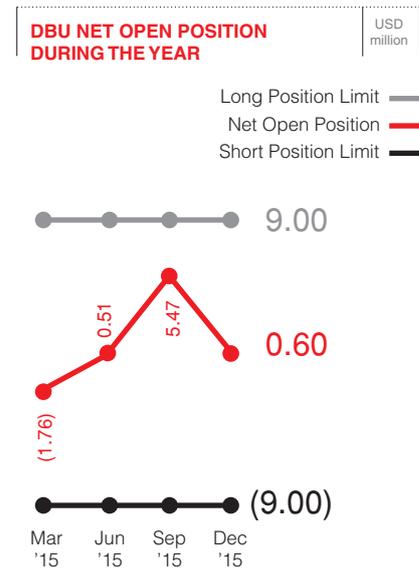
The Bank possesses a Board approved foreign exchange risk management policy and a limit framework to ensure that Bank maintains the Forex exposures within the risk parameters on a day-to-day basis. The policy framework consists of the roles and responsibilities, procedures, risk measurement framework, risk monitoring, reporting and controls taking in to account the rules and

regulations and the best practices on the FX market to mitigate foreign exchange risk.

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. Whilst the currency wise positions are being revalued on a daily basis, FX net open position (NOP) 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. Apart from the regulatory limit, the Bank has set internal prudential Forex position limits consisting of daily Forex turnover limit, Daylight position limit, Forex Gap limits, Swap funding limit and Stop loss limits, to closely monitor and mitigate foreign exchange risk.

Exposures are managed within the recommended/applicable limits.



Foreign Exchange Position as at 31 December 2015

| Currency | AL Position '000 | Spot Position '000 | Forward Position '000 | Overall Exposure in Respective Foreign Currency '000 | Absolute Positions in USD Equivalent '000 | Absolute Exposure in LKR '000 |
|---|---------------------|-----------------------|--------------------------|---|--|-------------------------------|
| US Dollar | 62,185 | (103) | (60,972) | 1,110 | 1,110 | 159,836 |
| Pound Sterling | (12,622) | - | 12,624 | 2 | 3 | 399 |
| Euro | (14,540) | - | 14,479 | (60) | 66 | 9,497 |
| Japanese Yen | 17,697 | - | (76,184) | (58,487) | 486 | 69,940 |
| Australian Dollar | (23,136) | - | 23,128 | (8) | 6 | 816 |
| Canadian Dollar | 657 | - | - | 657 | 474 | 68,215 |
| Other Currencies | (9,282) | - | 8,868 | (414) | 821 | 118,179 |
| Total Exposure | | | | | 2,964 | 426,881 |
| Total capital funds as per the audited Financial Statements as at 31 December 2015 | | | | | | 29,613,941 |
| Total exposure as a % of total capital funds | | | | | | 1.44% |

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 exchange rate movements by way of profit or loss to the Bank's Income Statement.

Exchange Rate Sensitivity of Major Foreign Currency Net Open Positions as at 31 December 2015

| Spot Rate Shocks | | LKR Depreciate ← ————— → LKR Appreciate | | | | | | |
|------------------|-------------------|---|------------------|----------------|-----------|------------------|--------------------|--------------------|
| Currency | Net Open Position | -5% | -2.50% | -1% | Spot rate | 1% | 2.50% | 5% |
| USD | 1,109,969 | 7,991,780 | 3,995,890 | 1,598,356 | 144.00 | (1,598,356) | (3,995,890) | (7,991,780) |
| GBP | 1,869 | 19,827 | 9,913 | 3,965 | 212.21 | (3,965) | (9,913) | (19,827) |
| EUR | (60,350) | (471,700) | (235,850) | (94,340) | 156.32 | 94,340 | 235,850 | 471,700 |
| JPY | (58,487,255) | (3,498,579) | (1,749,290) | (699,716) | 1.20 | 699,716 | 1,749,290 | 3,498,579 |
| AUD | (7,759) | (40,653) | (20,327) | (8,131) | 104.79 | 8,131 | 20,327 | 40,653 |
| Total | | 4,000,673 | 2,000,337 | 800,135 | | (800,135) | (2,000,337) | (4,000,673) |

Interest Rate Risk (IRR)

Interest Rate Risk (IRR) is the exposure of an institution's financial commitments to adverse movements in interest rates. Changes in interest rates also affect the underlying value of the banking institution's assets, liabilities and Off-Balance Sheet instruments, as the present value of future cash flows (and in some cases, the cash flows themselves) change when interest rates change.

In order to manage the IRR, Bank has positioned the Balance Sheet into trading and banking books. While the assets in the trading book are held primarily for generating profit through short-term differences in prices/yields, the banking book comprises assets and liabilities, which are contracted basically for steady income generation and are generally held till maturity. Thus, while the price risk is the prime concern of banks in the trading book,

earnings or economic value changes are the main focus of the banking book.

Bank's trading portfolio mainly comprises securities (Treasury Bills/Bonds), and is subject to mark to market on a daily basis and is monitored against the set stop loss limits.

Interest Rate Sensitivity of the Balance Sheet as at 31 December 2015

The price sensitivity of the Balance Sheet was managed within the 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 time bands according to their residual time to maturity is given below:

The Maturity Gap Analysis of Interest Sensitive Assets and Liabilities

| | Up to 1 Month LKR '000 | 1 to 3 Months LKR '000 | 3 to 6 Months LKR '000 | 6 to 12 Months LKR '000 | 1 to 3 Years LKR '000 | 3 to 5 Years LKR '000 | Over 5 Years LKR '000 | Non-sensitive LKR '000 | Total LKR '000 |
|--|---------------------------|---------------------------|---------------------------|----------------------------|--------------------------|--------------------------|--------------------------|---------------------------|-----------------------|
| Assets | | | | | | | | | |
| Cash | 2,596,375.00 | - | - | - | - | - | - | - | 2,596,375.00 |
| Due from banks | 17,377,025.39 | - | - | - | - | - | - | - | 17,377,025.39 |
| Investments – current | 51,745,370.42 | 8,640,000.00 | 6,757,239.34 | 821,980.83 | 1,333,572.31 | 1,714,420.00 | - | 2,104,116.81 | 73,116,699.71 |
| Investments – non-performing | - | - | - | - | - | - | - | - | - |
| Loans and receivables – current | 57,381,716.64 | 32,930,184.92 | 13,818,478.37 | 13,604,195.91 | 42,438,264.70 | 25,057,247.89 | 22,225,078.31 | - | 207,455,166.73 |
| Loans and receivables – non-performing | - | - | - | - | - | - | - | 2,097,205.47 | 2,097,205.47 |
| Property, plant & equipment | - | - | - | - | - | - | - | 2,270,236.10 | 2,270,236.10 |
| Other assets | - | - | - | - | - | - | - | 3,504,176.84 | 3,504,176.84 |
| Total assets | 129,100,487.45 | 41,570,184.92 | 20,575,717.71 | 14,426,176.75 | 43,771,837.01 | 26,771,667.89 | 22,225,078.31 | 9,975,735.22 | 308,416,885.24 |
| Liabilities | | | | | | | | | |
| Capital | - | - | - | - | - | - | - | 22,277,843.39 | 22,277,843.39 |
| Deposits | 76,046,426.35 | 45,315,507.35 | 26,460,833.99 | 29,199,765.98 | 2,571,265.37 | 1,344,047.26 | 1,090,328.46 | - | 182,028,174.75 |
| Borrowings | 34,725,133.62 | 2,343,840.32 | 2,250,513.35 | 2,304,334.26 | 9,049,044.14 | 26,620,197.29 | 13,759,961.96 | - | 91,053,024.93 |
| Other liabilities | 468,246.59 | 946,637.49 | 625,160.12 | 583,215.70 | 245,076.24 | 73,223.71 | - | 10,116,282.81 | 13,057,842.65 |
| Total liabilities | 111,239,806.55 | 48,605,985.16 | 29,336,507.46 | 32,087,315.93 | 11,865,385.74 | 28,037,468.26 | 14,850,290.42 | 32,394,126.20 | 308,416,885.72 |
| Period Gap | 17,860,680.89 | (7,035,800.25) | (8,760,789.74) | (17,661,139.19) | 31,906,451.26 | (1,265,800.38) | 7,374,787.89 | (22,418,390.98) | - |

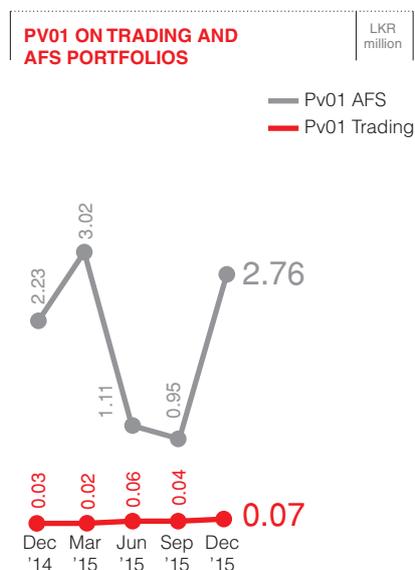
Duration Analysis

The Bank monitors the duration of the fixed income portfolio to ensure that the maximum market potential could be gained and is managed within the internal prudential limits set for trading and AFS portfolios.



PVBP Analysis

The Bank assesses the impact due to a PV01 change in the yields for fixed income trading and AFS portfolios on a daily basis. This will convey the sensitivity of the portfolio due to interest rate movement in the market.



Equity Risk

The equity price risk arises due to adverse movement in the value of the individual stock price or of the corresponding equity index. The Bank was insensitive to Equity Risk as the Bank did not hold an active Equity Trading portfolio during the year.

Commodity Risk

Commodity price risk arises due to volatilities in the commodity exposure of the Bank. The Bank's exposure to the Gold Buffer Stock of the underlying product 'Raththaran Ithurum' is negligible when compared to the Bank's Balance Sheet size. However, a mark to market calculation is being performed on a monthly basis to assess the impact on Income Statement with the price movement.

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its financial obligations in a timely manner without incurring unacceptable losses.

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 stressed 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 strengthened in 2015 with the inflow from the customer deposits and funding from the Multi National funding agencies, which provides stable and long-term sources of funds, which resulted in an advance to core funding ratio of 106.3% as at 31 December 2015, reflecting a stable liquidity profile of the Balance Sheet. The Bank will continue to focus on liability generation through deposit mobilization, which will be a necessary precondition 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 rests with the ALCO. 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 Balance Sheet. In the Flow approach a Statement of Maturities of Assets and Liabilities is prepared placing all cash flows in time bands according to the residual time to maturity and maturity profiles built into non-maturity assets and liabilities based on their behavioural patterns.

A satisfactory trade-off between liquidity and profitability is maintained by categorizing liquidity shortfalls in the Balance Sheet into suitable time buckets, placing exposure limits on each time bucket to monitor the liquidity mismatch gaps. These limits correspond to the liquidity available to NDB Bank through various fund providers, at an agreed level of confidence.

We have carefully assessed and revised our Balance Sheet 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 Balance Sheets based on the size and the nature of the Bank's Balance Sheet.

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 predefined 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 banks to ensure stability.

Liquidity Risk Analytics

Liquid Assets 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 and stress results would give early warnings of tightening liquidity positions of the Bank. The Bank has maintained a healthy Liquid Assets Ratio throughout the year.

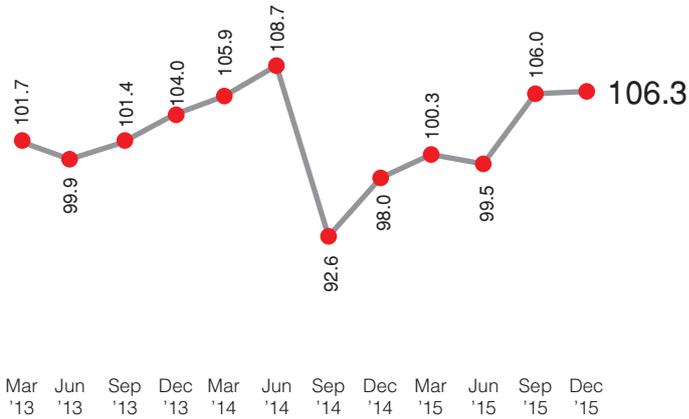
Statutory Liquid Assets Ratio (LAR)

| As at 31 December | 2015 | 2014 |
|-------------------------------|-------|-------|
| Domestic Banking Unit | 22.24 | 23.85 |
| Foreign Currency Banking Unit | 24.91 | 25.18 |

Advances to Deposits Ratio

This is defined as the ratio of total loans and advances to customers relative to deposits available which has been managed ensuring the liquidity requirements. The increasing trend in customer deposits in line with the advances has proven the positive trend in Balance Sheet growth.

ADVANCES TO DEPOSITS RATIO

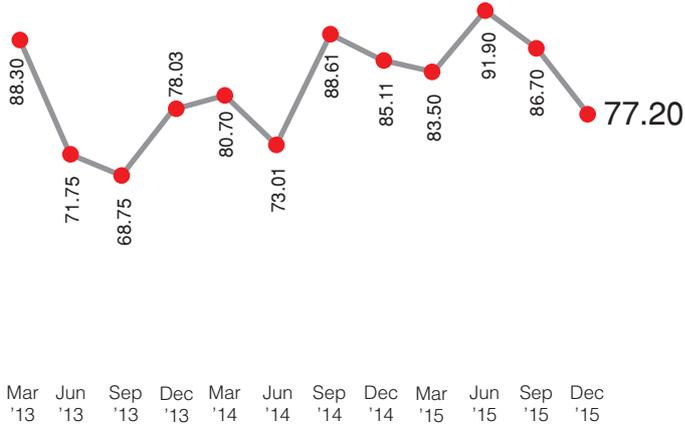


%

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 Balance Sheet.

MEDIUM-TERM FUNDING RATIO

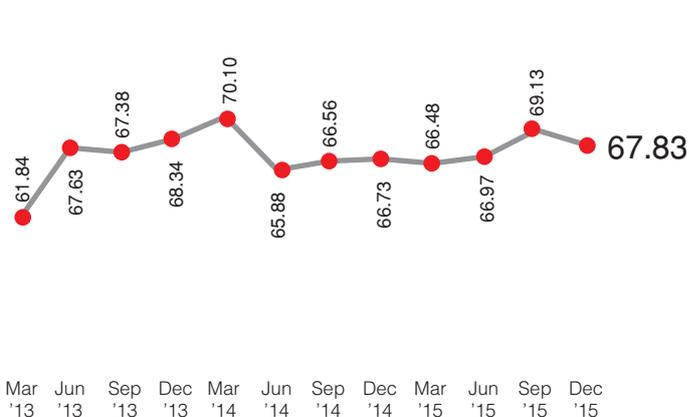


%

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

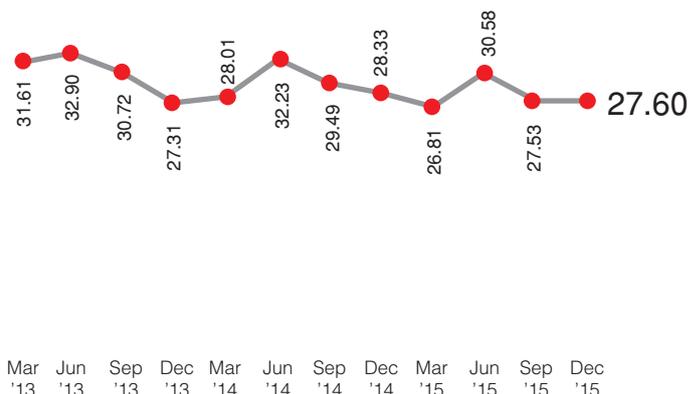


%

Liquid Assets to Short-Term Liabilities

The statutory liquid assets ratio has been maintained above the regulatory requirement at all times. Hence the liquid assets to short-term liabilities (less than one year) ratio was also maintained at a prudent level whilst meeting the commitments on a daily basis.

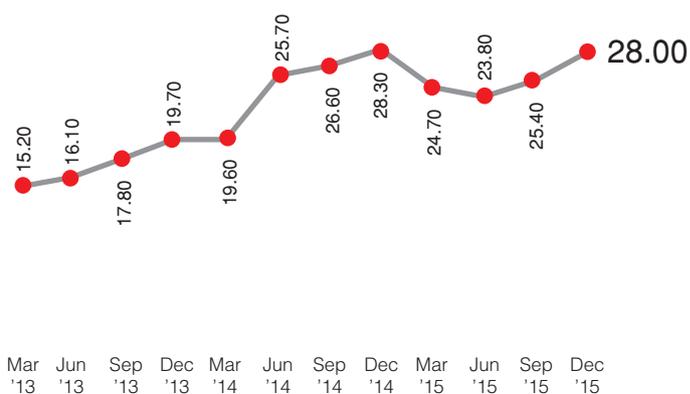
LIQUID ASSETS TO SHORT-TERM LIABILITIES



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.

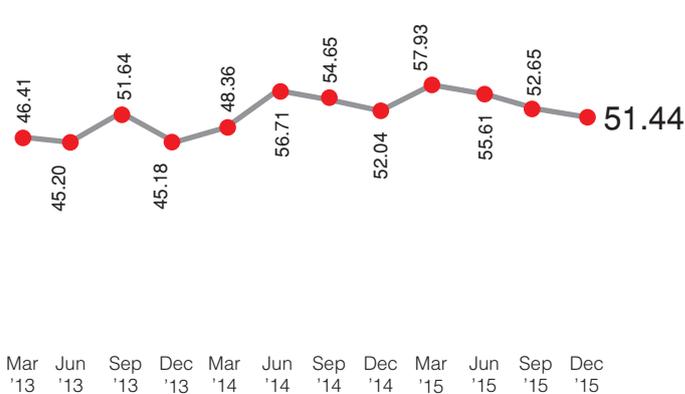
PURCHASED FUNDS TO TOTAL ASSETS RATIO



Commitments to Total Loans

The Bank's Balance Sheet expanded during the year with the growth of loan portfolio and the new facilities booked. As a result, the commitments to total loans ratio was also on an increasing trend which is being managed within accepted levels.

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 predefined intervals, which provides early warning signals on liquidity position of the Bank.

Liquidity Risk

| Indicator | Limit | Position as at 31 December 2015 |
|---|-------|---------------------------------|
| Statutory Liquid Assets Ratio – DBU | 20 | 22.24 |
| Statutory Liquid Assets Ratio – FCBU | 20 | 24.91 |
| Advances to Deposit Ratio | 111 | 106.3 |
| Medium-term Funding Ratio | 110 | 77.2 |
| Commitment Limit – LKR billion | 118 | 110.65 |
| Liquidity Coverage Ratio (LCR) – LKR Currency | 60 | 427.33 |
| Liquidity Coverage Ratio (LCR) – All Currency | 60 | 212.15 |

Liquidity Gap Analysis of Foreign Currency Denominated Assets and Liabilities

The gap analysis of foreign currency denominated assets and liabilities provides the cash flow obligations which assist in managing the foreign exchange liquidity in a prudential manner.

Segregation of Duties

Clear segregation of duties has been established between different business units ensuring prudent control and monitoring mechanisms. The Treasury Front Office reports to the CEO and the Treasury Back Office reports to Head of Operations. The Market Risk Management Unit reports directly to the CRO who is a member of BIRMC. All senior level staff attached to Market Risk, Treasury Front Office & Treasury Back Office have obtained the internationally recognized ACI qualification offered by the Financial Markets Association, as required by the CBSL directives and are competent in their job profile.

The Assets and Liabilities Committee (ALCO), comprising senior management staff 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 and liquidity risks of the Bank.

The ALCO meets on a monthly basis and whenever circumstances demand.

ALCO is the governing body for market risk, liquidity risk and asset liability risk management. The implementation of the Bank's risk management policies, procedures and systems is delegated to the Head of Market Risk Management who reports to the Chief Risk Officer. Market and liquidity risks are addressed at ALCO on a monthly basis and at the BIRMC level on a monthly/quarterly basis.

Market and Liquidity Risk Reporting

Risk reporting creates transparency on the risk profile and facilitates the understanding of the core market/ liquidity risk drivers to all levels of the organization. The Board, Senior Management and 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, GRM and ALCO
- Weekly/monthly liquidity risk report on internal/external liquidity trends/ analysis to ALCO and IRMC
- Monthly market risk reports on foreign exchange, liquidity, and deposit concentration
- Monthly ALM reports to ALCO
- Quarterly market, ALM and liquidity reports to CMRPC and IRMC
- Quarterly risk assessment report to the Board

Liquidity Gap Analysis for Foreign Currency Denominated Assets and Liabilities – as at 31 December 2015

| | Up to 1 Month USD '000 | 1 to 3 Months USD '000 | 3 to 6 Months USD '000 | 6 to 12 Months USD '000 | 1 to 3 Years USD '000 | 3 to 5 Years USD '000 | Over 5 Years USD '000 | Total USD '000 |
|--------------------------|---------------------------|---------------------------|---------------------------|----------------------------|--------------------------|--------------------------|--------------------------|-------------------|
| Total Assets | 158,138 | 169,683 | 35,761 | 4,098 | 122,019 | 47,357 | 62,378 | 599,434 |
| Total Liabilities | 94,844 | 109,014 | 58,542 | 89,583 | 47,813 | 110,883 | 88,755 | 599,434 |
| Net Liquidity Period Gap | 63,293 | 60,668 | (22,781) | (85,485) | 74,206 | (63,526) | (26,376) | – |

AT NDB MANAGING OPERATIONAL RISK IS OF VITAL IMPORTANCE TO PROACTIVELY MITIGATE RISKS IN BANK OPERATIONS

Operational Risk

Banks are exposed to changing environment marked by increasing regulatory requirements, growing consolidation, rising customer expectations, proliferating financial engineering, uprising technological innovation and mounting competition. The external environmental changes expose banks to increase in probability of failure from the operations perspective. Therefore the need for increased focus in managing operational risks is of vital importance, to proactively address issues through warning signals.

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, which also includes legal risk.

At NDB, operational risk is based on a Group-wide consistent framework that enables to determine the Bank's operational risk profile in comparison to the risk appetite and systematically identify operational risk themes and concentrations to define risk mitigating measures and priorities.

Operational Risk Management Process

In order to cover the broad range of operational risks as outlined in the definition of operational risk, our framework applies a number of techniques. These aim to efficiently manage the operational risk in the business and are used to identify, assess and mitigate operational risk.

The Operational Risk Management Unit (ORMU) 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 risks, in co-operation with the Business units and Support functions.
- Managing/maintaining the Bank's Business Continuity Plan (BCP) and Crisis Management Policy and co-ordinating its implementation.

The Bank has been guided by the Basel II Regulations (Capital Requirements Directive and 'Sound Practices Principles 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.

Escalation of Operational Risks



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 to ensure accountability. 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.

Objectives of Operational Risk Management Unit

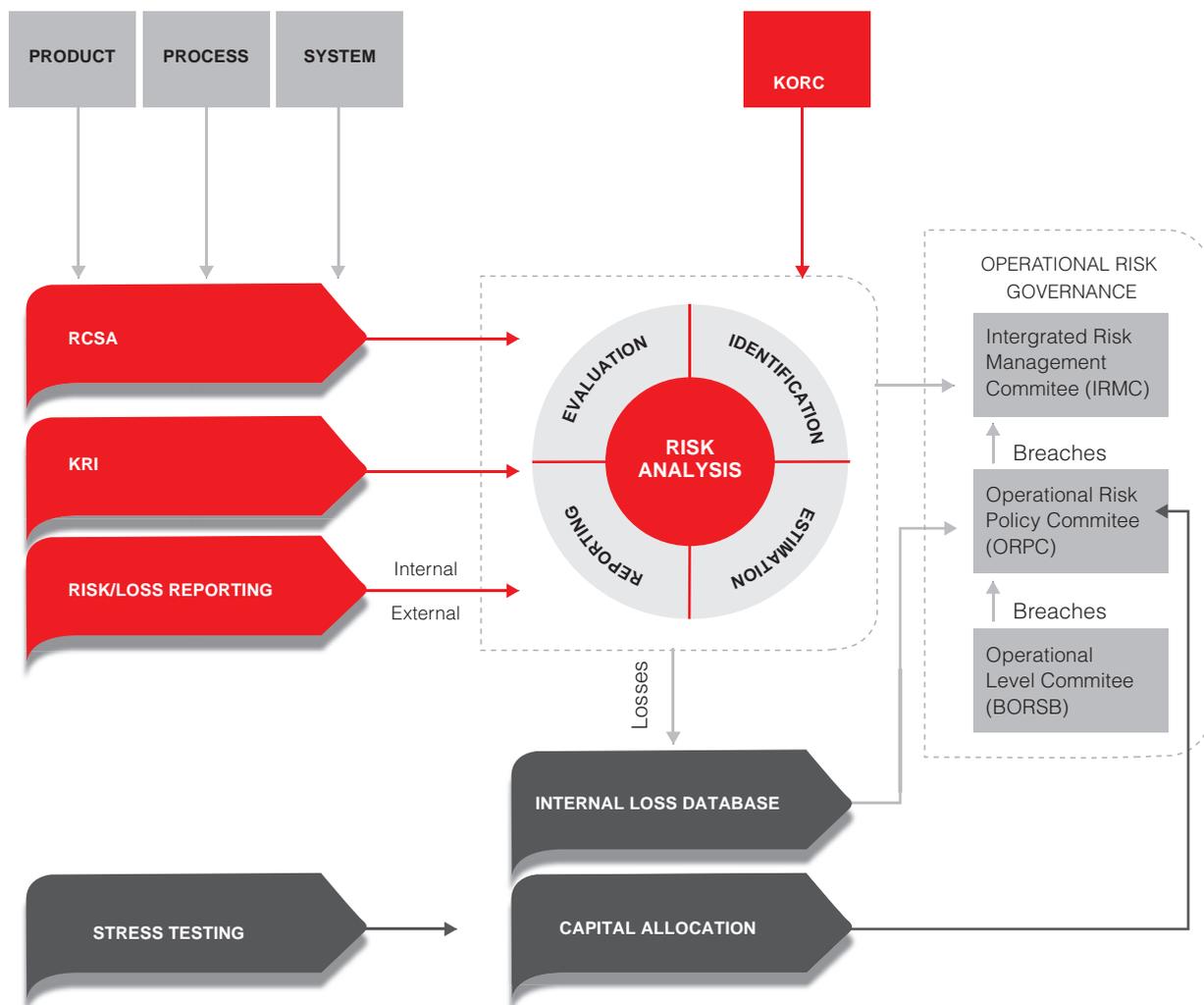
The Operational Risk Management Unit (ORMU) is established within Group Risk Management Department and works towards the following objectives:

- Reduce losses from operational failures 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.

Improved performance measurement by way of improved understanding of its operational risk profile shall enable appropriate allocation of risk and capital to individual lines of business.



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 Committee is headed by the CEO, which has been set up at Bank level comprising members of The Leadership Team (TLT), which provides 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.

Operational Risk Policy Committee Functions

- Assessment and approving the impact of changes to Bank's risk profile as a result of new products, outsourcing, strategic initiatives and acquisitions and divestments.
- Once operational risks are identified, mitigation is required following through a heat map identifying high risk items. High risk items once identified are followed through by ORPC members for mitigation activities and accept any residual risks.
- KRIs are used to monitor the operational risk profile and alert the organization to impending problems in a timely fashion. The Committee will take appropriate measures to address the early warning signals

identified by reviewing the results of the KRI programme.

- In our bottom-up approach in identifying the risks through Risk Control and Self-Assessment ('RCSA') process, areas with high risk potential are highlighted. The risk mitigating measures identified by the lines are reviewed by the Committee.

Business Operational Risk Sounding Board

Business Operational Risk Sounding Boards (BORSB) have been set up at key Business functions 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 Support functions operational risks and ensure appropriate ownership, actions for closure within the agreed target date and progress for all risks.
- Review outstanding/overdue audit findings.

Basis of Managing Operational Risk

The following criteria are used to rate risks and losses that are being reported through the operational risk management process based on the likelihood and impact:

The Risk Matrix

Likelihood Dimensions

The likelihood is the chance or the frequency that the potential operational risk event will materialize. The proxy used for likelihood is exactly the frequency of occurrence of a risk event. The recommended criteria for likelihood are:

Likelihood Rating

Very Low or Rare
Low or Unlikely
Medium or Possible
High or Likely
Very High or Almost Certain

Impact Dimensions

Impact on operational risks/events are measured based on five dimensions covering the varied areas of impact the Bank is exposed to ranging from human aspect to financials:

Impact Dimensions

Financial Impact (Expressed in Monetary Figures)
Reputational Impact (Measured in Media Coverage – Bad Press)
Regulatory Impact (Penalty Level or Breach of Guidance)
Human Resources (Staff Level Impacting Service Delivery)
Business Disruption (Measured in Time Out-of-Business)

Operational Risk Tools

The Bank presently implements the following frameworks to assist in the management of operational risk:

- Key Risk Indicators (KRI)
- Risk and Control Self-Assessment (RCSA)
- Gathering of Internal Data on Operational Risk Events and losses
- Internal Controls

- Scenario Analysis and Stress Testing
- Business Continuity Planning and Crisis Management

Risk and Control Self-Assessment (RCSA)

The RCSA is used for performing operational risk assessments as required by Basel II guidelines. At NDB, the annual RCSA exercise is typically undertaken to comply with regulatory requirements which requires a firm-wide, self-analysis of operational risks. RCSA requires the documentation of risks, identifying the levels of risk (derived from an estimate of frequency and impact), and controls associated with each process conducted by the organization. Controls and mitigants that adequately counteract the risks are introduced thereby minimizing the impact and incidence of losses.

At NDB, to simplify the output and better organize the assessment approach, the exercise is generally conducted at the business-unit level. Each business unit assessment is typically collected and presented as a comprehensive repository of assessed operational risks. Following are the activities.

- 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 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.

Application of the Risk Matrix

As part of this exercise, major risks of a given scope are described using a double scale of impact and probability. The Bank identifies the top risks and plot against the following matrix in order to ascertain the residual risks.

Inherent Risk

| IMPACT | PROBABILITY | | | | |
|-----------|-------------|----------|----------|--------|----------------|
| | RARE | UNLIKELY | POSSIBLE | LIKELY | ALMOST CERTAIN |
| VERY HIGH | | | 7 | | 1 |
| HIGH | | | | 1 | 1 |
| MEDIUM | | | | | |
| LOW | | | | | |
| VERY LOW | | | | | |

Residual Risk

| IMPACT | PROBABILITY | | | | |
|-----------|-------------|----------|----------|--------|----------------|
| | RARE | UNLIKELY | POSSIBLE | LIKELY | ALMOST CERTAIN |
| VERY HIGH | | | | | |
| HIGH | | | | | |
| MEDIUM | | | 3 | | |
| LOW | | | 3 | | |
| VERY LOW | | | 4 | | |

* 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.

The KRIs stated below are monitored that may have a significant impact on the entire Bank. These are reported to the Operational Risk Policy Committee once in two months and the Board Integrated Risk Management Committee on a quarterly basis:

| | |
|--------------------|---|
| System | Core Banking System Downtime |
| | ATM Downtime |
| | Number of cyber attacks |
| HR | Staff turnover |
| | Number of disciplinary actions |
| Finance | Reconciliations not submitted |
| Compliance | Issues raised by external professional bodies |
| | Policies and procedures- Number not reviewed/ renewed |
| | Number of regulatory changes which were not implemented |
| Operational Losses | Severity of losses |
| | Loss Frequency over one month |
| | Number of fraud incidents- Internal/ External |
| BCP | Number of BCP tests that are past due |

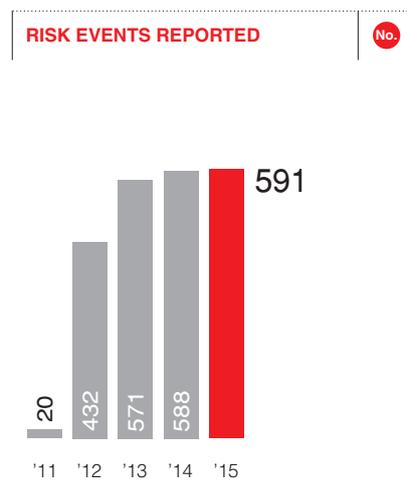
Internal Risk Events and Loss Data Collection

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 event 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.



- The continuous collection of operational loss events is a prerequisite for operational risk management including detailed analysis, definition of mitigating actions and timely information to senior management. All losses are collected via incidents reported on a monthly basis.
- Our Lessons Learned process is required for risk events, including

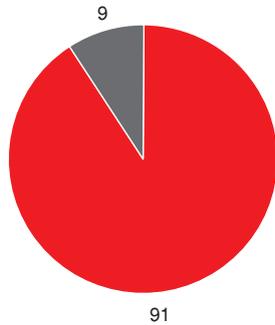
near misses. This process includes but is not limited to:

- Systematic risk analysis including a description of the business environment in which the loss occurred, including previous events, near misses and event-specific Key Risk Indicators ('KRI'),
 - Consideration of any risk management decisions in respect of the specific risk taken,
 - Root cause analysis,
 - Identification of control improvements and other actions to prevent and/or mitigate recurrence, and
 - Assessment of the residual operational risk exposure.
- The Lessons Learned process serves as an important means to identify the inherent risk and to define appropriate risk mitigating actions. All corrective actions are captured and monitored for resolution via action taken which could either be project driven, amendment to process or assigning additional resources.

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 is based on the Basel guidelines of classifying categories thereby ensuring consistency throughout the system and enabling analysis across the Bank.

OPERATIONAL LOSSES 2015



Internal Frauds 91
Others 9



The Bank's risk tolerance on operational risk losses is 1% of total operating profits after provisions for the FY 2015. The risk tolerance is applied to three categories:

- Total operational risk losses
- Losses due to external factors
- Internal frauds

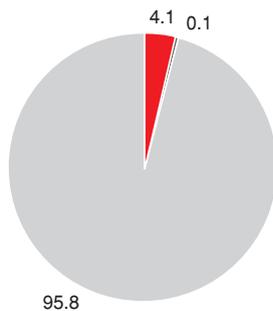
Key Operational Risk Controls (KORC)

KORCs provides a snapshot of the processes with a focus on the key operational risks and related controls. The risks are based upon the standard Risk Framework for Operational Risk as approved by the Operational Risk Policy Committee and the Integrated Risk Management Committee (IRMC).

Some of the following elements are highlighted in a KORC:

- Key controls are checked based on a written procedure of a specific process with the description of the control procedure;
- Documentation is the evidence of the control;
- Efficiency of the controls are evaluated;

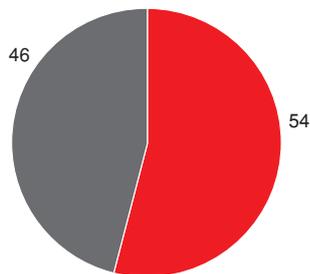
OTHER LOSSES



External Frauds 4.1
Business Disruptions and System Failures 0.1
Execution, Delivery and Process Management 95.8



OPERATIONAL LOSSES 2014



External Frauds 54
Execution Delivery and Process Management 46



KORC visits are currently done at branch level based on predefined selection criteria by Operational Risk Co-ordinators. In 2016, this framework will be implemented Bank wide.

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.

The Bank holds capital for operational risk equal to the average over the

previous three years of a fifteen percentage 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 requirement for operational risks was LKR 17.49 billion at the end of 2015.

Moving Towards Advanced Approaches

The Bank has analyzed both The Standardized Approach (TSA) and the Alternate Standardized Approach (ASA) since December 2011 and compared it with the currently used Basic Indicator Approach (BIA) and found that the two advanced approaches result in savings on capital charge for operational risk over and above the BIA approach.

The Operational Risk Management Unit (ORMU) has thus decided to propose a move towards advanced approaches by 2016 with the capital savings in mind.

Under ASA, the operational risk capital requirement/methodology is the same as under TSA, except for the two business lines Retail Banking and Commercial Banking. For these business lines, outstanding amount of loans and advances are multiplied by a fixed factor 'm' (0.035) as the exposure indicator which replaces gross income of the two business lines. The capital savings under ASA over TSA depends on the portfolio values of the Bank.

This approach notably makes it possible to:

- Meet unforeseen risk events
- 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.

Future Outlook

At NDB we are in the process of evaluating vendor proposals for a comprehensive operational risk

management solution for automating the operational risk management framework.

Internal Control

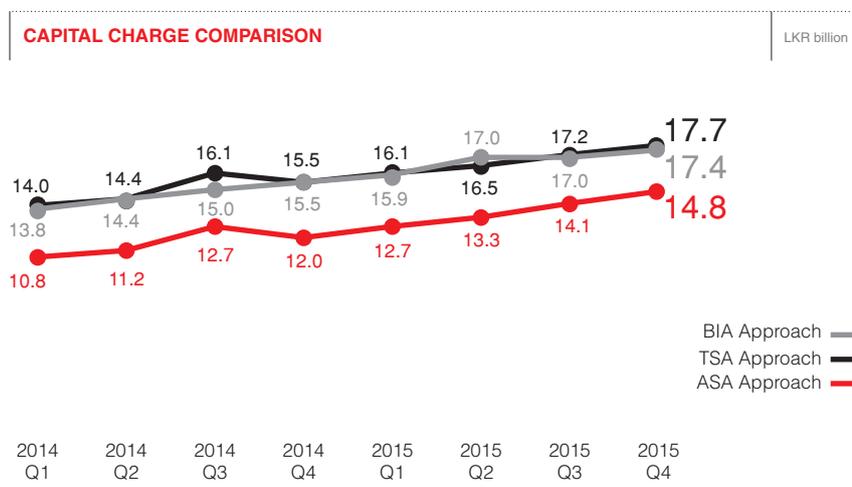
Internal control certification is broadly defined as a process, carried out by the management and other personnel, designed to provide reasonable assurance to the Board regarding the achievement of objectives in the following categories:

1. Effectiveness and efficiency of operations by:
 - Minimizing the operating risk of loss from irregularities, fraud and errors;
 - safeguarding assets;
 - ensuring an effective risk management system;
2. Reliability of financial reporting;
3. Ensure compliance with relevant laws, regulations and internal policies.

Internal control certification exercise is carried out at NDB covering all departments annually to ensure the controls are intact with segregation of duties, clear management reporting lines and adequate operating procedures in order to mitigate operational risks.

The internal control mechanism assists in identifying the risks while ensuring the controls are in place to mitigate the risks encountered by the Bank.

A similar exercise is also carried out for new products and procedures to have a broader understanding of the risks the Bank is exposed to due to external factors and ensuring internal controls are in place to mitigate the risks.



Business Continuity Management

In order to cover the risks arising out of crisis and disasters which could threaten the safety of staff, customers, 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. This Framework is designed to comply with the requirements of the Central Bank of Sri Lanka and is approved by the Board of Directors.

These plans are drawn upon integrating Enterprise Risk Management (ERM) Framework with effective Business Impact Analysis (BIA) processes and methodologies which anticipate all forms of threats, crisis and disasters that are inherent in the Business Environment.

Communications, Security and Safety, Emergency Response and Recovery Teams plans are periodically reviewed and biannual drills are conducted; all part of the Bank's commitment that is showcased undoubtedly within this Business Continuity Management Framework. For the first time a virtual disaster scenario was simulated having all required teams in one location.

The Bank now enjoys an increased recovery capacity at its Disaster Recovery Site, backed by infrastructure to support key services, core systems and critical business processes. Bank has also started discussions on maintaining split operations enhancing the disaster recovery capabilities.

The Governance of Business Continuity Management is steered through the Crisis Management Team comprising senior management and co-ordinated by the Bank's Business Continuity Manager.

Insurance Cover in Operational Risk Management

The Bank has a comprehensive insurance policy as a key measure to mitigate operational 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 on an ongoing basis. The Bank has engaged an insurance broker to provide expertise in evaluating the policies at the time of renewal for 2016.

Description of coverage

General Risks

Buildings and their contents, including IT equipment, are insured at their replacement value. Liability other than professional liability (i.e. relating to operations, Directors' vehicles, etc.) is covered by insurance policies.

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. The claim on the internal fraud during 2015 was fully-paid by the insurer thereby reducing the loss.

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).

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.

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.

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.

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 NDB. 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. The outsourcing policy was revised by

including more standardized forms/questionnaires enhancing the due diligence over service providers.

Managing Cyber Risk

The Bank having understood the importance of managing the Cyber Risk has deployed the following technical controls to mitigate the risks:

- Multi-layer firewalls
- Network separation
- Intrusion prevention systems
- Gateway level content filtering
- Anti-malware solutions
- Updates to operating systems
- Vulnerability remediation
- Control of privileged accounts

The exposures created due to cyber risks are of many types including but not limited to the following:

- Data Leakage/Breach
- Business Disruption/Denial of Service
- Loss/Corruption of Data
- Transmission of Viruses/Malicious Codes
- Cyber Extortion
- Misuse of Facilities to Commit Cyber Crime
- Phishing Attacks/Identity Theft

The Bank has been exposed to cyber risk with only 02 minor incidents of Denial Service on the corporate website and receipt of a malware email in the past 3-year period. However, this did not lead to any financial losses.

In addition to the above, Bank has subscribed to the services provided by Bank CSIRT where latest threat intelligence to the Banking industry is provided to IT security team of the Bank to take proactive steps to address the potential exposures. The

Bank has prepared its IT policies and procedures complying to Baseline Security Standards Guidelines issued by Central Bank of Sri Lanka. The Bank also conducts both internal and external penetration tests by employing external service providers time to time to ensure the systems are resilient to such attacks. Thus far, the tests carried out have not highlighted any serious security concerns.

Hence we do not foresee a need to allocate separate capital for Cyber risks.

Other Risks

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 of decisions.
- Lack of responsiveness to changes in the business environment.

Strategic risk for a bank such as 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 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.

Legal Risk

Legal risk is understood more from its consequences, which is incurrence of penalties, fines and sometimes loss of reputation due to the institution being in non-compliance with regulations. 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 and 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. Specific risks relating to legal risk are reported on a monthly basis to the Board.

Compliance Risk

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation and integrity an institution may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organizational standards, and codes of conduct applicable to its business activities.

The Bank has a well-laid out Board approved Compliance Charter, which defines the fundamental principles, roles and responsibilities of the compliance function within the organization as well as its relationship with senior management, the Board of Directors and the business and operational functions.

Model Risk

The Bank has a Board approved Risk Model Validation Policy. This sets out process for periodic validation of a Risk Models in order to ensure Model Risk is mitigated.

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 utilization, failed trades and 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 counterparts.

Cross Border Risk

Cross border risk is the risk that the Bank will be unable to obtain payment from our customers or third parties on their contractual obligations as a result of certain actions taken by foreign governments, mainly relating to convertibility and transferability of foreign currency.

Cross border assets comprise loans and advances, interest-bearing deposits with other banks, trade and other bills, acceptance, amounts receivable under finance leases, Foreign Exchange contracts, certificates of deposits and other negotiable paper, investment securities and formal commitments where the counterparty is resident in a country other than where the assets are recorded. Cross border exposure also includes the assets owned by the Bank/ Group that are held in a given country.

The Bank has a Board approved policy/limits based on country ratings, economic indicators/outlook, political risk and exchange rate risk. Cross border exposure limits are allocated to countries in which NDB does have an acceptable risk appetite and one-

off limits may be allocated based on business needs, with ultimate recourse to the borrower.

Reputational Risk

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. The Bank is of the view that reputational risk can be triggered by a risk event in any or all of the above risk categories hitherto described.

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 to ensure that the overall reputation risk profile remains low. The risk mitigation and control processes for reputation risk at NDB 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.

CAPITAL ADEQUACY

Basis of Computation

The Bank's capital adequacy ratio is computed based on Basel II - Pillar I requirements. 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, approved 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 Adequacy Computation of the Bank

| Capital Base as at 31 December | BANK | |
|--|-------------------|-------------------|
| | 2015 LKR '000 | 2014 LKR '000 |
| Tier I: Core Capital | | |
| Capital | 1,242,772 | 1,225,162 |
| Statutory reserve fund | 1,242,772 | 1,010,785 |
| Published retained profits | 13,706,561 | 12,974,648 |
| General and other reserves | 5,820,297 | 5,825,950 |
| Total equity considered for Tier I Capital | 22,012,402 | 21,036,545 |
| Deductions – Tier I | | |
| Intangible assets | 240,234 | 253,132 |
| 50% investments in unconsolidated banking and financial subsidiaries | 937,984 | 886,070 |
| 50% investments in capital of other banks and financial institutions | 815,997 | 9,263 |
| | 1,994,215 | 1,148,465 |
| Eligible Tier I Capital | 20,018,187 | 19,888,080 |
| Tier II: Supplementary Capital | | |
| General loan loss provision | 830,100 | 786,362 |
| Approved revaluation reserve | 542,092 | 542,092 |
| Approved subordinated term debts | 9,977,543 | 8,610,732 |
| | 11,349,735 | 9,939,186 |
| Deductions – Tier II | | |
| 50% investments in unconsolidated banking and financial subsidiaries | 937,984 | 886,070 |
| 50% investments in capital of other banks and financial institutions | 815,997 | 9,263 |
| | 1,753,981 | 895,333 |
| Eligible Tier II Capital | 9,595,754 | 9,043,853 |
| Capital Base (Tier I + Tier II) | 29,613,941 | 28,931,933 |

| | BANK | | | | |
|---|------------------------|--------------------|--------------|----------------------|--------------------|
| | Assets for Credit Risk | | Risk Weights | Risk-Weighted Assets | |
| | 2015 LKR '000 | 2014 LKR '000 | % | 2015 LKR '000 | 2014 LKR '000 |
| Risk-Weighted Assets and Off Balance Sheet Exposure | | | | | |
| Cash and claims on Central Government and Central Bank of Sri Lanka | 35,798,265 | 57,012,321 | 0 - 20 | 8,092 | - |
| Claims secured by cash deposits, gold and guarantees | 20,280,019 | 16,178,539 | 0 | - | - |
| Claims on banks | 15,648,215 | 8,103,229 | 20 - 100 | 5,195,269 | 3,235,305 |
| Claims on financial institutions | 25,705,335 | 9,210,855 | 50 - 100 | 14,863,928 | 5,223,618 |
| Loans secured by residential property | 9,055,452 | 7,047,969 | 50 | 4,527,726 | 3,523,984 |
| Past due loans | 2,146,571 | 2,236,918 | 50 - 150 | 2,328,523 | 3,071,530 |
| Retail claims and corporate claims | 189,008,802 | 162,166,523 | 20 - 150 | 175,243,262 | 151,514,624 |
| Property, plant and equipment | 2,030,002 | 1,927,494 | 100 | 2,030,002 | 1,927,494 |
| Other assets | 3,313,600 | 3,573,443 | 100 | 3,313,600 | 3,573,443 |
| Total Assets Considered for Credit Risk | 302,986,261 | 267,457,291 | | 207,510,402 | 172,069,998 |

| | BANK | | | | |
|---|---|--------------------|--------------------------|--|-------------------|
| | Principal Amount of Off Balance Sheet Items | | Credit Conversion Factor | Credit Equivalent of Off Balance Sheet Items | |
| | 2015 LKR '000 | 2014 LKR '000 | % | 2015 LKR '000 | 2014 LKR '000 |
| General guarantees of indebtedness | 13,247,956 | 11,215,680 | 100 | 13,247,956 | 11,215,680 |
| Standby letters of credit relating to particular transactions | 64,800 | 65,950 | 50 | 32,400 | 32,975 |
| Performance bonds and bid bonds | 8,614,302 | 6,503,688 | 50 | 4,307,151 | 3,251,844 |
| Trade related acceptances and advance documents endorsed | 8,584,926 | 8,014,553 | 20 | 1,716,985 | 1,602,911 |
| Shipping guarantees | 1,352,796 | 1,167,685 | 20 | 270,559 | 233,537 |
| Documentary letters of credit | 8,067,461 | 7,455,645 | 20 | 1,613,492 | 1,491,129 |
| Undrawn term loans | 6,803,723 | 10,120,524 | 0, 20 & 50 | 3,386,562 | 5,060,262 |
| Foreign exchange contracts | 81,168,189 | 97,569,796 | 2, 5 & 8 | 2,336,935 | 2,673,123 |
| Undrawn overdrafts and credit lines | 14,836,720 | 10,745,652 | 0 | - | - |
| Other unutilized facilities | 89,009,483 | 73,070,852 | 0, 20 & 50 | 114,862 | 51,643 |
| Total Credit Equivalent of Off Balance Sheet Items | 231,750,356 | 225,930,025 | | 27,026,902 | 25,613,104 |

| | BANK | |
|---|--------------------|--------------------|
| | 2015 LKR '000 | 2014 LKR '000 |
| Capital Charge for Market Risk | | |
| Capital charge for interest rate risk | 448,997 | 362,267 |
| Capital charge for equity securities and unit trusts | 503,478 | 450,602 |
| Capital charge for foreign exchange and gold | 63,668 | 146,740 |
| Total Capital Charge for Market Risk | 1,016,143 | 959,609 |
| Total Risk-Weighted Assets Equivalent for Market Risk | 10,161,436 | 9,596,087 |
| Capital Charge for Operational Risk | | |
| Gross Income: | | |
| Year 1 | 10,842,463 | 8,216,803 |
| Year 2 | 11,901,793 | 10,842,463 |
| Year 3 | 12,237,313 | 11,901,793 |
| Average gross income | 11,660,523 | 10,320,353 |
| Total Capital Charge for Operational Risk at 15% | 1,749,078 | 1,548,053 |
| Total Risk-Weighted Assets Equivalent for Operational Risk | 17,490,784 | 15,480,529 |
| Total Risk-Weighted Assets | 235,162,622 | 197,146,615 |
| Capital Adequacy Ratios | | |
| Tier I (Required statutory minimum ratio is 5%) | 8.51% | 10.09% |
| Tier I & Tier II (Required statutory minimum ratio is 10%) | 12.59% | 14.68% |

Capital Adequacy Computation of the Group

| | GROUP | |
|--|-------------------|-------------------|
| | 2015 LKR '000 | 2014 LKR '000 |
| Capital Base as at 31 December | | |
| Tier I: Core Capital | | |
| Capital | 1,162,964 | 1,145,353 |
| Statutory reserve fund | 1,242,772 | 1,010,785 |
| Published retained profits | 19,213,211 | 18,585,817 |
| General and other reserves | 5,886,805 | 5,865,854 |
| Non-controlling interest | 1,011,046 | 920,752 |
| Total Equity Considered for Tier I Capital | 28,516,798 | 27,528,561 |
| Deductions – Tier I | | |
| Intangible assets | 274,747 | 297,070 |
| 50% investments in the capital of other banks and financial institutions | 1,087,623 | 279,762 |
| | 1,362,370 | 576,832 |
| Eligible Tier I Capital | 27,154,428 | 26,951,729 |
| Tier II: Supplementary Capital | | |
| General loan loss provision | 830,100 | 786,362 |
| Approved Revaluation Reserve | 542,092 | 542,092 |
| Approved subordinated term debt | 9,977,543 | 8,610,732 |
| | 11,349,735 | 9,939,186 |

GROUP

| Capital Base as at 31 December | 2015 LKR '000 | 2014 LKR '000 |
|--|-------------------|-------------------|
| Deductions – Tier II | | |
| 50% investments in the capital of other banks and financial institutions | 1,087,623 | 279,762 |
| Eligible Tier II Capital | 10,262,112 | 9,659,424 |
| Capital Base (Tier I + Tier II) | 37,416,540 | 36,611,153 |

GROUP

| | Assets for Credit Risk | | Risk Weights | Risk-Weighted Assets | |
|---|------------------------|--------------------|--------------|----------------------|--------------------|
| | 2015 LKR '000 | 2014 LKR '000 | % | 2015 LKR '000 | 2014 LKR '000 |
| Risk-Weighted Assets and Off-Balance Sheet Exposure | | | | | |
| Cash and claims on Central Government and Central Bank of Sri Lanka | 35,798,378 | 57,012,415 | 0 - 20 | 8,092 | – |
| Claims secured by cash deposits, gold and guarantees | 20,280,019 | 16,178,539 | 0 | – | – |
| Claims on banks | 16,057,734 | 8,386,190 | 20 - 100 | 5,373,130 | 3,332,205 |
| Claims on financial institutions | 27,523,393 | 9,936,776 | 20 - 100 | 16,164,584 | 5,566,363 |
| Loans secured by Primary Mortgage | 9,055,452 | 7,047,969 | 50 | 4,527,726 | 3,523,984 |
| Past due loans | 2,146,571 | 2,236,918 | 50 - 150 | 2,328,523 | 3,071,530 |
| Retail claims and corporate claims | 189,654,725 | 163,634,509 | 20 - 150 | 175,373,279 | 152,755,397 |
| Property, plant & equipment | 4,126,881 | 3,798,342 | 100 | 4,126,881 | 3,798,342 |
| Other assets | 3,922,896 | 3,996,044 | 100 | 3,922,896 | 3,996,044 |
| Total Assets Considered for Credit Risk | 308,566,049 | 272,227,702 | | 211,825,111 | 176,043,865 |

GROUP

| | Principal Amount of Off Balance Sheet Items | | Credit Conversion Factor | Credit Equivalent of Off Balance Sheet Items | |
|---|---|--------------------|--------------------------|--|-------------------|
| | 2015 LKR '000 | 2014 LKR '000 | % | 2015 LKR '000 | 2014 LKR '000 |
| General guarantees of indebtedness | 12,412,956 | 11,217,699 | 100 | 12,412,956 | 11,217,699 |
| Standby letters of credit relating to particular transactions | 64,800 | 65,950 | 50 | 32,400 | 32,975 |
| Performance bonds and bid bonds | 8,614,302 | 6,503,688 | 50 | 4,307,151 | 3,251,844 |
| Trade related acceptances and advance documents endorsed | 8,584,926 | 8,014,553 | 20 | 1,716,985 | 1,602,911 |
| Shipping guarantees | 1,352,796 | 1,167,685 | 20 | 270,559 | 233,537 |
| Documentary letters of credit | 8,067,461 | 7,455,645 | 20 | 1,613,492 | 1,491,129 |
| Undrawn term loans | 6,803,723 | 10,120,524 | 0, 20 & 50 | 3,386,562 | 5,060,262 |
| Foreign exchange contracts | 81,168,189 | 97,569,796 | 2, 5 & 8 | 2,336,935 | 2,673,123 |
| Undrawn overdrafts and credit lines | 14,836,720 | 10,745,651 | 0 | – | – |
| Other unutilized facilities | 90,685,643 | 73,074,062 | 0, 20 & 50 | 952,942 | 53,248 |
| Total Credit Equivalent of Off-Balance Sheet Items | 232,591,516 | 225,935,253 | | 27,029,982 | 25,616,728 |

| | GROUP | |
|---|--------------------|--------------------|
| Capital Base as at 31 December | 2015 LKR '000 | 2014 LKR '000 |
| Capital Charge for Market Risk | | |
| Capital charge for interest rate risk | 448,997 | 362,267 |
| Capital charge for equity securities and unit trusts | 899,542 | 1,009,140 |
| Capital charge for foreign exchange and gold | 63,668 | 146,740 |
| Total Capital Charge for Market Risk | 1,412,207 | 1,518,147 |
| Total Risk-Weighted Assets Equivalent for Market Risk | 14,122,076 | 15,181,466 |
| Capital Charge for Operational Risk | | |
| Gross Income: | | |
| Year 1 | 12,001,151 | 9,255,352 |
| Year 2 | 13,588,231 | 12,001,151 |
| Year 3 | 13,226,127 | 13,588,231 |
| Average gross income | 12,938,503 | 11,614,911 |
| Total Capital Charge for Operational Risk – 15% | 1,940,755 | 1,742,237 |
| Total Risk-Weighted Assets Equivalent for Operational Risk | 19,407,755 | 17,422,367 |
| Total Risk-Weighted Assets | 245,354,942 | 208,647,698 |
| Capital Adequacy Ratios | | |
| Tier I (Required statutory minimum ratio is 5%) | 11.07% | 12.92% |
| Tier I & Tier II (Required statutory minimum ratio is 10%) | 15.25% | 17.55% |

DIRECTORS' INTERESTS IN CONTRACTS WITH NATIONAL DEVELOPMENT BANK PLC

| Director/Company | Relationship | Accommodation Granted, Deposits and Investments | Balance Outstanding as at 31.12.2015 LKR '000 | Balance Outstanding as at 31.12.2014 LKR '000 |
|--|----------------------------|--|--|--|
| (a) A K Pathirage | | | | |
| Asian Alliance Insurance PLC | Chairman | Deposits & Investments | 49 | 87 |
| NDB Capital Holdings Ltd.* | Chairman | Deposits & Investments | 462,351 | 24,716 |
| | | Off-Balance Sheet Accommodation | 460,000 | - |
| | | Loans/Advances | - | - |
| Odel PLC | Chairman | Deposits & Investments | - | 4 |
| Softlogic Capital PLC | Chairman | Deposits & Investments | 7 | 11 |
| Softlogic Holdings PLC | Chairman/Managing Director | Deposits & Investments | 288 | 289 |
| Softlogic Retail (Pvt) Ltd. | Chairman/Managing Director | Deposits & Investments | 5,610 | 2,685 |
| (b) D S P Wikramanayake | | | | |
| NDB Wealth Management Ltd. | Chairman | Deposits & Investments | 4,243 | 3,494 |
| NDB Investment Bank Ltd. | Chairman | Deposits & Investments | 32,326 | 41,202 |
| | | Off-Balance Sheet Accommodation | 375,000 | - |
| | | Loans/Advances | 39 | - |
| NDB Capital Holdings Ltd.* | Director | Deposits & Investments | 462,351 | 24,716 |
| | | Off -Balance Sheet Accommodation | 460,000 | - |
| Orient Finance PLC | Director | Loans/Advances | 639,288 | 323 |
| Power World Gyms Ltd. | Director | Deposits & Investments | 9,884 | - |
| | | Off-Balance Sheet Accommodations | 12,843 | - |
| (c) K D W Ratnayaka | | | | |
| Sri Lanka Institute of Directors (SLID) | Director | Deposits & Investments | 6,357 | 6,023 |
| (d) Mrs. K Fernando | | | | |
| L B Finance PLC | Director | Deposits & Investments | 16,140 | 224,091 |
| | | Loans/Advances | 600,000 | - |
| (e) N G Wickremeratne | | | | |
| Finlays Colombo PLC | Non-Executive Director | Deposits & Investments | 59,421 | 28,720 |
| Holcim Lanka Ltd. | Chairman | Deposits & Investments | 33,603 | 1 |
| | | Off-Balance Sheet Accommodations | 94,275 | 197,590 |
| | | Loans/Advances | - | 29,167 |
| (f) R Theagarajah | | | | |
| Development Holdings (Pvt) Ltd. | Chairman | Deposits & Investments | 285,070 | 300,412 |
| | | Loans/Advances | 25 | - |
| The American Chamber of Commerce – Sri Lanka | Director | Deposits & Investments | 3,529 | 7,980 |
| Ceylon Chamber of Commerce | Vice Chairman | Deposits & Investments | 304,681 | 113,340 |
| NDB Capital Holdings Ltd.* | Director | Deposits & Investments | 462,351 | 24,716 |
| | | Off-Balance Sheet Accommodations | 460,000 | - |
| NDB Investment Bank Ltd. | Director | Deposits & Investments | 32,326 | 41,202 |
| | | Off-Balance Sheet Accommodations | 375,000 | - |
| | | Loans/Advances | 39 | - |
| NDB Securities (Pvt) Ltd | Chairman | Deposits & Investments | 13,149 | 87,865 |
| NDB Wealth Management Ltd. | Director | Deposits & Investments | 4,243 | 3,494 |
| NDB Zephyr Partners Lanka (Private) Ltd. | Chairman | Deposits & Investments | 14,340 | - |
| NDB Zephyr Partners Limited, (Mauritius) | Director | Deposits & Investments | 9 | - |

* NDB Capital Holdings PLC as at 31 December 2014 and de-listed with effect from 26 January 2015

**2015 WAS YET ANOTHER
SUCCESSFUL YEAR WITH
OUR ACHIEVEMENTS BEING
RECOGNISED THROUGH SEVERAL
PRESTIGIOUS AWARDS**

RECOGNITION



Global Finance magazine of USA – World's Best Banks Award



'Best Bank in Sri Lanka', under the Emerging Markets Banks in Asia-Pacific 2015

The assessment for this award was made based on inputs from industry analysts, corporate executives and banking consultants. Criteria included growth in assets, profitability, strategic relationships, customer service, competitive pricing and innovative products.

Best Corporate Citizen Sustainability Awards 2015



NDB won four prestigious awards at the 'Best Corporate Citizen Sustainability Award 2015', presented by the Ceylon Chamber of Commerce, the country's premier business chamber to recognize the sustainable champions of the local corporate world. The 'Best Corporate Sustainability Award' is the highest award that a corporate entity can earn for its 'Sustainable Business Practices and CSR Initiatives'.

| | | | |
|---|---|---|--------------------------------------|
| 2nd Runner Up – Best Corporate Citizen Sustainability Awards 2015 | Winner Top Ten Corporate Citizens of the Year | Winner Triple Bottom Line Award for Economic Sustainability | Winner Category Award for Governance |
|---|---|---|--------------------------------------|

Business Today Top Twenty Five 2014-2015



NDB Ranked 18th

The Bank was ranked 18th in the Business Today 'Top 25' ranking of Sri Lanka's best performing public listed corporate entities in 2014-15.

Asian Banking and Finance Singapore – Retail Banking Awards 2015 and Wholesale Banking Awards 2015



| | | | |
|--|----------------------------------|---|---|
| Domestic Retail Bank of the Year – Sri Lanka | SME Bank of the Year – Sri Lanka | Domestic Project Finance Bank of the Year – Sri Lanka | Domestic Cash Management Bank of the Year – Sri Lanka |
|--|----------------------------------|---|---|

The selection criteria for these awards included innovation, effectiveness, dynamism, and the participants were evaluated by a panel of judges representing PricewaterhouseCoopers, KPMG, Deloitte Consulting and Ernst and Young Advisory LLP. The Bank clinched the titles-Domestic Retail Bank of the Year and SME Bank of the Year awards for the third consecutive time in 2015.

These awards were clear affirmation of the high level of services and expertise the Bank renders in the areas of retail & SME banking, project financing and cash management.

Asian Development Bank



The Leading Partner Bank in Sri Lanka for Asian Development Bank's Trade Finance Program

The award was made during the Annual Meeting of the International Chamber of Commerce (ICC) Banking Commission in Singapore, acknowledging the Bank's significant efforts in contributing to the promotion of trade finance within Sri Lanka and in the region.

6th CMO Asia Awards 2015, Singapore



Brand Excellence in Banking and Finance Sector

Best use of Facebook

Best use of Social Networks

Being recognized for the second consecutive year with the two awards for social media, is an acknowledgment of the great strides made by the Bank in the social and digital media marketing space in the industry.

7th International Asset and Liability Management Competition – Paris 2015



Winner

A team of professionals from the Bank, which represented the Asia and Europe cluster at the competition emerged as champions at the grand finale held in Paris in July 2015. This competition was organized by a consortium of international agencies that promote financial development globally. The award was an affirmation of the Bank's ALM & risk management skills and the high level of expertise and proficiency of the Bank in these areas.

CFA Sri Lanka Capital Market Awards 2015



Best Investor Relations
Silver Award

Conducted by the CFA Sri Lanka Society, the Bank was recognized with a Silver Award for its sound investor relations, having won the Bronze Award in the previous year.

National Best Quality ICT Awards 2015



Bronze Award under Sustainability and Green IT category

The Bank's E-Statements initiative was recognized for Sustainability and Green IT, measuring the amount of energy and resources saved for the planet.

Euromoney Magazine – Awards for Excellence 2015

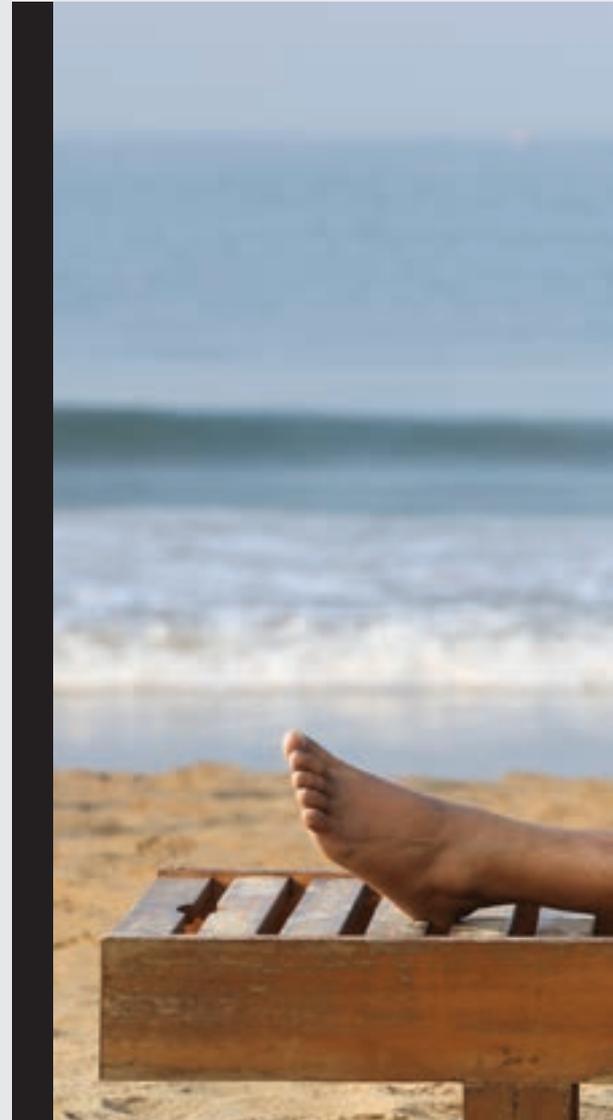


Best Investment Bank in Sri Lanka

Reaffirming its dominance in the investment banking sphere, NDB Investment Bank won this award for the fourth consecutive year.

PEACE OF MIND

The smiles that come from that peace of mind...telling of investments held secure and productive...in NDB Bank.



9.02

P/E RATIO



12.59%

ROE

LKR 11.00

DIVIDEND
PER SHARE

LKR 32,059 Mn

MARKET
CAPITALIZATION

**OUR INVESTOR RELATIONS ARE
DRIVEN ON ACCESSIBILITY TO
MANAGEMENT, AND QUALITY,
TRANSPARENT AND FAIR
DISCLOSURES**

**INVESTOR
RELATIONS**



SCAN TO VIEW

http://ndbbank2015.annualreports.lk/investor_relations/index.html

Financial Calendar 2015/16

| Annual General Meetings | Date |
|-----------------------------|---------------|
| 11th Annual General Meeting | 30 March 2016 |
| 10th Annual General Meeting | 30 March 2015 |

| Dividend Payments | Amount | Date Dividends Announced | Date Dividends Paid/to be Paid |
|---|---------|--------------------------|--------------------------------|
| Final dividend payment for 2015 | LKR 4/- | 12 February 2016 | 24 February 2016 |
| First interim dividend payment for 2015 | LKR 7/- | 13 November 2015 | 24 November 2015 |
| Final dividend payment for 2014 | LKR 4/- | 13 February 2015 | 25 February 2015 |

| | Date Released to the CSE | Date Published/ to be Published in the Newspapers (in Sinhala, English & Tamil) |
|--|--------------------------|---|
|--|--------------------------|---|

Interim Financial Statements

| | Date Released to the CSE | Date Published/ to be Published in the Newspapers (in Sinhala, English & Tamil) |
|---|--------------------------|---|
| Q4/For the twelve months ended 31.12.2015 | 12 February 2016 | 10 March 2016 |
| Q3/For the nine months ended 30.09.2015 | 12 November 2015 | 23 November 2016 |
| Q2/For the six months ended 30.06.2015 | 13 August 2015 | 19 August 2015 |
| Q1/For the three months ended 31.03.2015 | 14 May 2015 | 19 May 2015 |
| Q4/For the twelve months ended 31.12.2014 | 13 February 2015 | 10 March 2015 |

Annual Financial Statements

| | Date Released to the CSE | Date Published/ to be Published in the Newspapers (in Sinhala, English & Tamil) |
|--------------------------------------|--------------------------|---|
| Annual Financial Statements for 2015 | 3 March 2016 | 10 March 2016 |
| Annual Financial Statements for 2014 | 6 March 2015 | 10 March 2015 |

| Investor webinar/investor fora | Date |
|---|------------------|
| Investor forum on the Q4 2015 results | 16 February 2016 |
| Investor webinar on the Q4 2015 results | 15 February 2016 |
| Investor forum on the Q3 2015 results | 13 November 2015 |
| Investor webinar on the Q3 2015 results | 13 November 2015 |
| Investor webinar on the Q2 2015 results | 14 August 2015 |
| Investor webinar on the Q1 2015 results | 18 May 2015 |
| Investor forum on 2014 Annual Report | 10 March 2015 |
| Investor webinar on Q4 2014 results | 16 February 2015 |

Proposed Financial Calendar 2016/17

| Interim Financial Statements | Date to be Released to the CSE | Investor Webinar/Forum | Date to be Published in the Newspapers (in Sinhala, English & Tamil) |
|---|--------------------------------|------------------------|--|
| Q1/For the three months ended 31.03.2016 | 12 May 2016 | 13 May 2016 | 16 May 2016 |
| Q2/For the six months ended 30.06.2016 | 11 August 2016 | 12 August 2016 | 15 August 2016 |
| Q3/For the nine months ended 30.09.2016 | 10 November 2016 | 11 November 2016 | 15 November 2016 |
| Q4/For the twelve months ended 31.12.2016 | 13 February 2017 | 14 February 2017 | 10 March 2017 |

| Annual Financial Statements | Date to be Released to the CSE | Date to be Published in Newspapers (in Sinhala, English & Tamil) |
|-----------------------------|--------------------------------|--|
|-----------------------------|--------------------------------|--|

| | | |
|--------------------------------------|---------------|---------------|
| Annual Financial Statements for 2016 | 03 March 2017 | 10 March 2017 |
|--------------------------------------|---------------|---------------|

As per Rule 7.4 of the Listing Rules of the Colombo Stock Exchange (CSE), Quarterly Financial Statements (unaudited) for the first three quarters should be released to the CSE as soon as the said Statements are approved by the Board of Directors and in any event not later than 45 days from the end of each quarter and in respect of the final quarter, within two months from the end of the final quarter. According to Rule 7.5 of the Listing Rules of the CSE, the Audited Financial Statements should be published in accordance with the Sri Lanka Accounting Standards and the Annual Report should be sent to the shareholders and the CSE within five months from the close of the financial year.

As per the Banking Act Direction No. 11 of 2007 – Corporate Governance for Licensed Commercial Banks, the Annual Audited Financial Statements and Quarterly Financial Statements should be prepared and published in accordance with the requirements of supervisory and regulatory authorities and applicable accounting standards and such statements must be published in the newspapers in an abridged form in Sinhala, Tamil and English.

Investor Relations at NDB

For many corporates, the scope of interaction with investors is confined to Annual General Meetings, Annual Reports and dividend declarations. An entity’s attention, wider engagements and interactions, intentionally or not, are more focused on stakeholder groups such as customers and suppliers. It is seldom that they make conscious efforts to engage their shareholders and investors throughout the year.

At NDB, our stance towards investors is different. For us, investors are as important as any other stakeholder

group. They have been the unwavering strength of the Bank as it has propelled and prospered forward to become one of the leading financial institutions in the country. The Bank has very well understood the importance of well-informed and well-engaged investors. As such, investor relations have become a well-organized function within the Bank alongside other day-to-day operations, with a dedicated team in conducting best in class investor relations, coming under the direct purview of the Chief Executive Officer and the Group Chief Financial Officer.

Our investor relations endeavours are a strong proponent of maintaining

accessibility to the management, quality, transparency and fairness in disclosures, elimination of selective disclosures and consistency in investor relations endeavours in all conditions.

Affirming the strides NDB has made in its investor relations endeavors, in 2015, the Bank was recognized with a Silver Award at the CFA Sri Lanka Capital Market Awards. NDB was the Bronze Award winner for the same award in 2014.



Investor Relations Activities – 2015

| Activity | Level of Engagement |
|--|---|
| Annual General Meeting | NDB hosted its 10th Annual General Meeting in March 2015, for the year 2014. |
| One-to-one investor meetings | The Bank hosted over 60 investor meetings over the year. All these meetings have been chaired by the CEO, Group CFO or Vice President Finance & Planning. |
| Investor Fora | The Bank hosted two large scale investor fora during the year for the full year financial performance for 2014 and the first nine months financial performance of 2015. |
| Investor webinars | The CEO hosted four online investor webinars during the year for the financial performance of 2014 and financial performance of Q1, 2 and 3 of 2015, for local and overseas shareholders and analysts. |
| NDB's representation at overseas investor fora | <p>The Bank proudly represented Sri Lanka at the following key overseas investor fora held in 2015, amongst others;</p> <ul style="list-style-type: none"> • Credit Suisse Investor Conference held in London and New York in March 2015 • Investor Meetings in UAE - Abu Dhabi & Dubai held in UAE – 16t and 17 September 2015 • Invest Sri Lanka – Investor forum held in London in October 2015 |
| Annual and quarterly statements lodged to the CSE | During 2015, the Bank timely lodged the Annual Financial Statements for the financial year 2014 and the Financial Statements from Q1 to Q3 of 2015. The Financial Statements were also complimented with a performance commentary for the benefit of the users of the Financial Statements. |
| Annual and quarterly press releases on the financial performance of the Bank and Group | The Bank published press releases during 2015, on the financial performance for the financial year 2014 and the quarters 1 to 3 in all three languages of Sinhala, English and Tamil. |
| Email alert on financial results release | As per established practice, the Bank released an email notification to investors, analysts, fund managers, etc.* just after the quarterly/annual the financial results were released to the CSE. |
| Reaching to investors through a revamped web page | The Bank maintains a dedicated web page for investors in its corporate website structured in a user-friendly and easy to navigate format and presents a wide array of investor information. |
| SMS alert and CEO's comments on the release of the Annual Report | <p>NDB initiated a novel feature, combining investor relations and Annual Report in 2014, where an SMS alert was released to investors and a host of other recipients on the release of the Bank's Annual Report to the CSE.</p> <p>The SMS alert also directed the recipients to a short video hosted by the CEO where he commented on the financial performance of 2014.</p> |

**For the purpose of communications, the Bank maintains a comprehensive contact database of current shareholders and investors, fund managers, stock and investment analysts, professionals representing rating agencies and other relevant personnel who will benefit from the Bank's communications.*

Dates of investor-related events such as releasing Financial Statements to the CSE, investor fora, investor webinar, etc. held during 2015 as well as scheduled for 2016 are available in the Financial Calendar on page 267 of this Report.

EVOLUTION OF NDB'S OWNERSHIP AND THE SHARE BASE

61% of the share capital of the National Development Bank of Sri Lanka (NDBSL) was 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 Ltd. (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.

1993

2000

2005

1979

1997

2001

2006

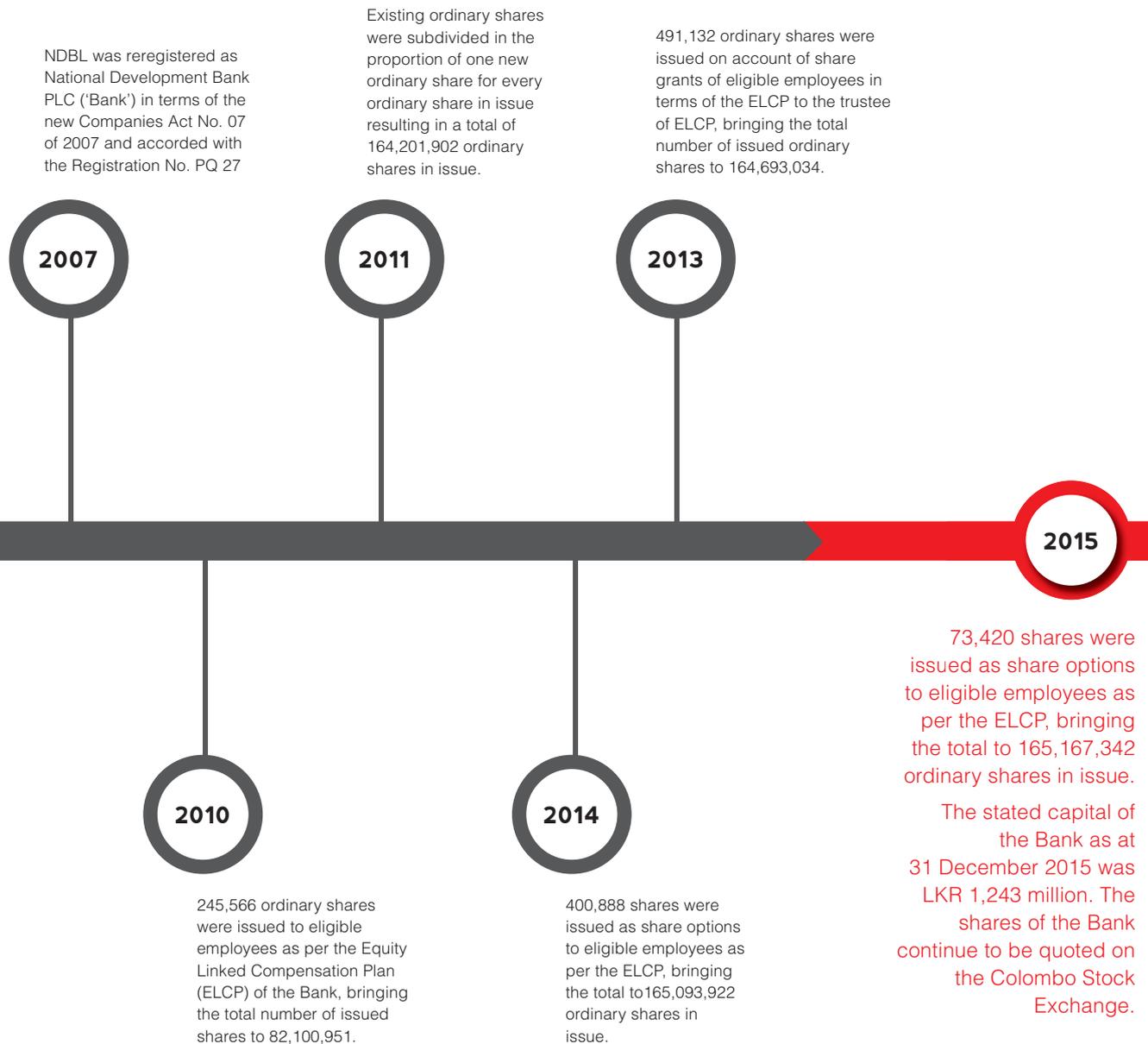
Under and by virtue of the National Development Bank of Sri Lanka Act No. 2 of 1979 a bank was established with an authorized capital of LKR 2,000 million, comprising 20 million ordinary shares of LKR 100.00 each (which was subsequently subdivided into 200 million ordinary shares of LKR 10.00 each).

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.

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 Ltd.' (NBL) to take over the business and operations of ABN Amro NV Colombo Branch.

A bonus issue of 1 new share for every 2 shares held increased the issued ordinary share capital of NDBL by 27,285,128 shares.



Securities in Issue NDB

- Quoted ordinary shares
- Debentures
 - Listed rated unsecured subordinated redeemable debentures issued in December 2013
 - Listed rated unsecured subordinated redeemable debentures issued in June 2015
 - Unlisted debentures issued in June/July 2011

Ordinary Shares

1. Features of Ordinary Shares

| | |
|-------------------------|---|
| Security Type | 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 & Insurance Index (BFI) |
| CSE stock symbol | NDB.N0000 |
| ISIN | LK0207N00007 |
| Bloomberg newswire code | NDBB |
| Reuter's newswire code | NBLK |

2. Stock Markets Performance and NDB Share Performance – 2015

2.1 Performance of Global Equity Markets

2015 was a torrid year for global equity markets with losses being recorded in several key indices. Developed markets were hard hit, with the S&P 500 (USA), FTSE 100 (UK), S&P ASX 200 (AUS) and Hang Seng (HK) all recording losses. Supported by a weakening Yen (which investors expected would boost exports) and dovish monetary policy, the Nikkei 225 (JPN) was one of the few bright spots in equity markets,

recording a gain of approximately 9% during the year. On a surprising note, despite capturing global headlines due to high volatility for most parts of the year, the Shanghai Shenzhen CSI 300 index (CHN) also ended the year with a gain of over 5%.

2.2 Performance of the Colombo Stock Exchange

During 2015, the the All Share Price Index (ASPI) dropped 5.54% while the larger market cap index, S&P SL20 dropped by 11.33%. The equity market activity remained subdued in the first half of 2015 with the exception witnessed immediately after presidential elections and

pre-general elections as investor sentiment improved based on expected political stability. However, towards the end of the year the ASPI was seen tumbling down due to adverse global and local conditions on equity. During the year, CSE was able to record an LKR 1.06 billion, average daily turnover. Net foreign selling of LKR 5.37 billion was witnessed in 2015 compared to a net foreign buying of LKR 21.14 billion in 2014.

2.3 Performance of the NDB Share

The NDB share price declined by 22.4% to close at LKR 194.10 by end of 2015. During the year, the share reached a high of LKR 280.00 (in May and July 2015) and a low of LKR 187.00 (in December 2015). The NDB share followed a similar trend to the ASPI with NDB declining further than the broader index towards the end of the year. This was due to the local and global conditions that adversely affected local equity and some tax proposals which were proposed in the fiscal budget for the year 2016, which impacted the banking sector.

On 13 November 2015, NDB announced an interim dividend of 2015 of LKR 7.00 per share and same was paid in November 2015. Further, the final dividend for 2015 of LKR 4.00 per share was announced on 12 February 2016 to be paid on 24 February 2016.



- A - Final dividend announcement (FY 2014)
B - Purchase of voting ordinary shares of Seylan Bank PLC
C - Announcement of Resignation of Chairman, Sunil Wijesingha
D - Appointment of N G Wickremeratne as the Chairman of NDB on 20 April 2015
E - Termination of MOU relating to amalgamation of DFCC, DVB and NDB on 11 May 2015
F - Issuance of 100,000,000 rated, unsecured, subordinated, redeemable debentures in total on 17 June 2015
G - Interim dividend announcement (FY 2015)

3. Analysis of Ordinary Shareholders as at 31 December 2015 as Per Rule 7.6 (x) of the Listing Rules of the CSE

3.1 Distribution of shareholders

| Shareholding Range | As at 31 December 2015 | | | | As at 31 December 2014 | | | |
|---------------------|------------------------|---------------|--------------------|---------------|------------------------|---------------|--------------------|---------------|
| | No. of Shareholders | % | No. of Shares | % | No. of Shareholders | % | No. of Shares | % |
| 1 - 1,000 | 5,245 | 66.30 | 1,728,113 | 1.04 | 5,039 | 62.88 | 1,693,820 | 1.03 |
| 1,001 - 10,000 | 2,236 | 28.27 | 7,110,788 | 4.31 | 2,536 | 31.64 | 8,047,949 | 4.87 |
| 10,001 - 100,000 | 346 | 4.37 | 9,317,220 | 5.65 | 351 | 4.38 | 9,678,179 | 5.86 |
| 100,001 - 1,000,000 | 56 | 0.71 | 18,440,324 | 11.16 | 59 | 0.74 | 18,393,531 | 11.14 |
| Over 1,000,000 | 28 | 0.35 | 128,570,897 | 77.84 | 29 | 0.36 | 127,280,443 | 77.10 |
| Total | 7,911 | 100.00 | 165,167,342 | 100.00 | 8,014 | 100.00 | 165,093,922 | 100.00 |

3.2 Resident/Non-Resident Shareholding

| Shareholding | As at 31 December 2015 | | | | As at 31 December 2014 | | | |
|--------------|------------------------|---------------|--------------------|---------------|------------------------|---------------|--------------------|---------------|
| | No. of Shareholders | % | No. of Shares | % | No. of Shareholders | % | No. of Shares | % |
| Resident | 7,759 | 98.08 | 114,170,880 | 69.12 | 7,865 | 98.14 | 111,113,993 | 67.30 |
| Non-resident | 152 | 1.92 | 50,996,462 | 30.88 | 149 | 1.86 | 53,979,929 | 32.70 |
| Total | 7,911 | 100.00 | 165,167,342 | 100.00 | 8,014 | 100.00 | 165,093,922 | 100.00 |

3.3 Individual/Institutional Shareholding

| Shareholding | As at 31 December 2015 | | | | As at 31 December 2014 | | | |
|---------------|------------------------|---------------|--------------------|---------------|------------------------|---------------|--------------------|---------------|
| | No. of Shareholders | % | No. of Shares | % | No. of Shareholders | % | No. of Shares | % |
| Individual | 7,479 | 94.54 | 37,048,619 | 22.40 | 7,604 | 94.88 | 32,875,619 | 19.91 |
| Institutional | 432 | 5.46 | 128,118,723 | 77.60 | 410 | 5.12 | 132,218,303 | 80.09 |
| Total | 7,911 | 100.00 | 165,167,342 | 100.00 | 8,014 | 100.00 | 165,093,922 | 100.00 |

4. Twenty Largest Registered Shareholders of the Bank as at 31 December 2015 as per Rule No. 7.6 (iii) of the Listing Rules of the Colombo Stock Exchange

| Name | 2015 | | Name | 2014 | |
|---|--------------------|--------------|---|--------------------|--------------|
| | No. of Shares | % | | No. of Shares | % |
| 1. Bank of Ceylon No. 1 Account | 16,371,076 | 9.91 | Bank of Ceylon No. 1 Account | 16,371,076 | 9.92 |
| 2. Employees' Provident Fund | 16,010,248 | 9.69 | Employees' Provident Fund | 16,010,248 | 9.70 |
| 3. Sri Lanka Insurance Corporation Ltd. – General Fund | 9,388,488 | 5.68 | Sri Lanka Insurance Corporation Ltd. – General Fund | 9,388,488 | 5.69 |
| 4. HSBC International Nominees Ltd. – SNFE – NTAsian Discovery Master Fund | 8,973,856 | 5.43 | HSBC International Nominees Ltd. – SNFE – NTAsian Discovery Master Fund | 8,973,856 | 5.44 |
| 5. Dr. S Yaddehige | 8,669,000 | 5.25 | Dr. S Yaddehige | 8,669,000 | 5.25 |
| 6. Sri Lanka Insurance Corporation Ltd. – Life Fund | 7,805,426 | 4.73 | Sri Lanka Insurance Corporation Ltd. – Life Fund | 7,805,426 | 4.73 |
| 7. HSBC International Nominees Ltd. – BPSS LUX – Aberdeen Global Asia Pacific Equity Fund | 5,715,450 | 3.46 | HSBC International Nominees Ltd. – BPSS LUX – Aberdeen Global Asia Pacific Equity Fund | 5,715,450 | 3.46 |
| 8. Employees' Trust Fund Board | 5,592,897 | 3.39 | Employees' Trust Fund Board | 5,303,700 | 3.21 |
| 9. R S Captain | 5,326,985 | 3.23 | BNY-CF Ruffer Investment Funds: CF Ruffer Pacific Fund | 4,850,000 | 2.94 |
| 10. Bny-CF Ruffer Investment Funds: CF Ruffer Pacific Fund | 4,850,000 | 2.94 | HSBC International Nominees Ltd. – MSNY-BAY Pond Partners L.P. | 4,501,200 | 2.73 |
| 11. HSBC International Nominees Ltd. – BP2S London – Aberdeen Asia Pacific Equity Fund | 4,294,800 | 2.60 | HSBC International Nominees Ltd. – BP2S London – Aberdeen Asia Pacific Equity Fund | 4,294,800 | 2.60 |
| 12. Hatton National Bank PLC – A/C No. 01 | 4,282,200 | 2.59 | Hatton National Bank PLC – A/C No. 1 | 4,282,200 | 2.59 |
| 13. HSBC International Nominees Ltd. – MSNY-BAY Pond Partners L.P. | 3,464,876 | 2.10 | Asian Alliance Insurance PLC – A/C 03 (Life Shareholders Fund) | 3,450,977 | 2.09 |
| 14. Asian Alliance Insurance PLC A/C 03 (Life Shareholders Fund) | 3,450,977 | 2.09 | A K Pathirage | 2,970,000 | 1.80 |
| 15. A K Pathirage | 2,970,000 | 1.80 | Asian Alliance Insurance PLC – A/C 01 (General Fund) | 2,540,977 | 1.54 |
| 16. HSBC International Nominees Ltd. – BBH-Matthews Emerging Asia Fund | 2,515,196 | 1.52 | Asiri Hospital Holdings PLC | 2,411,583 | 1.46 |
| 17. Asiri Central Hospitals Ltd. | 2,403,447 | 1.46 | Asian Alliance Insurance PLC – A/C 02 (Life Fund) | 2,159,746 | 1.31 |
| 18. Asian Alliance Insurance PLC – A/C 02 (Life Fund) | 2,159,746 | 1.31 | HSBC International Nominees Ltd. – MSNY-BAY Pond Investors (Bermuda) LP | 2,045,200 | 1.24 |
| 19. DFCC Bank PLC – A/C 01 | 2,000,000 | 1.21 | DFCC Bank PLC – A/C 01 | 2,000,000 | 1.21 |
| 20. HSBC International Nominees Ltd. – BP2S London – Aberdeen Asia Smaller Companies Investment Trust | 1,683,000 | 1.02 | HSBC International Nominees Ltd. – BP2S London – Aberdeen Asia Smaller Companies Investment Trust | 1,683,000 | 1.02 |
| Total | 117,927,668 | 71.40 | Total | 115,426,927 | 69.92 |

5. Public Shareholding

| | 2015 | 2014 |
|---|--------|--------|
| Percentage of the shares held by the public | 90.30% | 90.25% |
| Number of public shareholders | 7,881 | 7,982 |

6. Directors' Interest in Shares of the Bank

| Name | As at 31 December 2015 | As at 31 December 2014 |
|------------------------|------------------------|------------------------|
| | No. of Shares | No. of Shares |
| N G Wickremeratne | Nil | N/A |
| A K Pathirage | 3,993,000* | 3,993,000* |
| R Theagarajah | 126 | 126 |
| T L F Jayasekera | Nil | Nil |
| Mrs. K Fernando | Nil | Nil |
| D S P Wikramanayake | Nil | Nil |
| Mrs. W A I Sugathadasa | Nil | Nil |
| Mrs. D M A Harasgama | Nil | N/A |
| D M R Phillips | Nil | N/A |
| K D W Ratnayaka | Nil | N/A |

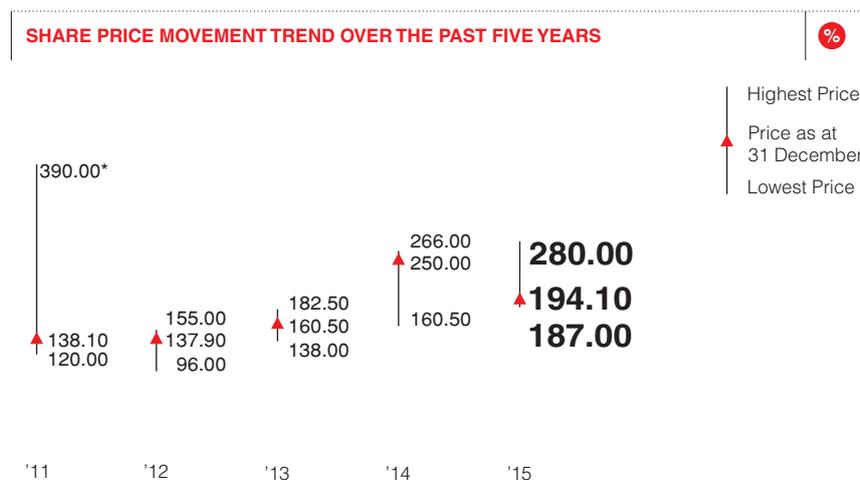
*Includes shares held in the slash account

7. Information on Share Trading

7.1 Share Price Movement Trend Over the Past Five Years

| Year | 2015 | 2014 | 2013 | 2012 | 2011 |
|-----------------------------------|--------------------------|-------------|-------------|-------------|-------------|
| Highest price (LKR) | 280.00 | 266.00 | 182.50 | 155.00 | 390.00* |
| Date/s highest price was recorded | 23.07.2015 22.05.2015 | 03.10.2014 | 10.05.2013 | 26.09.2012 | 14.02.2011 |
| Lowest price (LKR) | 187.00 | 160.50 | 138.00 | 96.00 | 120.00 |
| Date/s lowest price was recorded | 28.12.2015 | 02.01.2014 | 02.01.2013 | 05.06.2012 | 06.12.2011 |
| Price as at 31 December (LKR) | 194.10 | 250.00 | 160.50 | 137.90 | 138.10 |
| Total number of shares in issue | 165,167,342 | 165,093,922 | 164,693,034 | 164,201,902 | 164,201,902 |

*Unadjusted price for subdivision of shares in 2011.



*Unadjusted price for subdivision of shares in 2011.

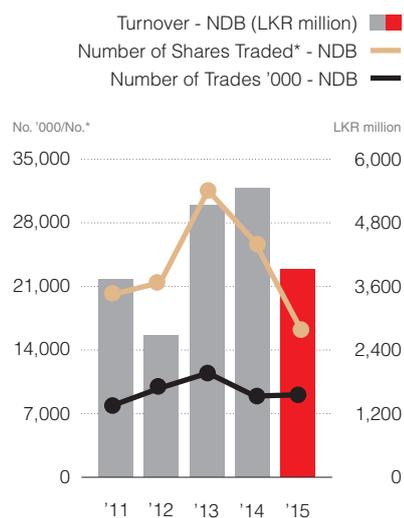
7.1.1 Share Price Movement Over the Year

| Year 2015 | Jan. | Feb. | Mar. | Apr. | May. | Jun. | Jul. | Aug. | Sep. | Oct. | Nov. | Dec. |
|-----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Highest price | 260.00 | 261.00 | 263.00 | 267.00 | 280.00 | 274.80 | 280.00 | 274.90 | 241.10 | 245.00 | 225.00 | 196.00 |
| Lowest price | 235.00 | 220.00 | 245.00 | 245.00 | 262.00 | 255.00 | 255.00 | 238.00 | 220.00 | 215.00 | 193.50 | 187.00 |
| Price as at month end | 237.40 | 260.00 | 248.00 | 266.40 | 275.00 | 260.30 | 275.00 | 241.00 | 222.30 | 224.00 | 194.80 | 194.10 |

7.2 Share Trading Details

| Year | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|------------|------------|------------|------------|------------|
| Number of trades '000 – NDB | 9,040 | 8917 | 11406 | 9854 | 7906 |
| Percentage of total market trades (%) | 0.60 | 0.45 | 0.80 | 0.53 | 0.17 |
| Number of shares traded – NDB | 15,963,879 | 25,871,855 | 31,631,020 | 21,406,492 | 20,108,047 |
| Percentage of total shares traded in the market (%) | 0.17 | 0.15 | 0.35 | 0.22 | 0.08 |
| Turnover – NDB (LKR million) | 3,918 | 5,452 | 5,112 | 2,676 | 3,737 |
| Percentage of total market turnover (%) | 0.60 | 1.60 | 2.55 | 1.25 | 0.68 |

SHARE TRADING DETAILS

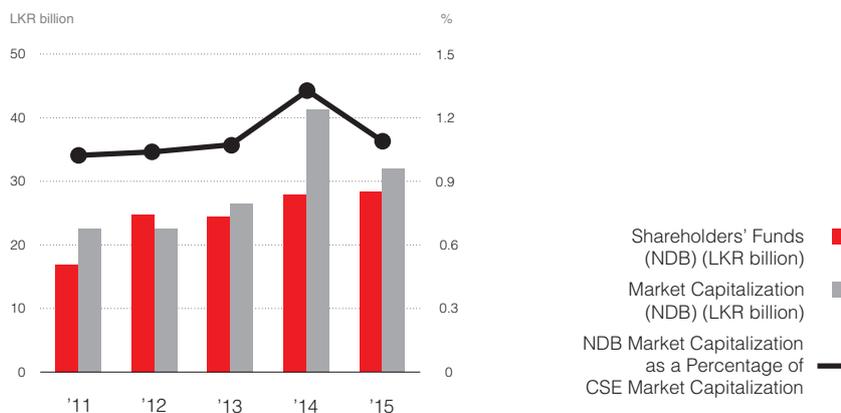


7.3 Shareholders' Funds and Market Capitalization

| Year | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|-----------|-----------|-----------|-----------|-----------|
| Shareholders' funds (NDB) in LKR million | 28,382 | 27,876 | 24,514 | 24,883 | 16,925 |
| Percentage increase/decrease in shareholder funds over the prior year (%) | 2 | 14 | -1 | 47 | 11 |
| Market capitalization (NDB) in LKR million | 32,059 | 41,273 | 26,433 | 22,643 | 22,676 |
| Percentage increase/decrease in NDB market capitalization over the prior year (%) | -22 | 56 | 17 | 0 | -21 |
| Market capitalization (CSE) in LKR million | 2,937,998 | 3,104,864 | 2,459,897 | 2,167,581 | 2,213,873 |
| Percentage increase/decrease in CSE market capitalization over the prior year (%) | -5.37 | 26.22 | 13.49 | -2.09 | 0.15 |

| Year | 2015 | 2014 | 2013 | 2012 | 2011 |
|--|---------|---------|---------|---------|---------|
| NDB's market capitalization as a percentage of CSE market capitalization (%) | 1.09 | 1.33 | 1.07 | 1.04 | 1.02 |
| Market capitalization rank of NDB in the CSE | 21 | 16 | 20 | 22 | 23 |
| Market capitalization (BFI sector within CSE) in LKR million | 699,844 | 753,695 | 512,792 | 490,561 | 499,180 |
| NDB's market capitalization as a percentage of BFI sector capitalization (%) | 4.58 | 5.48 | 5.15 | 4.62 | 4.54 |
| Beta value of NDB share against ASPI | 1.37 | 1.11 | 0.82 | 1.17 | 0.86 |
| Beta value of NDB share against S&P SL20 | 1.54 | 1.10 | 0.63 | 1.28 | 0.89 |

SHAREHOLDERS' FUNDS AND MARKET CAPITALIZATION



Shareholders' funds of the Group reached LKR 28 billion by end 2015, a 2% increase over the prior period. Within shareholder funds, capital increased by 2% whilst retained earnings increased by 3% during the year, strengthening the shareholder funds base.

On a five year compound annual growth basis, the shareholder funds have increase by 11% from 2011 to 2015.

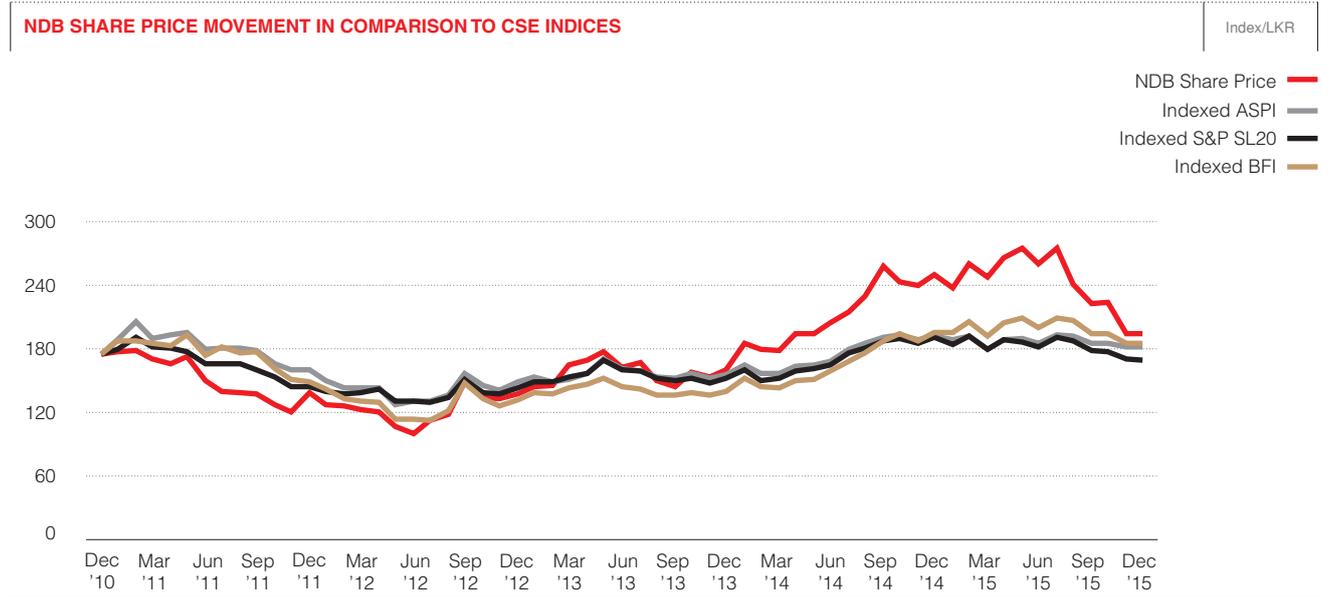
Market capitalization of NDB by the end of 2015 was LKR 32 billion, based on a share base of 165,167,342 which closed trading at LKR 194.10. This

was a 22% drop in comparison to the market capitalization in 2014 of LKR 41 billion, which was represented by a share base of 165,093,922 which closed trading at LKR 250.00.

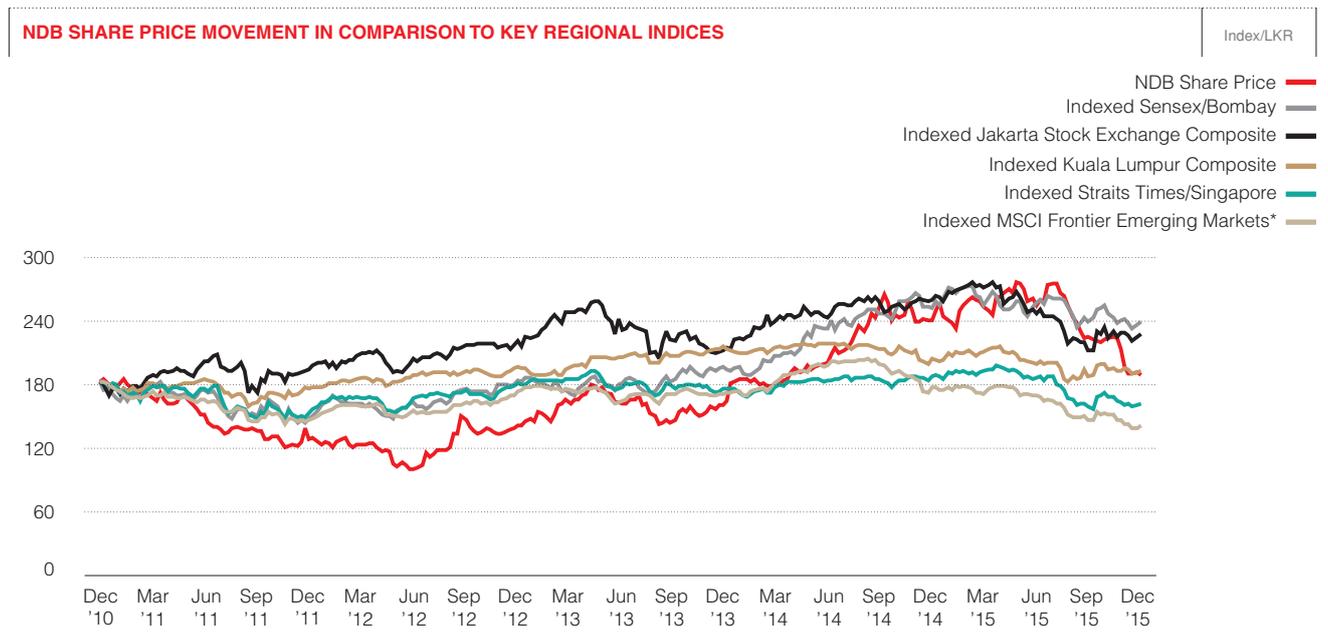
At a market level, the Colombo Stock Exchange also denoted a reduction in the total market capitalization,

NDB retained its position in the S&P SL 20 index, which covers the largest and most liquid stocks from the Sri Lankan equity market, at its latest annual reconstitution in December 2015.

7.4 NDB Share Performance in Comparison to Selected Local Indices



7.5 NDB Share Performance in Comparison to Key Regional Indices



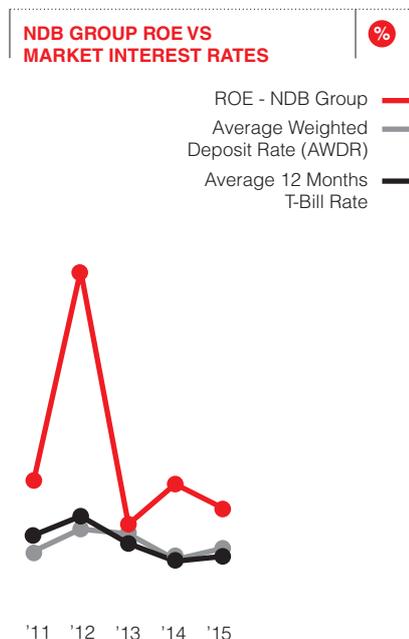
* Morgan Stanley Capital International Frontier Emerging Markets Index

8. Key Shareholder Return Indicators – NDB Group

| Year | 2015 | 2014 | 2013 | 2012 | 2011 |
|--|--------|--------|--------|--------|--------|
| Return on equity (%) | 12.59 | 15.78 | 10.70 | 42.35 | 15.69 |
| Gross dividends paid during the year (LKR million) | 1,815 | 1,978 | 3,222 | 657 | 800 |
| Dividend per share (DPS) (LKR) | 11.00 | 11.00 | 10.00 | 15.00 | 7.50 |
| Dividend yield (%) | 5.67 | 4.40 | 6.23 | 10.88 | 5.43 |
| Dividend payout ratio (%) | 51.00 | 43.90 | 62.37 | 79 | 48.71 |
| Earnings per share (EPS) (LKR) | 21.51 | 25.14 | 16.48 | 55.31 | 15.79 |
| Total shareholder return ratio (TSR) (%) | -17.96 | 63.23 | 30.89 | 2.75 | -18.68 |
| Price earnings ratio (PE ratio) (Times) | 9.02 | 9.94 | 9.74 | 2.49 | 8.75 |
| Net asset value per share (LKR) | 172.35 | 169.35 | 148.85 | 151.54 | 103.08 |
| Price to book value (Times) | 1.13 | 1.48 | 1.08 | 0.91 | 1.34 |

Return on Equity

The Return on Equity (ROE) of the NDB Group for the period under review was 12.59% and compares with an ROE of 15.78% in 2014. The Group has generated sound returns to its shareholders over the years. The Group ROE has been above other comparative market return indicators as well.



Dividend Policy of the Bank

NDB is one of the few corporates which yields consistently high financial rewarded to its shareholders by way of dividends. To serve this purpose the Bank has been gradually increasing its profitability, whilst maintaining prudential focus on a host of other indicators such as inflation, future cash needs for the sustainable operations of the Bank i.e. liquidity and capital adequacy.

Such focus ensures that the Bank strikes the right balance amongst these crucial indicators of liquidity, capital adequacy and meaningful returns to its shareholders.

The Bank's Board approved dividend policy focuses on maintaining the ratios given below:

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

The table below indicates how the Bank has abided by its internal policy for sustainable dividend payments over the past five years which has ensured high dividend to shareholders undisturbed business operations simultaneously.

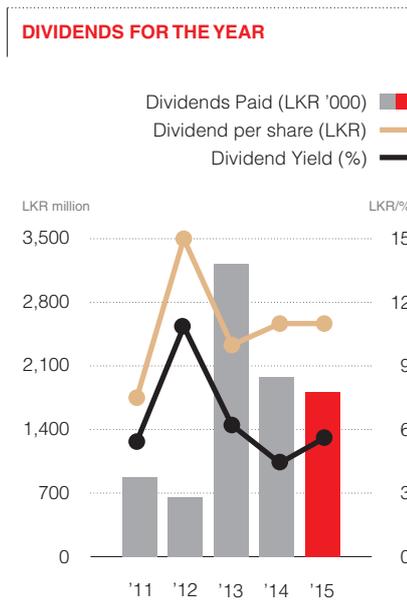
| Year | 2015 | 2014 | 2013 | 2012 | 2011 |
|------------------------------|-------|-------|-------|-------|-------|
| Open loan position ratio (%) | 9.64 | 10.05 | 8.69 | 3.95 | 2.73 |
| Capital adequacy ratio (%) | 12.59 | 14.68 | 17.87 | 12.38 | 11.26 |
| Liquidity ratio (%) – DBU | 22.24 | 23.85 | 26.22 | 22.02 | 22.54 |
| Liquidity ratio (%) – FCBU | 24.91 | 25.18 | 26.06 | 24.92 | 28.49 |
| Minimum payout ratio (%) | 35.00 | 35.00 | 35.00 | 35.00 | 35.00 |
| Dividend payout ratio (%) | 51.29 | 43.90 | 62.37 | 79.38 | 48.71 |

Dividends for the Year

Dividends per share for the year ended 31 December 2015 was LKR 11.00 (2014 - LKR 11.00). The Bank declared an interim dividend of LKR 7.00 (2014 - LKR 7.00) on 13 November 2015 and paid same on 24 November 2015. The final dividend of LKR 4.00 (2014 - LKR 4.00) was declared on 12 February 2016.

The dividend pay-out ratio for 2015 was 51%, and has been maintained well in line with the Bank's dividend policy as explained above.

The dividend yield of the Bank for 2015 was 5.67%.



Earnings Per Share

Basic earnings per share (EPS) for the year ended 31 December 2015 was LKR 21.51 and compared with an EPS of LKR 25.14 in 2014.

As explained in item 12.1 below, the Bank has in effect, an equity linked compensation plan (ELCP) for a set of eligible employees. The diluted earnings per share calculated based on the effect of the said outstanding share option scheme is LKR 21.51.

Total Shareholder Returns

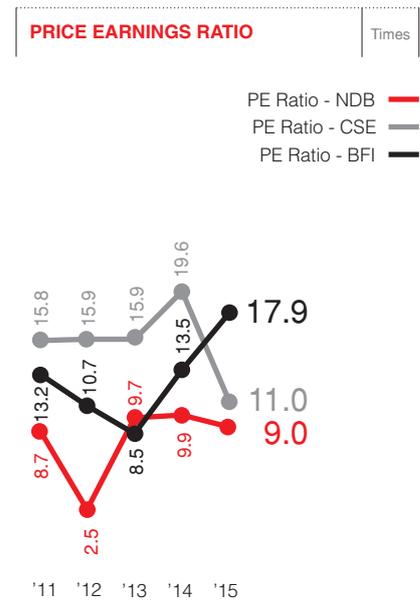
Total shareholder returns (TSR), as measured with change in share price and dividends received during the year was a negative 18% for 2015. The main reason for the negative movement in the TSR was the drop in NDB's share price from LKR 250.00 in end 2014 to LKR 194.10 by end 2015. In terms of dividend earned during 2015 shareholders received a total of LKR 11.00 (LKR 4.00 as final dividend for 2014 and LKR 7.00 as interim dividend for 2015). During 2014, shareholders received a total of LKR 12.00 as dividends (LKR 5.00 as final dividend for 2013 and LKR 7.00 as interim dividend for 2014).

The TSR for 2015 compares with a TSR of 63% in 2014. The main reason for the large positive TSR in 2014 was the NDB's share price appreciation by 56% (a rupee equivalent of LKR 89.50) from end 2013 to end 2014.

Price Earnings Ratio

The price earnings ratio (PER) of NDB for the 12 months ended 2015 was 9.02 (times). In comparison to the PER of NDB of 9.94 (times) in 2014.

In comparison to the PER of the Colombo Stock Exchange, the Bank's PER has been lower than the CSE PER. The closing CSE PER for 2015 was 18.38 (times). When comparing the PER of NDB with the PER of the Banking, Finance and Insurance (BFI) sector of the CSE, the Bank's PER was still lower than 17.98% of the BFI sector.



Price to Book Value

Price to book value (PBV) was greater than one, for the year ended 31 December 2015 at 1.13 (times) (2014: 1.48 times). The decrease in the share price (from LKR 250.00 to LKR 194.10) together with the increase in the net asset value per share (from LKR 169.35 to LKR 172.35) in end 2015 compared to end 2014 resulted in the lower PBV ratio.

Net Asset Value Per Share

Net asset value per share of the Group improved to LKR 172.35 by the end of 2015 in comparison to LKR 169.35 of end 2014, a modest increase of 2%.

9. Employee Share Ownership Schemes

9.1 Equity Linked Compensation Plan (ELCP)

The Bank obtained approval of the shareholders at an Extraordinary General Meeting held in March 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, thereby forming an Equity Linked Compensation Plan (ELCP).

Accordingly, the ELCP created a maximum of 3% of the ordinary voting shares to be allocated in five tranches. Half of such shares were 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.

The said ELCP was concluded in 2014.

However, as per the ELCP, the eligible members of the staff can exercise share options until 2017, and accordingly have exercised share options amounting to 73,420 shares during the year ended 31 December 2015.

The said share issue resulted in the increase of the stated capital of the Bank from LKR 1,225 million to LKR 1,243 million as at 31 December 2015. The number of shares in issue increased from 165,093,922 to 165,167,342 as at 31 December 2015.

More details on the share options scheme and share grants scheme are given on Note 43 on pages 360 and 361 to the Financial Statements.

9.2 Employee Share Option Schemes (ESOS)

NDB maintained an Employee Share Option Scheme (ESOP) until 2014. 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, specially 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 in 2014.

Debentures of NDB

10. NDB has Three Debentures in Issue as Follows:

- i. Listed rated unsecured subordinated redeemable debentures – June 2015
- ii. Listed rated unsecured subordinated redeemable debentures – December 2013
- iii. Unlisted privately placed debentures – June/July 2011

10.1 Rated Unsecured Subordinated Redeemable Debentures – June 2015

10.1 (A) Key Features of the Debentures

| Types of Debentures | Debenture Code | ISIN | Issue Price | Per Value | Interest Rate per Annum | Interest Payment Frequency | Annual Effective Rate per Annum | Redemption (from the Date of Allotment) | Interest Payment Dates |
|---------------------|---------------------------|--------------|-------------|-----------|-------------------------|---|---------------------------------|---|---------------------------|
| | | | LKR | LKR | % | | | | |
| Type A | NDB-BD-24/06/20-C2309-9.4 | LK0207D23091 | 100 | 100 | 9.40% | Annually | 9.40% | 60 months (5 years) | 31 December |
| Type B | NDB-BD-24/06/20-C2308-0 | LK0207D23083 | 63.81 | 100 | 9.40% | Annual compounding on the Issue Price payable on the Date of Redemption | 9.40% | 60 months (5 years) | At the time of redemption |

10.1 (B) Trading Details for the Year Ended 31 December 2015

| Type of Debenture | Debenture Capital Balance as at 31 December 2015 LKR million | Market Value | | | Interest Rate of Comparable Security % | Other Ratios as at Last Trade | |
|-------------------------|---|----------------------------|------------|--------------|--|-------------------------------|---------------------|
| | | Highest LKR | Lowest LKR | Year End LKR | | Interest Yield % | Yield to Maturity % |
| Fixed rate | | | | | | | |
| Type A | 7,000 | 101.64 | 99.00 | 99.00 | 8.30 | 9.70 | 9.70 |
| Type B | 1,914 | Not traded during the year | | | 8.30 | Not traded during the year | |
| Total Debentures | 8,914 | | | | | | |

10.2 Rated Unsecured Subordinated Redeemable Debentures – December 2013

10.2 (A) Key Features of the Debentures

| Types of Debentures | Debenture Code | ISIN | Issue Price | Per Value | Interest Rate per Annum | Interest Payment Frequency | Annual Effective Rate per Annum % | Redemption (from the Date of Allotment) | Interest Payment Dates |
|---------------------|----------------------|--------------|-------------|-----------|-------------------------|----------------------------|-----------------------------------|---|-------------------------|
| | | | LKR | LKR | % | | | | |
| Type A | NDB/BC/19/12/18A13 | LK0207D20998 | 100 | 100 | 13.00 | Semi-Annually | 13.42 | 60 months (5 years) | 30 June and 31 December |
| Type B | NDB/BC/19/12/18B13.4 | LK0207D21012 | 100 | 100 | 13.40 | Annually | 13.40 | 60 months (5 years) | 31 December |
| Type C | NDB/BC/19/12/23C13.9 | LK0207D21038 | 100 | 100 | 13.90 | Annually | 13.90 | 120 months (10 years) | 31 December |
| Type D | NDB/BC/19/12/25D14 | LK0207D21053 | 100 | 100 | 14.00 | Annually | 14.00 | 144 months (12 years) | 31 December |

10.2 (B) Trading Details for the Year Ended 31 December 2015

| Type of Debenture | Debenture Capital Balance as at 31 December 2015 LKR million | Market Value | | | Interest Rate of Comparable Security % | Other Ratios as at Last Trade | |
|-------------------------|--|----------------------------|---------------|-----------------|--|-------------------------------|------------------------|
| | | Highest LKR | Lowest LKR | Year End LKR | | Interest Yield % | Yield to Maturity % |
| Fixed Rate | | | | | | | |
| Type A | 1,243 | 112.00 | 104.00 | 104.00 | 8.30 | 11.39 | 11.39 |
| Type B | 1,529 | 112.35 | 112.35 | 112.35 | 8.30 | 9.04 | 9.04 |
| Type C | 3,638 | 117.05 | 117.05 | 117.05 | 9.75 | 10.78 | 10.78 |
| Type D | 3,590 | Not traded during the year | | | 9.75 | Not traded during the year | |
| Total Debentures | 10,000 | | | | | | |

10.3 Unlisted Privately Placed Debentures – June/July 2011

In 2011, the Bank privately placed rated subordinated unsecured unlisted debentures having an aggregate face value of LKR 400 million. The proceeds of these debentures were utilized for re-lending purposes.

10.3 (A) Key Features of the 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 |

10.3 (B) Other Information

| Type of Debenture | CSE Listing | Interest Payable Frequency | Balance as at 31 December 2015 | Coupon Rate % | Effective Annual Yield % | Interest Rate on Comparable Securities % |
|---|-------------|-------------------------------|-----------------------------------|---------------------|--------------------------------|--|
| Floating Rate | | | | | | |
| 2011- 2016 (3 month TB rate (gross)+1% p.a.) | Unlisted | Quarterly | 400 | 7.82 | 7.82 | 6.87 |
| Total Debentures | 400 | | | | | |

11. Information on Debentures of the Bank (As per Rule No. 7.6 x (i) of the Listing Rules of the Colombo Stock Exchange)

| | 2015 | 2014 |
|--|-------|-------|
| Debt equity ratio (%) | 12.19 | 10.43 |
| Interest cover (Times) | 1.55 | 1.58 |
| Liquidity assets ratio (%) – Domestic Banking Unit | 22.24 | 23.85 |
| Liquidity assets ratio (%) – Foreign Currency Banking Unit | 24.91 | 25.18 |

12. Directors' Interest in Listed Debentures as at 31 December 2015

| Name | Debenture June 2015 | | Debenture December 2013 | |
|------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | As at 31 December 2015 | As at 31 December 2014 | As at 31 December 2015 | As at 31 December 2014 |
| | No. of Debentures | No. of Debentures | No. of Debentures | No. of Debentures |
| N G Wickremeratne | 75,500 | N/A | 67,200 | N/A*** |
| A K Pathirage | – | N/A | – | – |
| R Theagarajah | – | N/A | – | – |
| T L F Jayasekera | – | N/A | – | – |
| Mrs. K Fernando | – | N/A | – | – |
| D S P Wikramanayake | – | N/A | – | – |
| Mrs. W A I Sugathadasa | – | N/A | – | – |
| Mrs. D M A Harasgama | – | N/A | – | N/A*** |
| D M R Phillips | – | N/A | – | N/A*** |
| K D W Ratnayaka | – | N/A | – | N/A*** |

*** Not Directors as at 2014

Credit Ratings of NDB

13. Credit Ratings

NDB at present engages the services of Fitch Ratings Lanka Ltd. for local credit ratings and the services of Standards and Poor's Rating Services for international ratings.

Ratings assigned to the Bank are subject to annual reviews. In the 2015 annual ratings review, all ratings assigned to NDB by both the rating agencies were affirmed. This is an assured indicator of the soundness with which, the Bank conducts its operations.

14. Credit Ratings Summary

| Rating Entity | Fitch Ratings Lanka Ltd. |
|--|------------------------------------|
| Date of report | 11 November 2015 |
| National | |
| Long-term rating | AA-(lka) |
| Subordinated debentures | A+(lka) |
| Sovereign risk | |
| Long-term foreign currency issuer default rating (IDR) | BB- |
| Long-term local currency issuer default rating (IDR) | BB- |
| Outlooks | |
| National Long-Term Rating | Stable |
| Sovereign Long-Term Foreign Currency IDR | Stable |
| Sovereign Long-Term Local Currency IDR | Stable |
| Rating Entity | Standard & Poor's Ratings Services |
| Date of report | 22 June 2015 |
| Counterparty Credit Rating | B+/Stable/B |
| Counterparty Credit Ratings History (27 June 2014) | B+/Stable/B |

15. Full Rating Reports

Please refer our Investor Relations web page within the NDB corporate website on <http://www.ndbbank.com/> to read the full rating reports of Fitch ratings and Standard & Poor's Rating Services.

Other Information

16. Financial Statements in USD – Group and Bank

16.1 Statement of Profit or Loss

| | BANK | | | GROUP | | |
|--|---------------------------------------|---------------------------------------|-------------|---------------------------------------|---------------------------------------|-------------|
| | Year ended 31.12.2015 US\$ '000 | Year ended 31.12.2014 US\$ '000 | Change % | Year ended 31.12.2015 US\$ '000 | Year ended 31.12.2014 US\$ '000 | Change % |
| Gross income | 189,162 | 191,029 | (1) | 196,921 | 200,539 | (2) |
| Interest income | 154,868 | 160,515 | (4) | 156,800 | 161,872 | (3) |
| Interest expenses | 99,837 | 101,782 | (2) | 99,680 | 101,312 | (2) |
| Net interest income | 55,032 | 58,732 | (6) | 57,121 | 60,560 | (6) |
| Net Fee and commission income | 14,751 | 14,282 | 3 | 23,096 | 19,623 | 18 |
| Net gains/(losses) from trading | 7,963 | 6,964 | 14 | 7,963 | 6,964 | 14 |
| Net gains/(losses) from financial investments | 1,917 | 5,483 | (65) | 3,612 | 9,573 | (62) |
| Other operating income | 9,662 | 3,785 | 155 | 5,450 | 2,507 | 117 |
| Total operating income | 89,325 | 89,247 | 0 | 97,242 | 99,227 | (2) |
| Impairment charges for loans receivables and other losses | | | | | | |
| Individual Impairment | 4,106 | 1,082 | 279 | 4,106 | 1,082 | 279 |
| Collective Impairment | 1,102 | 2,964 | 63 | 1,102 | 2,964 | 63 |
| Other provision | – | 285 | (100) | 251 | – | 100 |
| Net operating income | 5,208 | 4,332 | 20 | 5,459 | 4,046 | 35 |
| Net Operating expenses | 84,116 | 84,915 | (1) | 91,782 | 95,181 | (4) |
| Operating Expenses | | | | | | |
| Personnel expenses | 23,443 | 21,985 | 7 | 26,584 | 24,278 | 10 |
| Depreciation and amortization | 2,710 | 2,476 | 9 | 3,083 | 2,969 | 4 |
| Other expenses | 18,107 | 16,169 | 12 | 20,301 | 17,986 | 13 |
| Total operating expenses | 44,261 | 40,630 | 9 | 49,970 | 45,233 | 10 |
| Operating profit before tax on financial services | 39,856 | 44,285 | (10) | 41,812 | 49,948 | (16) |
| Tax on financial services | (6,661) | (7,877) | (15) | (6,661) | (7,877) | (15) |
| Operating profit after tax on financial services | 33,196 | 36,408 | (9) | 35,151 | 42,071 | (16) |
| Share of associate companies' profits/(losses) | – | – | – | 569 | 744 | (24) |
| Profit before taxation | 33,196 | 36,408 | (9) | 35,720 | 42,816 | (17) |
| Taxation | (7,506) | (10,251) | (27) | (8,871) | (10,322) | (14) |
| Profit for the period | 25,690 | 26,158 | (2) | 26,849 | 32,494 | (17) |
| Profit attributable to: | | | | | | |
| Equity holders of the parent | 25,690 | 26,158 | (2) | 25,914 | 31,636 | (18) |
| Non-controlling interests | – | – | – | 937 | 857 | 9 |
| | 25,690 | 26,158 | (2) | 26,851 | 32,494 | (17) |
| Basic Earnings per share (in USD) | 0.16 | 0.16 | (2) | 0.16 | 0.19 | (18) |
| Diluted Earnings per share (in USD) | 0.16 | 0.16 | (2) | 0.16 | 0.19 | (18) |

16.2 Statement of Comprehensive Income

| | BANK | | | GROUP | | |
|---|---------------------------------------|---------------------------------------|--------------|---------------------------------------|---------------------------------------|--------------|
| | Year ended 31.12.2015 US\$ '000 | Year ended 31.12.2014 US\$ '000 | Change % | Year ended 31.12.2015 US\$ '000 | Year ended 31.12.2014 US\$ '000 | Change % |
| Profit for the period | 25,690 | 26,158 | (2) | 26,851 | 32,494 | (17) |
| Other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods | | | | | | |
| Exchange differences on translation of foreign operations | – | – | – | 119 | 4 | (3,125) |
| Gains from available-for-sale investments | (2,863) | (269) | 965 | (2,785) | (168) | 1,558 |
| Deferred tax effect on fair value adjustment of available-for-sale investment | 576 | 258 | 123 | 576 | 258 | 123 |
| Net gains/(losses) on available-for sale investments | (2,287) | (11) | 20,956 | (2,209) | 90 | (2,558) |
| Gains and losses on cash flow hedges | (2,105) | 3,045 | (169) | (2,105) | 3,045 | (169) |
| Other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods | | | | | | |
| Revaluation of freehold land & buildings | – | 8,297 | (100) | 698 | 8,297 | (92) |
| Deferred tax effect on revaluation surplus | – | (1,766) | (100) | – | (1,766) | (100) |
| Net change in revaluation surplus | – | 6,531 | (100) | 698 | 6,531 | (89) |
| Actuarial gains/(losses) on defined benefit plans | 690 | (1,069) | (165) | 727 | (1,069) | (168) |
| Deferred tax effect on actuarial gains/(losses) on defined benefit plans | (54) | 129 | (141) | (54) | 129 | (141) |
| Net actuarial gains/(losses) on defined benefit plans | 637 | (940) | (168) | 674 | (940) | (172) |
| Total other comprehensive income/(expenses) | (3,755) | 8,625 | (144) | (2,824) | 8,730 | (132) |
| Total comprehensive income for the period | 21,936 | 34,783 | (37) | 24,028 | 41,223 | (42) |
| Attributable to: | | | | | | |
| Equity holders of the parent | 21,936 | 34,783 | (37) | 23,050 | 40,365 | (43) |
| Non-controlling interests | – | – | – | 978 | 859 | 14 |
| | 21,936 | 34,783 | (37) | 24,028 | 41,223 | (42) |

16.3 Consolidated Statement of Financial Position

| | BANK | | | GROUP | | |
|---|--|---|-------------|--|---|-------------|
| | Current period As at 31.12.2015 US\$ '000 | Previous period As at 31.12.2014 US\$ '000 | Change % | Current period As at 31.12.2015 US\$ '000 | Previous period As at 31.12.2014 US\$ '000 | Change % |
| Assets | | | | | | |
| Cash and cash equivalents | 82,094 | 23,536 | 249 | 82,282 | 24,822 | 231 |
| Balances with Central Bank | 48,610 | 51,104 | (5) | 48,610 | 51,104 | (5) |
| Placements with banks | 8,011 | 20,636 | (61) | 8,011 | 20,636 | (61) |
| Derivative financial instruments | 13,219 | 14,434 | (8) | 13,219 | 14,434 | (8) |
| Financial assets-held-for-trading | 20,731 | 21,117 | (2) | 36,316 | 45,706 | (21) |
| Loans and receivables to banks | 713 | 2,359 | (70) | 713 | 2,359 | (70) |
| Loans and receivables to other customers | 1,455,570 | 1,328,091 | 10 | 1,456,011 | 1,328,551 | 10 |
| Financial investments – loans and receivables | 248,822 | 290,390 | (14) | 259,505 | 293,279 | (12) |
| Financial investments – available-for-sale | 197,927 | 129,343 | 53 | 201,145 | 136,906 | 47 |
| Financial investments – held-to-maturity | 30,812 | 68,013 | (55) | 39,312 | 77,084 | (49) |
| Investments held for sale | 129 | 140 | (8) | 231 | 252 | (8) |
| Investments in subsidiary companies | 14,612 | 15,165 | (4) | – | – | – |
| Investment property | – | – | – | 11,611 | 11,719 | (1) |
| Intangible assets | 1,668 | 1,919 | (13) | 1,908 | 2,252 | (15) |
| Property, plant & equipment | 14,097 | 14,613 | (4) | 17,048 | 17,078 | (0) |
| Other assets | 9,912 | 11,021 | (10) | 14,035 | 14,225 | (1) |
| Total assets | 2,146,928 | 1,991,883 | 8 | 2,189,956 | 2,040,406 | 7 |
| Liabilities | | | | | | |
| Due to banks | 80,694 | 53,293 | 51 | 80,694 | 53,293 | 51 |
| Derivative financial instruments | 4,439 | 5,028 | (12) | 4,439 | 5,028 | (12) |
| Due to other customers | 1,284,259 | 1,151,052 | 12 | 1,278,835 | 1,148,485 | 11 |
| Debt securities issued and other borrowed funds | 420,332 | 469,715 | (11) | 420,124 | 469,491 | (11) |
| Current tax liabilities | 3,378 | 6,268 | (46) | 3,639 | 6,112 | (40) |
| Deferred tax | 4,878 | 4,696 | 4 | 4,950 | 4,624 | 7 |
| Other liabilities | 54,956 | 48,311 | 14 | 56,756 | 50,119 | 13 |
| Dividends payable | 417 | 390 | 7 | 417 | 390 | 7 |
| Subordinated term debts | 135,930 | 84,529 | 61 | 135,930 | 84,529 | 61 |
| Total liabilities | 1,989,283 | 1,823,282 | 9 | 1,985,785 | 1,822,071 | 9 |
| Equity | | | | | | |
| Stated capital | 8,630 | 9,289 | (7) | 8,076 | 8,683 | (7) |
| Statutory reserve fund | 8,630 | 7,663 | 13 | 8,630 | 7,663 | 13 |
| Retained earnings | 135,030 | 141,209 | (4) | 173,444 | 183,820 | (6) |
| Other reserves | 5,354 | 10,438 | (49) | 6,948 | 11,174 | (38) |
| Total shareholders' equity | 157,645 | 168,599 | (6) | 197,099 | 211,340 | (7) |
| Non-controlling interests | – | – | – | 7,073 | 6,995 | 1 |
| Total equity | 157,645 | 168,599 | (6) | 204,172 | 218,335 | (6) |
| Total liabilities and total equity | 2,146,928 | 1,991,881 | 8 | 2,189,957 | 2,040,406 | 7 |
| Net Book Value Per Share (USD) | 0.95 | 1.02 | (7) | 1.20 | 1.28 | (7) |
| Contingent liabilities and commitments | 1,651,031 | 1,752,416 | (6) | 1,656,872 | 1,752,455 | (5) |
| Memorandum Information | | | | | | |
| Number of Employees | 1,960 | 1,744 | | | | |
| Number of Branches | 93 | 83 | | | | |

17. Interim Financial Performance – Group and Bank

17.1 Statement of Profit or Loss

Bank

| LKR '000 | Quarter 4 31.12.2015 | Quarter 3 30.09.2015 | Quarter 2 30.06.2015 | Quarter 1 31.03.2015 | Quarter 4 31.12.2014 | Quarter 3 30.09.2014 | Quarter 2 30.06.2014 | Quarter 1 31.03.2014 |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Net interest income | 2,015,766 | 1,843,930 | 1,741,914 | 1,920,215 | 1,893,935 | 2,011,647 | 1,973,188 | 1,795,831 |
| Other operating income | 966,482 | 1,141,910 | 868,296 | 1,710,776 | 889,176 | 909,803 | 898,997 | 1,289,390 |
| Total operating income | 2,982,248 | 2,985,840 | 2,610,210 | 3,630,990 | 2,783,111 | 2,921,450 | 2,872,185 | 3,085,221 |
| Impairment for loans & receivables and other losses | 194,664 | 318,872 | 261,799 | (63,502) | 242,428 | 101,449 | 193,633 | 28,493 |
| Net operating income | 2,787,584 | 2,666,968 | 2,348,411 | 3,694,493 | 2,540,683 | 2,820,001 | 2,678,552 | 3,056,728 |
| Total operating expenses | 1,544,025 | 1,556,793 | 1,543,338 | 1,405,424 | 1,393,055 | 1,378,336 | 1,229,405 | 1,308,396 |
| Profit from operations | 1,243,558 | 1,110,175 | 805,073 | 2,289,069 | 1,147,628 | 1,441,665 | 1,449,147 | 1,748,332 |
| Share of associate companies' profit | - | - | - | - | - | - | - | - |
| Profit before taxation | 1,243,558 | 1,110,175 | 805,073 | 2,289,069 | 1,147,628 | 1,441,665 | 1,449,147 | 1,748,332 |
| Taxation | (395,004) | (450,310) | (359,636) | (731,494) | (547,209) | (502,867) | (769,134) | (549,500) |
| Profit for the period | 848,555 | 659,865 | 445,437 | 1,557,574 | 600,419 | 938,798 | 680,013 | 1,198,832 |
| Profit attributable to: | | | | | | | | |
| Equity holders of the parent | 848,555 | 659,865 | 445,437 | 1,557,574 | 600,419 | 938,798 | 680,013 | 1,198,832 |
| Non-controlling interests | - | - | - | - | - | - | - | - |
| | 848,555 | 659,865 | 445,437 | 1,557,574 | 600,419 | 938,798 | 680,013 | 1,198,832 |
| Basic earnings per share (in LKR) | 5.14 | 4.00 | 2.70 | 9.43 | 3.64 | 5.69 | 4.13 | 7.28 |
| Diluted earnings per share (in LKR) | 5.14 | 3.99 | 2.69 | 9.42 | 3.63 | 5.68 | 4.12 | 7.27 |

Group

| LKR '000 | Quarter 4 31.12.2015 | Quarter 3 30.09.2015 | Quarter 2 30.06.2015 | Quarter 1 31.03.2015 | Quarter 4 31.12.2014 | Quarter 3 30.09.2014 | Quarter 2 30.06.2014 | Quarter 1 31.03.2014 |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Net interest income | 2,102,097 | 1,902,158 | 1,819,330 | 1,983,792 | 1,952,090 | 2,064,925 | 2,033,432 | 1,862,959 |
| Other operating income | 1,576,221 | 1,574,655 | 1,175,198 | 1,157,857 | 1,341,065 | 1,309,395 | 1,035,734 | 1,366,455 |
| Total operating income | 3,678,318 | 3,476,813 | 2,994,528 | 3,141,650 | 3,293,155 | 3,374,320 | 3,069,166 | 3,229,414 |
| Impairment for loans & receivables and other losses | 201,187 | 327,339 | 281,121 | (63,502) | 222,964 | 85,776 | 94,384 | 125,584 |
| Net operating income | 3,477,131 | 3,149,473 | 2,713,407 | 3,205,152 | 3,070,191 | 3,288,544 | 2,974,781 | 3,103,830 |
| Total operating expenses | 1,803,152 | 1,746,450 | 1,718,962 | 1,561,316 | 1,605,584 | 1,522,422 | 1,349,455 | 1,433,155 |
| Profit from operations | 1,673,979 | 1,403,023 | 994,446 | 1,643,836 | 1,464,607 | 1,766,122 | 1,625,326 | 1,670,675 |
| Share of associate companies' profit | - | 14,898 | 15,957 | 46,963 | - | - | - | 97,274 |
| Profit before taxation | 1,673,979 | 1,417,921 | 1,010,403 | 1,690,799 | 1,464,607 | 1,766,122 | 1,625,326 | 1,767,949 |
| Taxation | (332,582) | (562,332) | (426,887) | (801,204) | (527,635) | (514,723) | (772,596) | (563,080) |
| Profit for the period | 1,341,398 | 855,589 | 583,516 | 889,595 | 936,972 | 1,251,400 | 852,730 | 1,204,869 |
| Profit attributable to: | | | | | | | | |
| Equity holders of the parent | 1,254,439 | 843,797 | 574,531 | 869,275 | 857,660 | 1,242,340 | 843,045 | 1,190,885 |
| Non-controlling interests | 86,958 | 11,792 | 8,985 | 20,319 | 79,312 | 9,060 | 9,685 | 13,983 |
| | 1,341,398 | 855,589 | 583,516 | 889,595 | 936,972 | 1,251,400 | 852,730 | 1,204,869 |
| Basic earnings per share (in LKR) | 7.62 | 5.13 | 3.49 | 5.28 | 5.68 | 7.75 | 5.24 | 7.41 |
| Diluted earnings per share (in LKR) | 7.62 | 5.12 | 3.48 | 5.27 | 5.34 | 7.62 | 5.24 | 7.41 |

17.2 Statement of Financial Position

Bank

| LKR '000 | As at 31.12.2015 | As at 30.09.2015 | As at 30.06.2015 | As at 31.03.2015 | As at 31.12.2014 | As at 30.09.2014 | As at 30.06.2014 | As at 31.03.2014 |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Cash and cash equivalents | 19,975,020 | 17,543,429 | 22,411,605 | 23,582,507 | 12,566,872 | 19,509,158 | 9,162,267 | 8,361,127 |
| Net loans and receivables | 209,704,701 | 192,527,763 | 181,435,628 | 175,633,823 | 175,486,347 | 164,951,727 | 153,743,532 | 145,414,432 |
| Investments | 73,876,706 | 62,113,872 | 61,414,034 | 58,134,409 | 69,137,786 | 64,784,042 | 66,953,926 | 50,778,802 |
| Other assets | 5,601,178 | 6,384,483 | 5,667,489 | 6,822,165 | 5,538,141 | 5,603,313 | 3,522,678 | 2,884,388 |
| Total | 309,157,605 | 278,569,547 | 270,928,756 | 264,172,904 | 262,729,146 | 254,848,240 | 233,382,404 | 207,438,749 |
| Customer deposits | 184,933,230 | 169,341,944 | 170,094,950 | 162,760,544 | 151,823,715 | 150,515,133 | 139,500,487 | 135,282,343 |
| Borrowings | 91,721,730 | 75,767,555 | 69,648,348 | 70,632,546 | 80,134,243 | 74,010,835 | 66,633,874 | 47,287,695 |
| Other liabilities | 9,801,787 | 9,616,638 | 7,575,200 | 7,604,820 | 8,532,996 | 7,408,478 | 6,660,594 | 4,964,605 |
| Shareholders Funds | 22,700,858 | 23,843,410 | 23,610,258 | 23,174,994 | 22,238,192 | 22,913,794 | 20,587,448 | 19,904,106 |
| Total | 309,157,605 | 278,569,547 | 270,928,756 | 264,172,904 | 262,729,146 | 254,848,240 | 233,382,404 | 207,438,749 |
| Net asset value per share | 137.44 | 144.36 | 142.95 | 140.37 | 134.70 | 138.84 | 124.77 | 120.84 |

Group

| LKR '000 | As at 31.12.2015 | As at 30.09.2015 | As at 30.06.2015 | As at 31.03.2015 | As at 31.12.2014 | As at 30.09.2014 | As at 30.06.2014 | As at 31.03.2014 |
|---------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Cash and cash equivalents | 20,002,092 | 17,719,697 | 22,603,704 | 23,791,534 | 12,736,517 | 19,593,374 | 9,356,993 | 8,464,024 |
| Net loans and receivables | 209,768,193 | 192,528,547 | 181,469,407 | 175,659,497 | 175,547,050 | 164,945,855 | 153,767,778 | 145,472,939 |
| Investments | 77,257,188 | 66,234,659 | 64,452,825 | 61,380,473 | 72,970,513 | 68,607,489 | 70,575,810 | 54,259,369 |
| Other assets | 8,326,260 | 8,227,970 | 8,315,231 | 9,164,418 | 7,875,525 | 7,690,060 | 5,474,132 | 4,856,066 |
| Total | 315,353,733 | 284,710,873 | 276,841,167 | 269,995,922 | 269,129,605 | 260,836,778 | 239,174,713 | 213,052,398 |
| Customer deposits | 184,152,280 | 169,039,614 | 169,721,436 | 162,427,534 | 151,485,201 | 150,211,397 | 139,226,384 | 134,984,443 |
| Borrowings | 91,691,730 | 75,737,556 | 69,618,348 | 70,602,547 | 80,104,583 | 74,026,906 | 66,605,559 | 47,257,695 |
| Other liabilities | 10,109,006 | 9,877,556 | 7,889,172 | 7,912,640 | 8,741,402 | 7,536,486 | 6,926,197 | 5,219,171 |
| Shareholders Funds | 28,382,204 | 29,113,108 | 28,684,521 | 28,098,021 | 27,875,773 | 28,218,815 | 25,582,366 | 24,730,358 |
| Non-Controlling Interests | 1,018,513 | 943,039 | 927,690 | 955,180 | 922,646 | 843,174 | 834,207 | 860,731 |
| Total | 315,353,733 | 284,710,873 | 276,841,167 | 269,995,922 | 269,129,605 | 260,836,778 | 239,174,713 | 213,052,398 |
| Net asset value | 172.35 | 176.79 | 174.19 | 170.70 | 169.35 | 175.92 | 159.51 | 154.00 |

18. Ten Years at a Glance (Group Performance)

18.1 Statement of Profit or Loss

| LKR million | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|
| Income | | | | | | | | | | |
| Net interest income | 2,853 | 3,522 | 3,787 | 4,233 | 4,163 | 4,910 | 5,896 | 7,012 | 7,913 | 7,807 |
| Other operating income | 2,133 | 1,474 | 1,662 | 2,560 | 2,785 | 3,012 | 9,042 | 4,537 | 5,053 | 5,484 |
| Total operating income | 4,986 | 4,997 | 5,449 | 6,793 | 6,948 | 7,922 | 14,938 | 11,549 | 12,966 | 13,291 |
| Impairment for loans and receivables and other losses | 13 | 65 | 116 | 373 | (172) | (88) | 51 | 1,261 | 529 | 746 |
| Net operating income | 4,972 | 4,932 | 5,333 | 6,420 | 7,119 | 8,010 | 14,887 | 10,288 | 12,437 | 12,545 |
| Less Operating Expenses | | | | | | | | | | |
| Personnel costs | 830 | 949 | 1,151 | 1,300 | 1,567 | 2,118 | 2,333 | 2,660 | 3,172 | 3,634 |
| Other operating costs | 929 | 1,104 | 1,237 | 1,370 | 1,496 | 1,863 | 2,163 | 2,904 | 2,738 | 3,196 |
| Total operating expenses | 1,760 | 2,053 | 2,388 | 2,670 | 3,063 | 3,981 | 4,496 | 5,564 | 5,910 | 6,830 |
| Operating Profit before Share of Associate Companies, profit before tax | 3,213 | 2,879 | 2,945 | 3,750 | 4,056 | 4,030 | 10,391 | 4,724 | 6,527 | 5,715 |
| Share of associate companies' profit | 214 | 179 | 172 | 526 | 295 | 331 | 439 | 49 | 97 | 78 |
| Profit before taxation | 3,427 | 3,058 | 3,118 | 4,276 | 4,351 | 4,361 | 10,830 | 4,773 | 6,624 | 5,793 |
| Taxation | (1,220) | (1,421) | (1,409) | (2,154) | (2,175) | (1,597) | (1,898) | (2,061) | (2,378) | (2,123) |
| Profit after taxation | 2,207 | 1,637 | 1,708 | 2,121 | 2,176 | 2,764 | 8,932 | 2,712 | 4,246 | 3,670 |
| Non-controlling interests | (176) | (115) | (103) | (37) | (73) | (235) | (78) | (70) | (112) | (128) |
| Profit attributable to equity holders of the parent | 2,030 | 1,521 | 1,605 | 2,085 | 2,103 | 2,528 | 8,854 | 2,642 | 4,134 | 3,542 |

18.2 Statement of Financial Position

| LKR million | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------------------------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Assets | | | | | | | | | | |
| Liquid assets | 6,042 | 7,748 | 5,883 | 8,243 | 5,586 | 7,651 | 13,269 | 8,139 | 12,737 | 20,002 |
| Investments | 12,170 | 14,701 | 18,509 | 32,128 | 29,199 | 29,992 | 39,587 | 55,614 | 72,971 | 77,257 |
| Loans and receivables | 42,418 | 49,818 | 54,589 | 54,107 | 69,274 | 99,456 | 117,222 | 137,523 | 175,547 | 209,768 |
| Investments in associate companies | 1,179 | 1,210 | 1,393 | 1,724 | 1,763 | 1,797 | 33 | 77 | - | - |
| Property, plant & equipment | 691 | 804 | 781 | 806 | 918 | 1,504 | 1,541 | 1,473 | 2,550 | 2,730 |
| Investment property | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 1,296 | 1,296 | 1,384 | 1,546 | 1,672 |
| Other assets | 1,276 | 661 | 925 | 1,075 | 691 | 962 | 1,154 | 2,608 | 3,780 | 3,925 |
| Goodwill | - | - | - | 4 | 4 | - | - | - | - | - |
| Total Assets | 64,977 | 76,143 | 83,280 | 99,286 | 108,635 | 142,588 | 174,103 | 206,818 | 269,130 | 315,354 |
| Liabilities | | | | | | | | | | |
| Borrowings | 29,204 | 34,147 | 34,993 | 29,561 | 28,631 | 38,973 | 36,630 | 47,344 | 80,104 | 91,692 |
| Deposits with customers | 21,161 | 25,624 | 31,091 | 49,948 | 60,533 | 82,094 | 107,394 | 129,423 | 151,485 | 184,152 |
| Taxation | 640 | 522 | 352 | 560 | 633 | 397 | 713 | 625 | 1,416 | 1,237 |
| Other liabilities | 2,091 | 2,750 | 3,614 | 4,334 | 2,826 | 3,286 | 3,657 | 4,062 | 7,326 | 8,872 |
| Total Liabilities | 53,096 | 63,043 | 70,050 | 84,403 | 92,623 | 124,750 | 148,394 | 181,454 | 240,331 | 285,953 |
| Shareholders' Funds | | | | | | | | | | |
| Stated capital | 1,033 | 1,033 | 1,033 | 1,033 | 864 | 864 | 864 | 944 | 1,145 | 1,163 |
| Statutory reserves | 819 | 819 | 819 | 819 | 879 | 879 | 879 | 959 | 1,011 | 1,243 |
| Other reserves | - | - | - | - | - | 387 | 924 | 1,880 | 1,474 | 1,000 |
| Retained earnings | 8,715 | 9,833 | 10,811 | 12,345 | 13,552 | 14,796 | 22,216 | 20,733 | 24,246 | 24,976 |
| Total shareholders' funds | 10,567 | 11,685 | 12,662 | 14,197 | 15,295 | 16,926 | 24,883 | 24,516 | 27,876 | 28,382 |
| Non-controlling interests | 1,314 | 1,415 | 568 | 687 | 717 | 913 | 826 | 848 | 923 | 1,019 |
| Total funds employed | 11,881 | 13,100 | 13,230 | 14,883 | 16,012 | 17,838 | 25,709 | 25,364 | 28,799 | 29,401 |
| Total liabilities and funds employed | 64,977 | 76,143 | 83,280 | 99,286 | 108,635 | 142,588 | 174,103 | 206,818 | 269,130 | 315,354 |

18.3 Share Information

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-----------------------------------|--------|--------|-------|--------|--------|--------|--------|--------|--------|--------|
| Market price per share (LKR) | 201.00 | 170.00 | 86.00 | 206.00 | 174.50 | 138.10 | 138.10 | 161.50 | 250.00 | 194.10 |
| Basic earnings per share (LKR) | 12.40 | 9.30 | 9.80 | 12.75 | 12.81 | 15.79 | 55.31 | 16.48 | 25.14 | 21.51 |
| Interim dividends per share (LKR) | - | - | - | - | 4.00 | 3.50 | 5.00 | 5.00 | 7.00 | 7.00 |
| Final dividends per share (LKR) | 4.00 | 6.00 | 6.75 | 8.00 | 4.50 | 4.00 | 10.00 | 5.00 | 4.00 | 4.00 |
| Total dividends per share | 4.00 | 6.00 | 6.75 | 8.00 | 8.50 | 7.50 | 15.00 | 10.00 | 11.00 | 11.00 |
| Dividend cover (Times) | 6.20 | 3.72 | 3.27 | 3.77 | 2.19 | 2.05 | 3.69 | 1.65 | 2.29 | 1.96 |
| Price earnings ratio (Times) | 8.10 | 9.14 | 4.39 | 8.08 | 13.63 | 8.97 | 2.56 | 9.74 | 9.94 | 9.02 |
| Net Asset value per share (LKR) | 64.54 | 71.38 | 77.35 | 86.72 | 93.15 | 103.08 | 151.54 | 148.85 | 169.35 | 172.35 |

19. 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 the contents of the Annual Report is complied 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 | 108 to 115 |
| 7.6 (ii) | Principal activities of the entity and its subsidiaries during the year and any changes therein | 307 |
| 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 | 274 |
| 7.6 (iv) | The public holding percentage | 275 |
| 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 | 275 |
| 7.6 (vi) | Information pertaining to material foreseeable risk factors of the entity | 200 |
| 7.6 (vii) | Details of material issues pertaining to employees and industrial relations of the entity | 201 |
| 7.6 (viii) | Extents, locations, valuations and the number of buildings of the entity's land holdings and investment properties | Note 32 to 34 on pages 342 to 348 |
| 7.6 (ix) | Number of shares representing the entity's stated capital | 196 |
| 7.6 (x) | A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings in the following categories – No. of holders, holdings, total holdings percentage. | 273 and 274 |
| 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 Securities, debt/equity ratio, Interest cover, quick assets ratio, market prices and yield during the year – (ex-interest) – highest price – lowest price, last traded price. • Any changes in the credit rating (for the entity or any other instruments issued by the entity), if applicable. | 272 to 284 282 to 284 284 |
| 7.6 (xii) | Significant changes in the entity's or its subsidiaries fixed assets and the market value of land, the value differs substantially from the book value | Note 32 to 34 on pages 342 to 348 |
| 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 these; • Any material change in the use of funds raised through an issue of Securities. | 196 196 196 |

| Rule No. | Disclosure Requirement | Cross Reference/within the Report (Page/s) |
|-----------|--|---|
| 7.6 (xiv) | Employee Share Option Scheme details Employee Share Purchase Schemes details | Note 43 on page 360 |
| 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 N/A |
| 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 | N/A |

Detail of investments in a related party and/or amounts due from a related party. Including details:

- the date of the transaction,
- name of the related party,
- the relationship between the equity and the related party,
- the amount of transaction and terms of the transaction,
- the rationale for entering into the transaction.

20. Shareholder Enquires and Communications

Investor Relations Team

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**Assistant Vice-President –
Finance & Planning**

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Ms. Shehani Ranasinghe

Company Secretary

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Address:

National Development Bank PLC,

No. 40, Navam Mawatha,

Colombo 02,

Sri Lanka

“FINANCIAL PERFORMANCE MEASURED AS PER REGULATORY REPORTING NORMS TRANSLATES TO FINANCIAL VALUE CREATION”

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of the Central Bank of Sri Lanka

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SCAN TO VIEW

http://ndbbank2015.annualreports.lk/financial_reports/index.html

INDEPENDENT AUDITORS' REPORT



**Building a better
working world**

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HMAJ/DLH/SSG/TW

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 2015, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 control 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 audit 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 auditors consider internal control relevant to the entity'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 entity'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 2015, 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, 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 2015, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, and
 - 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.

12 February 2016
Colombo

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INTEGRATED APPROACH TO FINANCIAL REPORTING

Integration pervades all our business endeavours. We have embedded the concepts of integration into the way we think and approach our stakeholders, which has enabled us to better understand the factors that materially affect the Bank's ability to create value over time. Integrated reporting, which is a sensible evolution in corporate reporting of recent times, has enabled concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long-term.

We witnessed many corporates, including ourselves embracing the concept of integrated reporting in their annual reports. The concepts of integrated reporting however were predominantly applied in the areas of qualitative reporting, with an exception to the Financial Reports.

At NDB, we continuously monitor and review the way we present our financial information and seek scope for improvements, which better reflects our story to the stakeholders. Considering the 'connectivity of information' to best tell an organization's value creation story, which is promoted by integrated reporting, NDB contemplated on how the concepts of 'integrated reporting' could be adopted in presenting the Financial Reports of the Bank.

Thinking along this line and based on other industry best practices, we realized that the presentation of Accounting Policies and Notes to the Financial Statements can be presented in a more meaningful manner.

Therefore in 2014, the Bank took a fresh approach through which, each Note to the Financial Statements was duly preceded by the applicable accounting policy. This presentation method provided greater integration of related and relevant information and improved the efficiency in the usage of Financial Statements.

Based on the positive feedback received and the improved connectivity and logical presentation of information which enabled better decision-making, we continued the same integrated approach in our financial reporting in the 2015 Annual Report. We are of the firm belief that this form of presentation enhances clarity, comparability, transparency and sensibility of our reporting.

FINANCIAL STATEMENTS HIGHLIGHTS – BANK

STATEMENT OF PROFIT OR LOSS

Total Operating
Income Growth of

5%

2015

12,209 (LKR million)

2014

11,662 (LKR million)

Total Operating
Expenses increased by

14%

2015

6,050 (LKR million)

2014

5,309 (LKR million)

Cost to Income Ratio

50%

2015

46%

2014

STATEMENT OF FINANCIAL POSITION

Total Assets
Growth of

18%

2015

309,158 (LKR million)

2014

262,729 (LKR million)

Loans and Receivables to
Other Customers Growth of

20%

2015

209,602 (LKR million)

2014

175,175 (LKR million)

Due to Other
Customers Growth of

22%

2015

184,933 (LKR million)

2014

151,824 (LKR million)

Net Book Value Increased
by LKR 2.74 Per Share

2015

137.44 (LKR)

2014

134.70 (LKR)

STATEMENT OF PROFIT OR LOSS

| For the year ended 31 December | Note | Page No. | BANK | | | GROUP | | |
|--|------|----------|------------------|------------------|-------------|------------------|------------------|-------------|
| | | | 2015 LKR '000 | 2014 LKR '000 | Change % | 2015 LKR '000 | 2014 LKR '000 | Change % |
| Gross income | 4 | 314 | 25,855,311 | 24,961,945 | 4 | 26,915,863 | 26,204,626 | 3 |
| Interest income | 5.1 | 315 | 21,167,848 | 20,974,578 | 1 | 21,431,932 | 21,151,976 | 1 |
| Interest expenses | 5.2 | 315 | 13,646,025 | 13,299,977 | 3 | 13,624,555 | 13,238,571 | 3 |
| Net interest income | 5 | 315 | 7,521,823 | 7,674,601 | (2) | 7,807,377 | 7,913,405 | (1) |
| Fee and commission income | 6 | 316 | 2,016,260 | 1,866,242 | 8 | 3,156,841 | 2,564,095 | 23 |
| Net gains/(losses) from trading | 7 | 316 | 1,088,464 | 910,027 | 20 | 1,088,464 | 910,027 | 20 |
| Net gains/(losses) from financial investments | 8 | 317 | 262,048 | 716,507 | (63) | 493,739 | 1,250,884 | (61) |
| Other operating income | 9 | 317 | 1,320,691 | 494,591 | 167 | 744,887 | 327,644 | 127 |
| Total operating income | | | 12,209,286 | 11,661,968 | 5 | 13,291,308 | 12,966,055 | 3 |
| Impairment for loans and receivables and other losses | 10 | 318 | 711,833 | 566,003 | 26 | 746,145 | 528,708 | 41 |
| Net operating income | | | 11,497,453 | 11,095,965 | 4 | 12,545,163 | 12,437,347 | 1 |
| Less: Operating expenses | | | | | | | | |
| Personnel expenses | 11 | 318 | 3,204,228 | 2,872,738 | 12 | 3,633,627 | 3,172,387 | 15 |
| Other expenses | 12 | 319 | 2,845,350 | 2,436,454 | 17 | 3,196,253 | 2,738,228 | 17 |
| Total operating expenses | | | 6,049,578 | 5,309,192 | 14 | 6,829,880 | 5,910,615 | 16 |
| Operating profit before tax on financial services | | | 5,447,875 | 5,786,773 | (6) | 5,715,283 | 6,526,732 | (12) |
| Tax on financial services | 13 | 320 | (910,442) | (1,029,250) | (12) | (910,442) | (1,029,250) | (12) |
| Operating profit after tax on financial services | | | 4,537,433 | 4,757,523 | (5) | 4,804,841 | 5,497,482 | (13) |
| Share of associate companies' profits/(losses) | 14 | 320 | – | – | – | 77,818 | 97,274 | (20) |
| Profit before taxation | | | 4,537,433 | 4,757,523 | (5) | 4,882,659 | 5,594,756 | (13) |
| Taxation | 15 | 320 | (1,026,002) | (1,339,459) | (23) | (1,212,564) | (1,348,784) | (10) |
| Profit for the year | | | 3,511,431 | 3,418,064 | 3 | 3,670,095 | 4,245,972 | (14) |
| Profit attributable to equity holders of the parent | | | 3,511,431 | 3,418,064 | 3 | 3,542,040 | 4,133,932 | (14) |
| Non-controlling interests | | | – | – | – | 128,055 | 112,040 | 14 |
| | | | 3,511,431 | 3,418,064 | 3 | 3,670,095 | 4,245,972 | (14) |
| Earnings Per Share on Profit | 16 | 322 | | | | | | |
| Basic Earnings Per Share (in LKR) | | | – | – | – | 21.51 | 25.14 | (14) |
| Diluted Earnings Per Share (in LKR) | | | – | – | – | 21.51 | 25.11 | (14) |
| Dividend Per Share (in LKR) | 17 | 323 | 11.00 | 11.00 | – | | | |

The Notes to the Financial Statements disclosed from pages 307 to 411 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

| For the year ended 31 December | Note | Page No. | BANK | | | GROUP | | |
|---|---------|----------|------------------|------------------|-------------|------------------|------------------|-------------|
| | | | 2015 LKR '000 | 2014 LKR '000 | Change % | 2015 LKR '000 | 2014 LKR '000 | Change % |
| Profit for the year | | | 3,511,431 | 3,418,064 | 3 | 3,670,095 | 4,245,972 | (14) |
| Other comprehensive income | | | | | | | | |
| Other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods | | | | | | | | |
| Exchange differences on translation of foreign operations | | | - | - | - | 16,225 | 481 | 3,273 |
| Gains/(losses) on available-for-sale investments | | | (391,286) | (35,110) | (1,014) | (380,673) | (21,950) | (1,634) |
| Deferred tax effect on fair value adjustment of available-for-sale investment | | | 78,759 | 33,691 | 134 | 78,759 | 33,691 | 134 |
| Net gains/(losses) on available-for-sale investments | 46.2 | 364 | (312,527) | (1,419) | (21,924) | (301,914) | 11,741 | (2,671) |
| Gains/(losses) on cash flow hedges | 22.1(c) | 330 | (287,692) | 397,852 | (172) | (287,692) | 397,852 | (172) |
| Other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods | | | | | | | | |
| Revaluation of freehold land and buildings | 46.1 | 363 | - | 1,084,185 | (100) | 95,339 | 1,084,185 | (91) |
| Deferred tax effect on revaluation surplus | | | - | (230,729) | 100 | - | (230,729) | 100 |
| Net change in revaluation surplus | | | - | 853,456 | (100) | 95,339 | 853,456 | (89) |
| Actuarial gains/(losses) on defined benefit plans | 40.2(d) | 358 | 94,353 | (139,735) | 168 | 99,431 | (139,735) | 171 |
| Deferred tax effect on actuarial gains/(losses) | | | (7,325) | 16,897 | (143) | (7,325) | 16,897 | (143) |
| Net actuarial gains/(losses) on defined benefit plans | | | 87,028 | (122,838) | 171 | 92,106 | (122,838) | 175 |
| Total other comprehensive income for the year, net of taxes | | | (513,191) | 1,127,051 | (146) | (385,936) | 1,140,692 | (134) |
| Total comprehensive income for the year | | | 2,998,240 | 4,545,115 | (34) | 3,284,159 | 5,386,664 | (39) |
| Attributable to: | | | | | | | | |
| Equity holders of the parent | | | 2,998,240 | 4,545,115 | (34) | 3,150,531 | 5,274,475 | (40) |
| Non-controlling interests | | | - | - | - | 133,628 | 112,189 | 19 |
| | | | 2,998,240 | 4,545,115 | (34) | 3,284,159 | 5,386,664 | (39) |

The Notes to the Financial Statements disclosed from pages 307 to 411 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

| As at 31 December | Note | Page No. | BANK | | | GROUP | | |
|---|------|----------|--------------------|--------------------|-------------|--------------------|--------------------|-------------|
| | | | 2015 LKR '000 | 2014 LKR '000 | Change % | 2015 LKR '000 | 2014 LKR '000 | Change % |
| Assets | | | | | | | | |
| Cash and cash equivalents | 19 | 326 | 11,821,503 | 3,104,391 | 281 | 11,848,575 | 3,274,036 | 262 |
| Balances with the Central Bank of Sri Lanka | 20 | 326 | 6,999,898 | 6,740,590 | 4 | 6,999,898 | 6,740,590 | 4 |
| Placements with banks | 21 | 326 | 1,153,619 | 2,721,891 | (58) | 1,153,619 | 2,721,891 | (58) |
| Derivative financial instruments | 22 | 327 | 1,903,573 | 1,903,781 | (0) | 1,903,573 | 1,903,781 | (0) |
| Financial assets held-for-trading | 23 | 330 | 2,985,262 | 2,785,277 | 7 | 5,229,493 | 6,028,558 | (13) |
| Loans and receivables to banks | 24 | 331 | 102,632 | 311,144 | (67) | 102,632 | 311,144 | (67) |
| Loans and receivables to other customers | 25 | 331 | 209,602,069 | 175,175,203 | 20 | 209,665,561 | 175,235,906 | 20 |
| Financial investments – loans and receivables | 26 | 338 | 35,830,311 | 38,302,428 | (6) | 37,368,705 | 38,683,476 | (3) |
| Financial investments – available-for-sale | 27 | 338 | 28,501,518 | 17,060,302 | 67 | 28,964,820 | 18,057,852 | 60 |
| Financial investments – held-to-maturity | 28 | 339 | 4,436,973 | 8,970,963 | (51) | 5,660,868 | 10,167,325 | (44) |
| Investments held-for-sale | 29 | 340 | 18,526 | 18,526 | – | 33,302 | 33,302 | – |
| Investments in subsidiary companies | 30 | 340 | 2,104,117 | 2,000,290 | 5 | – | – | – |
| Investment in associate companies | 31 | 341 | – | – | – | – | – | – |
| Investment property | 32 | 342 | – | – | – | 1,672,000 | 1,545,693 | 8 |
| Intangible assets | 33 | 343 | 240,234 | 253,132 | (5) | 274,746 | 297,070 | (8) |
| Property, plant & equipment | 34 | 344 | 2,030,005 | 1,927,496 | 5 | 2,454,883 | 2,252,647 | 9 |
| Other assets | 35 | 348 | 1,427,365 | 1,453,732 | (2) | 2,021,058 | 1,876,334 | 8 |
| Total assets | | | 309,157,605 | 262,729,146 | 18 | 315,353,733 | 269,129,605 | 17 |
| Liabilities | | | | | | | | |
| Due to banks | 36 | 349 | 11,620,003 | 7,029,342 | 65 | 11,620,003 | 7,029,342 | 65 |
| Derivative financial instruments | 22 | 327 | 639,272 | 663,186 | (4) | 639,272 | 663,186 | (4) |
| Due to other customers | 37 | 350 | 184,933,230 | 151,823,715 | 22 | 184,152,280 | 151,485,201 | 22 |
| Debt securities issued and other borrowed funds | 38 | 351 | 60,527,844 | 61,955,460 | (2) | 60,497,844 | 61,925,802 | (2) |
| Tax liabilities | | | 486,503 | 826,687 | (41) | 524,020 | 806,220 | (35) |
| Deferred tax liabilities | 39 | 352 | 702,378 | 619,467 | 13 | 712,823 | 609,935 | 17 |
| Employee benefit liabilities | 40 | 354 | 252,825 | 247,011 | 2 | 297,152 | 301,219 | (1) |
| Other liabilities | 41 | 358 | 7,720,809 | 6,176,647 | 25 | 7,935,739 | 6,360,842 | 25 |
| Subordinated term debts | 42 | 359 | 19,573,883 | 11,149,439 | 76 | 19,573,883 | 11,149,439 | 76 |
| Total liabilities | | | 286,456,747 | 240,490,954 | 19 | 285,953,016 | 240,331,186 | 19 |
| Equity | | | | | | | | |
| Capital | 43 | 360 | 1,242,772 | 1,225,162 | 1 | 1,162,963 | 1,145,353 | 2 |
| Statutory reserve fund | 44 | 361 | 1,242,772 | 1,010,785 | 23 | 1,242,772 | 1,010,785 | 23 |
| Retained earnings | 45 | 362 | 19,444,385 | 18,625,444 | 4 | 24,975,975 | 24,245,824 | 3 |
| Other reserves | 46 | 363 | 770,929 | 1,376,801 | (44) | 1,000,494 | 1,473,811 | (32) |
| Total equity attributable to equity holders of the Bank | | | 22,700,858 | 22,238,192 | 2 | 28,382,204 | 27,875,773 | 2 |
| Non-controlling interests | 47 | 364 | – | – | – | 1,018,513 | 922,646 | 10 |
| Total equity | | | 22,700,858 | 22,238,192 | 2 | 29,400,717 | 28,798,419 | 2 |
| Total liabilities and equity | | | 309,157,605 | 262,729,146 | 18 | 315,353,733 | 269,129,605 | 17 |
| Commitments and contingencies | 48 | 365 | 237,748,413 | 231,143,633 | 3 | 238,589,573 | 231,148,862 | 3 |
| Net asset value per share (LKR) | 49 | 366 | 137.44 | 134.70 | 2 | 172.35 | 169.35 | 2 |

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.
Approved and Signed for and on behalf of the Board,


N G Wickremeratne
Chairman


Rajendra Theagarajah
Chief Executive Officer


Shehani Ranasinghe
Company Secretary

12 February 2016

The Notes to the Financial Statements disclosed from pages 307 to 411 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

| For the year ended 31 December | 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 Equity |
|--|-----------|------------------------------|-----------------------------------|------------------------|--------------------|-------------------------------|--------------------------------------|-------------------------------|----------------------|-----------------|
| | 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 2014 | 1,172,904 | 958,527 | 106,669 | - | 5,805,707 | 1,706,751 | 22,367 | - | 9,847,553 | 19,620,478 |
| Total comprehensive income for the year | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | - | - | 3,418,064 | 3,418,064 |
| Other comprehensive income before tax | - | - | (35,110) | 1,084,185 | - | - | - | 397,852 | (139,735) | 1,307,192 |
| Tax on other comprehensive income | - | - | 33,691 | (230,729) | - | - | - | - | 16,897 | (180,141) |
| Total comprehensive income for the year (Note 46) | - | - | (1,419) | 853,456 | - | - | - | 397,852 | 3,295,226 | 4,545,115 |
| Transactions with equity holders, recognized directly in equity | | | | | | | | | | |
| Issue of shares (Note 43) | 52,258 | - | - | - | - | - | - | - | - | 52,258 |
| Transfer from investment fund account | - | - | - | - | - | (1,706,751) | - | - | 1,706,751 | - |
| Fair value of share options (Note 46.3) | - | - | - | - | - | - | (2,124) | - | - | (2,124) |
| Transfer to statutory reserve fund (Note 44) | - | 52,258 | - | - | - | - | - | - | (52,258) | - |
| Dividends to equity holders (Note 17) | - | - | - | - | - | - | - | - | (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 |
| Balance as at 1 January 2015 | 1,225,162 | 1,010,785 | 105,250 | 853,456 | 5,805,707 | - | 20,243 | 397,852 | 12,819,737 | 22,238,192 |
| Super Gain Tax | - | - | - | - | - | - | - | - | (732,081) | (732,081) |
| Adjusted Opening Balance as at 1 January 2015 | 1,225,162 | 1,010,785 | 105,250 | 853,456 | 5,805,707 | - | 20,243 | 397,852 | 12,087,656 | 21,506,111 |
| Total comprehensive income for the year | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | - | - | 3,511,431 | 3,511,431 |
| Other Comprehensive Income before tax | - | - | (391,286) | - | - | - | - | (287,692) | 94,353 | (584,625) |
| Tax on other comprehensive income | - | - | 78,759 | - | - | - | - | - | (7,325) | 71,434 |
| Total comprehensive income for the year (Note 46) | - | - | (312,527) | - | - | - | - | (287,692) | 3,598,459 | 2,998,240 |
| Transactions with equity holders, recognized directly in equity | | | | | | | | | | |
| Issue of shares (Note 43) | 11,957 | - | - | - | - | - | - | - | - | 11,957 |
| Transfer to the statutory reserve fund (Note 44) | - | 231,987 | - | - | - | - | - | - | (231,987) | - |
| Transfer from share – based payment reserves (Note 46.3) | 5,653 | - | - | - | - | - | (5,653) | - | - | - |
| Dividends to equity holders (Note 17) | - | - | - | - | - | - | - | - | (1,815,450) | (1,815,450) |
| Balance as at 31 December 2015 | 1,242,772 | 1,242,772 | (207,277) | 853,456 | 5,805,707 | - | 14,590 | 110,160 | 13,638,678 | 22,700,858 |

| For the year ended 31 December | Attributable to Equity Holders of the Parent | | | | | | | | | | | Total Equity LKR '000 |
|--|--|--|---|------------------------------------|--------------------------------|---|--|---|----------------------------------|-------------------|--|-----------------------------|
| | Capital LKR '000 | Statutory Reserve Fund LKR '000 | Available- for-Sale Reserve LKR '000 | Revaluation Reserve LKR '000 | General Reserve LKR '000 | Investment Fund Account LKR '000 | Share Based Payment Reserve LKR '000 | Cash Flow Hedge Reserve LKR '000 | Retained Earnings LKR '000 | Total LKR '000 | Non- Controlling Interests LKR '000 | |
| GROUP | | | | | | | | | | | | |
| 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 (Note 46) | - | - | 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 reserve (Note 46.3) | (79,809) | - | - | - | - | - | 37,781 | - | (13,302) | (55,330) | - | (55,330) |
| Transfer to the statutory reserve fund (Note 44) | - | 52,258 | - | - | - | - | - | - | (52,258) | - | - | - |
| Dividends to equity holders (Note 17) | - | - | - | - | - | - | - | - | (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 |
| Balance as at 1 January 2015 | 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 |
| Super Gain Tax | - | - | - | - | - | - | - | - | (833,548) | (833,548) | (21,123) | (854,671) |
| Adjusted Opening Balance as at 1 January 2015 | 1,145,353 | 1,010,785 | 162,355 | 853,456 | 5,805,707 | - | 60,148 | 397,852 | 17,606,569 | 27,042,225 | 901,523 | 27,943,748 |
| Total comprehensive income for the year | | | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | - | - | 3,542,040 | 3,542,040 | 128,055 | 3,670,095 |
| Other Comprehensive Income before tax | - | - | (380,673) | 95,339 | - | - | - | (287,692) | 110,083 | (462,943) | 5,573 | (457,370) |
| Tax on other comprehensive income | - | - | 78,759 | - | - | - | - | - | (7,325) | 71,434 | - | 71,434 |
| Total Comprehensive Income for the year (Note 46) | - | - | (301,914) | 95,339 | - | - | - | (287,692) | 3,644,798 | 3,150,531 | 133,628 | 3,284,159 |
| Transactions with equity holders, recognized directly in equity | | | | | | | | | | | | |
| Issue of shares (Note 43) | 11,957 | - | - | - | - | - | - | - | - | 11,957 | - | 11,957 |
| Adjustment to share - based payment reserve (Note 46.3) | - | - | - | - | - | - | 26,603 | - | - | 26,603 | - | 26,603 |
| Adjustment due to changes in group companies | - | - | - | - | - | - | - | - | (33,662) | (33,662) | 24,645 | (9,017) |
| Transfer to the statutory reserve fund (Note 44) | - | 231,987 | - | - | - | - | - | - | (231,987) | - | - | - |
| Transfer from share - based payment reserves (Note 46.3) | 5,653 | - | - | - | - | - | (5,653) | - | - | - | - | - |
| Dividends to equity holders (Note 17) | - | - | - | - | - | - | - | - | (1,815,450) | (1,815,450) | (41,283) | (1,856,733) |
| Balance as at 31 December 2015 | 1,162,963 | 1,242,772 | (139,559) | 948,795 | 5,805,707 | - | 81,098 | 110,160 | 19,170,268 | 28,382,204 | 1,018,513 | 29,400,717 |

STATEMENT OF CASH FLOW

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 the Central Bank of Sri Lanka and placements with banks net of unfavourable nostro account balances, as presented in the Statement of Financial Position.

| For the year ended 31 December | BANK | | GROUP | |
|--|--------------------|---------------------|--------------------|---------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Cash flows from operating activities | | | | |
| Interest received | 20,765,613 | 20,919,252 | 21,038,450 | 21,111,971 |
| Fee and commission income received | 2,016,259 | 1,856,202 | 2,765,456 | 2,513,505 |
| Dividend income received | 942,293 | 339,962 | (636) | (13,856) |
| Other operating income received | 1,700,796 | 1,671,597 | 1,870,590 | 1,671,965 |
| Interest paid | (13,134,957) | (13,195,780) | (13,134,957) | (13,197,274) |
| Personnel costs paid | (3,162,861) | (2,857,403) | (3,280,182) | (2,917,346) |
| Other expenses paid | (2,415,887) | (2,100,602) | (2,519,663) | (1,930,701) |
| Operating profit before changes in operating assets and liabilities (a) | 6,711,256 | 6,633,228 | 6,739,058 | 7,238,264 |
| Net increase in loans and receivables to other customers | (34,473,636) | (38,496,570) | (34,473,636) | (38,496,570) |
| Net increase due to other customers | 32,941,814 | 22,505,047 | 32,941,814 | 22,505,047 |
| Net (increase)/decrease in other assets | (95,262) | (570,535) | (179,272) | (375,769) |
| Net increase/(decrease) in other liabilities | 1,587,663 | 2,215,279 | 1,640,174 | 1,602,117 |
| Net cash inflow/(outflow) from operating activities before taxation | 6,671,835 | (7,713,551) | 6,668,137 | (7,526,911) |
| Tax on financial services paid | (1,005,492) | (955,652) | (1,005,492) | (955,652) |
| Income taxes paid | (1,211,841) | (652,006) | (1,254,368) | (699,930) |
| Super Gain Tax paid by Parent Company | (732,081) | – | (833,548) | – |
| Super Gain Tax paid by non-controlling interest | – | – | (21,123) | – |
| Net cash provided by/(used in) operating activities | 3,722,421 | (9,321,209) | 3,553,606 | (9,182,493) |
| Cash flows from investing activities | | | | |
| Net changes in financial investments | (5,078,640) | (17,009,180) | (5,078,362) | (16,959,756) |
| Net changes in investments in subsidiaries/associates | (103,826) | 147,068 | (53,947) | 147,068 |
| Expenditure on property, plant & equipment | (594,790) | (392,997) | (637,259) | (443,312) |
| Proceeds from sale of property, plant & equipment | 15,817 | 14,765 | 42,580 | 14,765 |
| Net cash used in investing activities | (5,761,439) | (17,240,344) | (5,726,988) | (17,241,235) |
| Cash flows from financing activities | | | | |
| Issue of shares | 11,957 | 52,258 | 45,031 | 52,258 |
| Proceeds from issue of subordinated debts | 8,914,408 | – | 8,914,408 | – |
| Interest paid on subordinated debts | (1,719,085) | (1,573,625) | (1,719,085) | (1,573,625) |
| (Decrease)/increase in other borrowings | 4,164,980 | 34,403,497 | 4,164,980 | 34,403,507 |
| Dividends paid to non-controlling interests | – | – | (41,283) | (25,377) |
| Dividends paid to shareholders of the Bank | (1,806,863) | (1,966,761) | (1,806,863) | (1,966,761) |
| Net cash provided by/(used in) financing activities | 9,565,397 | 30,915,369 | 9,557,188 | 30,890,002 |
| Net increase in cash and cash equivalents | 7,526,379 | 4,353,816 | 7,383,806 | 4,466,274 |
| Cash and cash equivalents at the beginning of the year | 12,431,750 | 8,077,934 | 12,601,395 | 8,135,121 |
| Cash and cash equivalents at the end of the year | 19,958,129 | 12,431,750 | 19,985,201 | 12,601,395 |

| For the year ended 31 December | BANK | | GROUP | |
|--|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Reconciliation of cash and cash equivalents | | | | |
| Cash and cash equivalents | 11,821,503 | 3,104,391 | 11,848,575 | 3,274,036 |
| Balances with the Central Bank of Sri Lanka | 6,999,898 | 6,740,590 | 6,999,898 | 6,740,590 |
| Placements with banks | 1,153,619 | 2,721,891 | 1,153,619 | 2,721,891 |
| | 19,975,020 | 12,566,872 | 20,002,092 | 12,736,517 |
| Unfavourable balances in Nostro accounts (Note 36) | (16,891) | (135,122) | (16,891) | (135,122) |
| | 19,958,129 | 12,431,750 | 19,985,201 | 12,601,395 |

The balances with the Central Bank of Sri Lanka represent the reserve maintained for the rupee deposit liabilities of the Bank and it is not available to finance the Bank's day-to-day operations.

(a) Reconciliation of Operating Profit before Changes in Operating Assets and Liabilities

| For the year ended 31 December | BANK | | GROUP | |
|--|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Operating profit before tax on financial services | 5,447,875 | 5,786,773 | 5,715,283 | 6,526,732 |
| Profit on disposal of property, plant & equipment | (4,356) | (15,951) | (10,150) | (19,451) |
| Accrual for interest income | (402,236) | (55,327) | (420,812) | (73,697) |
| Accrual for interest expenses | 511,067 | 104,169 | 511,067 | 104,169 |
| Accrual for general expenses | 85,130 | 191 | 93,342 | 8,230 |
| Contribution made to the pension fund | 15,284 | 7,163 | 15,284 | 7,163 |
| Depreciation of property, plant & equipment | 284,744 | 246,400 | 317,798 | 291,140 |
| Amortization of intangible assets | 85,673 | 77,190 | 103,598 | 94,050 |
| Gain on disposal of investments | (23,758) | (103,625) | (206,190) | (87,023) |
| Impairment for loans and receivables | 711,833 | 528,708 | 711,833 | 528,708 |
| Impairment for investments | – | 37,294 | 34,312 | – |
| Fair value adjustments on Equity Linked Compensation Plan | – | 20,243 | – | 20,243 |
| Fair value adjustments on investment property | – | – | (126,307) | (162,000) |
| Operating profit before changes in operating assets/liabilities | 6,711,256 | 6,633,228 | 6,739,058 | 7,238,264 |

The Notes to the Financial Statements disclosed from pages 307 to 411 form an integral part of these Financial Statements.

NOTES TO THE 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. 02 of 1979. In 2005, pursuant to the provisions of the National Development Bank of Sri Lanka (consequential provisions) Act No. 01 of 2005, a company by the name of 'National Development Bank Ltd.' was incorporated for the purpose 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. 02 of 1979 was repealed except for certain provisions contained therein.

In terms of the new Companies Act No. 07 of 2007, the name of the Bank was changed as 'National Development Bank PLC' ('The Bank'). 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 2015 was 93 (2014 – 83) and the number of staff employed as at 31 December 2015 was 1,960 (2014 – 1,744).

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:

| Entity | Country of Incorporation | Principal Activities | Holding % - 2015 | | Holding % - 2014 | |
|--|--------------------------|--|------------------|----------|------------------|----------|
| | | | Direct | Indirect | Direct | Indirect |
| Subsidiaries | | | | | | |
| NDB Capital Holdings Ltd | Sri Lanka | Full service investment banking | 99.9 | – | 99.6 | – |
| NDB Investment Bank Ltd. | Sri Lanka | Investment banking | – | 99.9 | – | 99.6 |
| NDB Wealth Management Ltd. | Sri Lanka | Wealth management | – | 99.9 | – | 99.6 |
| NDB Securities (Pvt) Ltd. | Sri Lanka | Investment advisory and securities trading | – | 99.9 | – | 99.6 |
| Development Holdings (Pvt) Ltd. | Sri Lanka | Property management | 58.7 | – | 58.7 | – |
| NDB Capital Ltd. | Bangladesh | Investment banking | 77.8 | – | 77.8 | – |
| NDB Zephyr Partners Ltd. | Mauritius | Management of private equity funds | – | 60.0 | – | – |
| NDB Zephyr Partners Lanka (Private) Ltd. | Sri Lanka | Management of private equity funds | – | 60.0 | – | – |
| Associate Companies | | | | | | |
| Ayojana Fund (Pvt) Ltd. (under liquidation) | Sri Lanka | Venture capital | 50.0 | – | 50.0 | – |
| NDB Venture Investments (Pvt) Ltd. (under liquidation) | Sri Lanka | Venture capital | 50.0 | – | 50.0 | – |

1.3 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended 31 December 2015 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.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank as at 31 December 2015 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.

2.2 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.

2.3 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 Responsibilities on Financial Reporting' and the certification given on the 'Statement of Financial Position' on pages 204 to 205 and page 302 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 300 and 301).

- Statement of Financial Position providing the information on the financial position of the Bank and the Group as at the year end (Refer page 302).
- 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 305 and 306); and
- Notes to the Financial Statements, which comprise of the Accounting Policies and other explanatory notes and information (Refer pages 307 to 411).

2.4 Approval of the Financial Statements

The Financial Statements of the Bank and the Group for the year ended 31 December 2015 (including the comparative figures) have been approved and authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 12 February 2016.

2.5 Basis of Measurement

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:

| Item | Basis of Measurement | Note Numbers | Pages |
|---|---|--------------|-------|
| Derivative Financial instruments | Fair value | 22 | 327 |
| Financial Assets – Held-for-Trading | Fair value | 23 | 330 |
| Financial Investment – Available-for-Sale | Fair value | 27 | 338 |
| Investment Property | Fair value | 32 | 342 |
| Freehold land and building | Measured at cost at the time of acquisition and subsequently measured at revalued amounts which represented the fair value at the date of revaluation . | 34 | 344 |
| Employee benefit liabilities | Recognized at the present value of the defined benefit obligations less the fair value of the assets of the plan. | 40 | 354 |

2.6 Presentation of Financial Statements

The Bank and the Group present their Statement of Financial Position broadly in order of liquidity. An analysis regarding the recoveries and settlements within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 50 to the Financial Statements.

2.7 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.

2.8 Comparative Information

The comparative information is reclassified wherever necessary to conform to the current year's presentation the details of which are given in Note 54.

2.9 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 2015. 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 the equity of the parent.

2.10 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 effected.

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.

3. GENERAL ACCOUNTING POLICIES

Given below are the general accounting policies adopted in the presentation of Financial Statements. The specific accounting policies and the basis of measurement adopted by the Bank for each item in the Statement of Profit or Loss and each class of assets and liabilities in the Statement of Financial Position are presented along with the notes to the Financial Statement.

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 307 to 411.

3.2 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.

3.3 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 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 recognized 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).

Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation of effective interest rate takes into account all contractual terms of the financial instruments (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instruments and are an integral part of the effective interest rate, but not future credit losses.

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 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 Bank and 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 Bank and 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, which has been 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 that 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 into 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 do not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. Further, the Bank and the Group do 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.

3.4 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position

if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.5 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 recognized 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 recognized for the asset in prior years. Such reversal is recognized in the Statement of Profit or Loss.

3.6 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.

3.7 Standards issued but not yet Effective as at 31 December 2015

The following Sri Lanka Accounting standards have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 December 2015.

(i) SLFRS 14 – Regulatory Deferral Accounts

The Objective of this Standards is to specify the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subjected to rate regulation.

SLFRS 14 will become effective on 1 January 2016. The impact on the implementation of the above standard has not been quantified yet.

(ii) SLFRS 15 – Revenue from Contracts with Customers

The Objective of this standard is to establish the principles that an entity shall apply to report useful information to users of Financial Statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

SLFRS 15 will become effective on 1 January 2018. The impact on the implementation of the above standard has not been quantified yet.

(iii) SLFRS 9 – Financial Instruments: Classification and Measurement

This standard will replace Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'. The improvements introduced by SLFRS 9 includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting which are detailed below:

| Item | Basis of Measurement |
|---|--|
| Phase 1: Classification and Measurement | Classification determines how financial assets and financial liabilities are accounted for in the Financial Statements and, in particular, how they are measured on an ongoing basis. SLFRS 9 introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are complex and difficult to apply. |
| Phase 2: Impairment | SLFRS 9 introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standards requires entities to account for expected credit losses from when financial instruments are first recognized and it lowers the threshold for recognition of full lifetime expected losses. |
| Phase 3: Hedge Accounting | SLFRS 9 introduces a substantially-reformed model for hedge accounting with enhanced disclosure about risk management activity. The new model represents a substantial overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these actives in their Financial Statements. In addition, as a result of these changes, users of the Financial Statements will be provided with better information about risk management and the effect of hedge accounting on the Financial Statements. |

SLFRS 9 will become effective on 1 January 2018. The impact on the implementation of the above standard has not been quantified yet.

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 notes.

| | BANK | | GROUP | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Interest Income | 21,167,848 | 20,974,578 | 21,431,932 | 21,151,976 |
| Fee and commission income | 2,016,260 | 1,866,242 | 3,156,841 | 2,564,095 |
| Net gains/(losses) from trading | 1,088,464 | 910,027 | 1,088,464 | 910,027 |
| Net gains/(losses) from financial investments | 262,048 | 716,507 | 493,739 | 1,250,884 |
| Other operating income | 1,320,691 | 494,591 | 744,887 | 327,644 |
| Total | 25,855,311 | 24,961,945 | 26,915,863 | 26,204,626 |

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).

Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation of effective interest rate takes into account all contractual terms of the financial instruments (for example, prepayment option) and includes any fees or incremental costs that are directly attributed to the instruments and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of 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.

In line with requirement of the Sri Lanka Accounting Standard – LKAS 18 on 'Revenue', the Bank discontinued the re-cognition of interest income of loan facilities if the arrears position is equal or more than three instalments. The basis was decided upon after a comprehensive review of the risk profile and the assets quality of the Bank's loans and receivables to other customers. The change in the basis was effective from 1 July 2015 and did not result in retrospective adjustments as the amount involved is not material.

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.

5.1 Interest Income

| | BANK | | GROUP | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Loans and receivables – to banks | 16,276 | 36,175 | 16,276 | 36,175 |
| Loans and receivables – to other customers | 17,155,338 | 16,771,450 | 17,157,607 | 16,738,861 |
| Placements with banks | 263,415 | 139,101 | 269,815 | 147,687 |
| Financial assets – held-for-trading | 89,785 | 397,010 | 89,785 | 397,010 |
| Financial investments – held-to-maturity | 622,183 | 725,817 | 685,926 | 870,688 |
| Financial investments – available-for-sale | 1,458,884 | 890,669 | 1,458,884 | 890,669 |
| Financial investments – loans and receivables | 1,444,981 | 1,759,359 | 1,636,653 | 1,759,359 |
| Other interest income | 116,986 | 254,997 | 116,986 | 311,527 |
| Total Interest Income (a) | 21,167,848 | 20,974,578 | 21,431,932 | 21,151,976 |

5.2 Interest Expenses

| | BANK | | GROUP | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Due to banks | 475,242 | 204,532 | 475,242 | 216,832 |
| Due to other customers | 8,157,526 | 8,748,429 | 8,137,635 | 8,730,048 |
| Debt securities issued and other borrowed funds | 3,120,546 | 2,794,957 | 3,118,967 | 2,739,632 |
| Subordinated term debts | 1,892,711 | 1,552,059 | 1,892,711 | 1,552,059 |
| Total Interest Expenses (b) | 13,646,025 | 13,299,977 | 13,624,555 | 13,238,571 |
| Net Interest Income (a)-(b) | 7,521,823 | 7,674,601 | 7,807,377 | 7,913,405 |

5.3 Interest Income from Sri Lanka Government Securities

| | BANK | | GROUP | |
|-----------------|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Interest income | 3,732,743 | 3,397,890 | 3,732,743 | 3,397,890 |

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 national 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 2015 and the notional tax credit amounted to LKR 196.9 million (2014 – LKR 293.8 million).

5.4 Interest Income on Impaired Financial Assets

| | BANK | | GROUP | |
|--|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Interest income on impaired loans and receivables to other customers | 316,636 | 217,067 | 316,636 | 217,067 |

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 liability of the Bank and the Group 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 | |
|--|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Cards | 135,144 | 74,322 | 135,144 | 74,322 |
| Due to other customers | 140,521 | 133,983 | 140,521 | 133,983 |
| Guarantees | 270,927 | 267,216 | 270,925 | 267,216 |
| Loans and receivables to other customers | 580,078 | 522,602 | 580,078 | 522,602 |
| Remittances | 200,793 | 195,189 | 200,793 | 195,189 |
| Trade finance | 544,292 | 567,054 | 544,292 | 567,054 |
| Bancassurance | 68,885 | 64,622 | 68,885 | 64,622 |
| Fees related to investment banking and wealth management | – | – | 757,518 | 411,026 |
| Brokerage | – | – | 136,926 | 130,119 |
| Rental income | 11,215 | 10,040 | 166,071 | 143,529 |
| Others | 64,405 | 31,214 | 155,688 | 54,433 |
| Total | 2,016,260 | 1,866,242 | 3,156,841 | 2,564,095 |

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 | |
|------------------------------|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Income from foreign exchange | | | | |
| - With Banks | 753,437 | 591,484 | 753,437 | 591,484 |
| - With Customers | 335,027 | 318,543 | 335,027 | 318,543 |
| Total | 1,088,464 | 910,027 | 1,088,464 | 910,027 |

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.

Income from Equities – includes the results of buying and selling, and changes in the fair value of equity securities.

Income from Debt Securities – includes the realized and unrealized gains of debt securities.

Income from Unit Trusts – includes the change in the fair value of unit trust investments.

| | BANK | | GROUP | |
|---|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Financial Investments – Held-for-Trading | | | | |
| Equities | – | – | 16,293 | 231,718 |
| Debt Securities | 886 | 63,999 | 15,404 | 63,999 |
| Unit Trusts | 154,318 | 147,934 | 309,853 | 450,593 |
| Sub Total | 155,204 | 211,933 | 341,550 | 746,310 |
| Financial Investments – Available-for-Sale | | | | |
| Equities | 34,725 | – | 34,725 | – |
| Debt Securities | 72,119 | 504,574 | 117,464 | 504,574 |
| Sub Total | 106,844 | 504,574 | 152,189 | 504,574 |
| Total | 262,048 | 716,507 | 493,739 | 1,250,884 |

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/(Losses)

Capital gains/(losses) 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 | |
|--|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Dividend income from securities | | | | |
| – Quoted investments | – | 348 | – | 348 |
| – Non-quoted investments | 12,643 | 17,637 | 12,643 | 17,637 |
| Dividend income from group investments | | | | |
| – Quoted investments | – | 275,767 | – | – |
| – Non-quoted investments | 894,925 | 46,200 | – | – |
| Capital gains from sales of securities | 23,758 | 7,500 | 41,793 | 87,023 |
| Capital gains from sale of group investments | – | 96,125 | 164,397 | – |
| Foreign exchange gains | 381,339 | 33,494 | 381,339 | 33,494 |
| Gains on sale of property, plant & equipment | 4,356 | 15,951 | 10,150 | 19,451 |
| Gains on investment properties | – | – | 126,307 | 162,000 |
| Others | 3,670 | 1,569 | 8,258 | 7,691 |
| Total | 1,320,691 | 494,591 | 744,887 | 327,644 |

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 | |
|------------------------------|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Loans and receivables | | | | |
| – To other customers | 677,605 | 464,839 | 684,209 | 464,839 |
| – Capital write-offs | 34,228 | 63,869 | 27,624 | 63,869 |
| | 711,833 | 528,708 | 711,833 | 528,708 |
| Investments in subsidiaries | – | 37,295 | 34,312 | – |
| Total | 711,833 | 566,003 | 746,145 | 528,708 |

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 the Central Bank of Sri Lanka for eligible employees for Employees' Provident Fund contributions and Employees' Trust Fund contributions respectively.

Defined Benefit Plans

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

Share-based payments represent the Bank's cost on the Equity Linked Compensation Plan and the Employee Share Option Plan, which are more fully described in Notes 43.2 and 46.3 to these Financial Statements.

| | BANK | | GROUP | |
|---|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Salary and bonus | 2,520,980 | 2,212,888 | 2,902,328 | 2,481,803 |
| Contribution to Employees' Provident Fund | 214,509 | 187,917 | 224,695 | 200,146 |
| Contribution to Employees' Trust Fund | 42,902 | 37,583 | 44,193 | 38,702 |
| Contribution to defined benefit plan | | | | |
| – Pension Fund [Note 40.2 (a)] | 15,284 | 7,163 | 15,284 | 7,163 |
| – Gratuity (Note 40.1) | 53,988 | 44,101 | 62,199 | 53,487 |
| Share-based payments | 36,248 | 46,504 | 36,248 | 46,504 |
| Others | 320,317 | 336,582 | 348,680 | 344,582 |
| Total | 3,204,228 | 2,872,738 | 3,633,627 | 3,172,387 |

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. Other expenses excluding depreciation of property, plant & equipment and amortization of intangible assets are recognised on an accrual basis.

| | BANK | | GROUP | |
|--|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Directors' emoluments | 27,905 | 32,360 | 35,166 | 36,870 |
| Auditors' remuneration | 8,853 | 8,388 | 10,508 | 10,872 |
| Non-audit fees to auditors | 8,338 | 6,262 | 8,338 | 6,262 |
| Professional and legal expenses | 85,181 | 58,571 | 99,142 | 72,051 |
| Office administration and establishment expenses | 1,075,859 | 1,000,622 | 1,173,140 | 1,176,810 |
| Depreciation of property, plant & equipment | 284,744 | 246,400 | 317,798 | 291,140 |
| Amortization of intangible assets | 85,673 | 77,190 | 103,598 | 94,050 |
| Deposit insurance expenses | 155,397 | 127,935 | 155,397 | 127,935 |
| Others | 1,113,400 | 878,726 | 1,293,166 | 922,238 |
| Total | 2,845,350 | 2,436,454 | 3,196,253 | 2,738,228 |

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 and Nation Building Tax on financial services. 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 11% (2014 – 12%).

The same base is also applied for the computation of the Nation Building Tax on financial services which was effective from 1 January 2014 and the regulatory tax rate is 2%.

| | BANK & GROUP | |
|---|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 |
| Value Added Tax on financial services | 770,441 | 882,444 |
| National Building Tax on financial services | 140,001 | 146,806 |
| Total | 910,442 | 1,029,250 |

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 of the subsidiary companies and the associate, if any.

| | Percentage Holding 2015/2014 | GROUP | |
|--|---------------------------------|------------------|------------------|
| | | 2015 LKR '000 | 2014 LKR '000 |
| Maldives Finance Leasing Co. (Pvt) Ltd. (Note 14.1) | 35.00% | – | 97,274 |
| Resus Energy PLC (Note 14.2) (Equity accounted profit up to 17 September 2015) | 32.40% | 77,818 | – |
| Total | | 77,818 | 97,274 |

14.1 The Board of Directors of NDB, 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 97 million.

14.2 In April 2015, Resus Energy PLC was accounted as an Investment in Associate which was a 32% owned associate company of NDB Capital Holdings Ltd. However, NDB Capital Holdings Ltd. divested part of its 32% owned investment in Resus Energy PLC on 17 September 2015 and subsequently the investment was reclassified as 'Available for Sale' Investments in September 2015. As such the LKR 77.8 million was recognized as an equity accounted profit for the period in which the investment was accounted as an Investment in Associate.

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 the 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 that it relates to items recognized directly in Equity in which case it is recognized in Other Comprehensive Income.

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% (2014 – 28%).

The components of the income tax expense for the years ended 31 December 2015 and 2014 are:

| | BANK | | GROUP | |
|---|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Income tax expense | | | | |
| Current year | 676,943 | 1,128,858 | 841,929 | 1,171,176 |
| Adjustment in respect of current income tax of prior years | 194,714 | 83,708 | 196,314 | 72,265 |
| | a. | 871,657 | 1,212,566 | 1,038,243 |
| Deferred tax expense | | | | |
| Origination and reversal of temporary differences | c. | 154,345 | 126,893 | 174,321 |
| Total tax charged to the Statement of Profit or Loss | | 1,026,002 | 1,339,459 | 1,212,564 |
| Effective tax rate (including deferred tax) | | 19% | 23% | 21% |
| Effective tax rate (excluding deferred tax) | | 16% | 21% | 18% |

(a) Reconciliation of the Accounting Profit to Income Tax Expense

| | BANK | | GROUP | |
|--|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Operating profit before tax on financial services | 5,447,875 | 5,786,773 | 5,715,283 | 6,526,732 |
| Income tax for the year (accounting profit @ applicable tax rate) | 1,525,404 | 1,620,260 | 1,764,835 | 1,838,144 |
| Tax effect of exempt income | (606,978) | (446,132) | (744,446) | (661,795) |
| Adjustment in respect of current income tax of the prior year | 194,714 | 83,708 | 196,314 | 72,265 |
| Add: Tax effect of expenses that are not deductible for tax purposes | 1,602,917 | 1,138,532 | 1,684,243 | 1,180,876 |
| Less: Tax effect of expenses that are deductible for tax purposes | (1,968,908) | (1,186,083) | (1,973,240) | (1,198,531) |
| Tax effect of leasing/tax losses | 124,508 | 2,281 | 110,537 | 12,482 |
| Income tax expense for the year | 871,657 | 1,212,566 | 1,038,243 | 1,243,441 |

(b) Applicable Income Tax Rates

The applicable income tax rates of the Bank and the subsidiary companies for the years 2015 and 2014 are as follows:

| | GROUP | |
|---------------------------------|----------------------|---------------|
| | 2015 % | 2014 % |
| National Development Bank PLC | 28 | 28 |
| NDB Capital Holdings Ltd. | 28 | 28 |
| Development Holdings (Pvt) Ltd. | On rental income | 2 on turnover |
| | On other income | 28 |
| NDB Investment Bank Ltd. | 28 | 28 |
| NDB Securities (Pvt) Ltd. | 28 | 28 |
| NDB Wealth Management Ltd. | On unit trust income | 10 |
| | On other income | 28 |
| NDB Zephyr Partners Ltd.* | 15 | 15 |
| NDB Capital Ltd. | 0.3 | 0.3 |

*The Company is however, entitled to a tax credit equivalent to the higher of actual foreign tax suffered or 80% of the Mauritius tax chargeable on its foreign source income.

(c) Deferred Tax

The following table shows the deferred tax expense recorded in the Statement of Profit or Loss and the Other Comprehensive Income due to the changes in the deferred tax assets and liabilities:

| | Deferred Tax Assets 2015 LKR '000 | Deferred Tax Liabilities 2015 LKR '000 | Statement of Profit or Loss 2015 LKR '000 | Other Comprehensive Income 2015 LKR '000 | Deferred Tax Assets 2014 LKR '000 | Deferred Tax Liabilities 2014 LKR '000 | Statement of Profit or Loss 2014 LKR '000 | Other Comprehensive Income 2014 LKR '000 |
|--|--|---|--|--|--|---|--|--|
| BANK | | | | | | | | |
| Provisions | (298) | – | 6,157 | – | (6,455) | – | 34,988 | – |
| Revaluation of financial investments available-for-sale | (70,968) | – | – | (78,759) | – | 7,791 | – | (33,691) |
| Other temporary differences | (234,273) | 1,007,917 | 148,188 | 7,326 | (146,304) | 764,434 | 91,905 | 213,832 |
| Total | (305,539) | 1,007,917 | 154,345 | (71,433) | (152,759) | 772,225 | 126,893 | 180,141 |
| GROUP | | | | | | | | |
| Provisions | (298) | – | 6,157 | – | (6,455) | – | 34,988 | – |
| Revaluation of financial investments available-for-sale | (70,968) | 17,090 | – | (78,759) | – | 24,881 | – | (33,691) |
| Other temporary differences | (250,211) | 1,017,210 | 168,164 | 7,326 | (176,234) | 767,742 | 70,355 | 213,832 |
| Total | (321,477) | 1,034,300 | 174,321 | (71,433) | (182,689) | 792,623 | 105,343 | 180,141 |

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 | |
|--|-------------|-------------|
| | 2015 | 2014 |
| Amount used as the numerator | | |
| Profit attributable to equity holders of the parent (LKR '000) | 3,542,040 | 4,133,932 |
| Amount used as the denominator | | |
| Ordinary shares in issue for basic EPS calculation | 164,674,334 | 164,600,914 |
| Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation | 164,644,829 | 164,469,003 |
| Weighted average basic Earnings per Share (LKR) | 21.51 | 25.14 |
| Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation | 164,644,829 | 164,469,003 |
| Effect of outstanding share option schemes | 56,971 | 148,971 |
| Number of ordinary shares including share options | 164,701,800 | 164,617,974 |
| Weighted average number of ordinary shares as at the date of the Statement of Financial Position for diluted EPS calculation | 164,701,800 | 164,617,974 |
| Weighted average diluted Earnings per Share (LKR) | 21.51 | 25.11 |

17. DIVIDEND PER SHARE

| | BANK & GROUP | | | |
|---|------------------------------|------------------|------------------------------|------------------|
| | Dividend per Share LKR | 2015 LKR '000 | Dividend per Share LKR | 2014 LKR '000 |
| Final dividend paid for the prior year | 4.00 | 660,376 | 5.00 | 824,245 |
| Interim dividend paid for the current year | 7.00 | 1,156,171 | 7.00 | 1,155,587 |
| Gross dividends paid during the year | 11.00 | 1,816,547 | 12.00 | 1,979,832 |
| Reversal of dividends declared in prior years | – | (1,097) | – | (2,297) |
| | | 1,815,450 | | 1,977,535 |

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 2015.

| | 2015 LKR | 2014 LKR |
|--------------------------|-------------|-------------|
| Total dividend per share | 11.00 | 11.00 |

18. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

| As at 31 December 2015 | BANK | | | | |
|---|------------------|------------------|--------------------------|--------------------|--------------------|
| | Held-for-Trading | Held-to-Maturity | Loans and Receivables | Available-for-Sale | Total |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Assets | | | | | |
| Cash and cash equivalents | – | – | 11,821,503 | – | 11,821,503 |
| Balances with the Central Bank of Sri Lanka | – | – | 6,999,898 | – | 6,999,898 |
| Placements with banks | – | – | 1,153,619 | – | 1,153,619 |
| Derivative financial instruments | 1,903,573 | – | – | – | 1,903,573 |
| Financial assets held-for-trading | 2,985,262 | – | – | – | 2,985,262 |
| Loans and receivables to banks | – | – | 102,632 | – | 102,632 |
| Loans and receivables to other customers | – | – | 209,602,069 | – | 209,602,069 |
| Financial investments – loans and receivables | – | – | 35,830,311 | – | 35,830,311 |
| Financial investments – available-for-sale | – | – | – | 28,501,518 | 28,501,518 |
| Financial investments – held-to-maturity | – | 4,436,973 | – | – | 4,436,973 |
| Total Financial Assets | 4,888,835 | 4,436,973 | 265,510,032 | 28,501,518 | 303,337,358 |

| | Held-for-Trading LKR '000 | Amortized Cost LKR '000 | Total LKR '000 |
|---|------------------------------|----------------------------|--------------------|
| Liabilities | | | |
| Due to banks | – | 11,620,003 | 11,620,003 |
| Derivative financial instruments | 639,272 | – | 639,272 |
| Due to other customers | – | 184,933,230 | 184,933,230 |
| Debt Securities issued and other borrowed funds | – | 60,527,844 | 60,527,844 |
| Subordinated term debts | – | 19,573,883 | 19,573,883 |
| Other financial liabilities | – | 2,889,783 | 2,889,783 |
| Total Financial Liabilities | 639,272 | 279,544,743 | 280,184,015 |

As at 31 December 2015

| | GROUP | | | | |
|---|------------------|------------------|-----------------------|--------------------|--------------------|
| | Held-for-Trading | Held-to-Maturity | Loans and Receivables | Available-for-Sale | Total |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Assets | | | | | |
| Cash and cash equivalents | – | – | 11,848,575 | – | 11,848,575 |
| Balances with the Central Bank of Sri Lanka | – | – | 6,999,898 | – | 6,999,898 |
| Placements with banks | – | – | 1,153,619 | – | 1,153,619 |
| Derivative financial instruments | 1,903,573 | – | – | – | 1,903,573 |
| Financial assets held-for-trading | 5,229,493 | – | – | – | 5,229,493 |
| Loans and receivables to banks | – | – | 102,632 | – | 102,632 |
| Loans and receivables to other customers | – | – | 209,665,561 | – | 209,665,561 |
| Financial investments – loans and receivables | – | – | 37,368,705 | – | 37,368,705 |
| Financial investments – available-for-sale | – | – | – | 28,964,820 | 28,964,820 |
| Financial investments – held-to-maturity | – | 5,660,868 | – | – | 5,660,868 |
| Total Financial Assets | 7,133,066 | 5,660,868 | 267,138,990 | 28,964,820 | 308,897,744 |

| | Held-for-Trading | Amortized Cost | Total |
|---|------------------|--------------------|--------------------|
| | LKR '000 | LKR '000 | LKR '000 |
| Liabilities | | | |
| Due to banks | – | 11,620,003 | 11,620,003 |
| Derivative financial instruments | 639,272 | – | 639,272 |
| Due to other customers | – | 184,152,280 | 184,152,280 |
| Debt securities issued and other borrowed funds | – | 60,497,844 | 60,497,844 |
| Subordinated term debts | – | 19,573,883 | 19,573,883 |
| Other financial liabilities | – | 2,893,671 | 2,893,671 |
| Total Financial Liabilities | 639,272 | 278,737,681 | 279,376,953 |

As at 31 December 2014

| | BANK | | | | |
|---|------------------|------------------|-----------------------|--------------------|--------------------|
| | Held-for-Trading | Held-to-Maturity | Loans and Receivables | Available-for-Sale | Total |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Assets | | | | | |
| Cash and cash equivalents | – | – | 3,104,391 | – | 3,104,391 |
| Balances with the Central Bank of Sri Lanka | – | – | 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 | 235,044,819 |

| As at 31 December 2014 | GROUP | | | | |
|---|------------------------------|------------------------------|--------------------------------------|--------------------------------|--------------------|
| | Held-for-Trading LKR '000 | Held-to-Maturity LKR '000 | Loans and Receivables LKR '000 | Available-for-Sale LKR '000 | Total LKR '000 |
| Assets | | | | | |
| Cash and cash equivalents | – | – | 3,274,036 | – | 3,274,036 |
| Balances with the Central Bank of Sri Lanka | – | – | 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 |

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 both local currency and foreign currency.

The balances of the cash in hand are recorded at book value and the balances with banks are carried at amortised cost in the Statement of Financial Position. For the purpose of the Statement of Cash Flow, cash and cash equivalents consist of cash and short-term deposits as defined above, net of unfavourable Nostro balances.

| | BANK | | GROUP | |
|--------------------------|-------------------|------------------|-------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Local currency in hand | 2,504,536 | 1,775,925 | 2,504,620 | 1,776,011 |
| Foreign currency in hand | 91,841 | 68,510 | 91,860 | 68,518 |
| Balances with banks | 9,225,126 | 1,259,956 | 9,252,095 | 1,429,507 |
| Total | 11,821,503 | 3,104,391 | 11,848,575 | 3,274,036 |

20. BALANCES WITH THE CENTRAL BANK OF SRI LANKA

Balances with the Central Bank of Sri Lanka 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 2015 (6.0% as at 31 December 2014). 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.

The current reserve requirement was revised to 7.5% by the Central Bank of Sri Lanka with effect from 16 January 2016.

| | BANK | | GROUP | |
|---|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Statutory balances with the Central Bank of Sri Lanka | 6,999,898 | 6,740,590 | 6,999,898 | 6,740,590 |
| Total | 6,999,898 | 6,740,590 | 6,999,898 | 6,740,590 |

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 | |
|-------------------------------|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Placements – within Sri Lanka | 1,153,619 | 2,721,891 | 1,153,619 | 2,721,891 |
| Total | 1,153,619 | 2,721,891 | 1,153,619 | 2,721,891 |

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 are 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 accounting policy used for initial recognition, 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 the 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 the 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 are 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 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.

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 2015 and are indicative of neither the market risk nor the credit risk.

| | | BANK & GROUP | | | | | |
|---------------------------------------|-------------|--------------------------------------|---|-------------------------------------|--------------------------------------|---|-------------------------------------|
| | | Financial Assets 2015 LKR '000 | Financial Liabilities 2015 LKR '000 | Notional Amount 2015 LKR '000 | Financial Assets 2014 LKR '000 | Financial Liabilities 2014 LKR '000 | Notional Amount 2014 LKR '000 |
| Currency options | - Sales | – | 1,912 | 550,752 | – | 1,556 | 579,708 |
| | - Purchases | 1,912 | – | 550,752 | 1,556 | – | 579,708 |
| Forward foreign exchange contracts | - Sales | 68,106 | 600,722 | 79,090,652 | 782,496 | 78,599 | 83,183,409 |
| | - Purchases | 992,142 | 36,638 | 79,472,936 | 125,701 | 530,554 | 83,573,782 |
| Currency SWAPs | - Sales | – | – | – | – | – | – |
| | - Purchases | 841,413 | – | 5,400,000 | 994,028 | 52,477 | 17,311,875 |
| Total | | 1,903,573 | 639,272 | 165,065,092 | 1,903,781 | 663,186 | 185,228,482 |

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 for which a SWAP arrangement was entered into with the Central Bank of Sri Lanka for 75% of the borrowing value.

The Bank also raised USD 75 million on 21 July 2014 through foreign borrowings for a period of seven years, against which a SWAP arrangement (SWAP Agreement 02) was entered into with the Central Bank of Sri Lanka for 50% of the borrowing value with the same maturity on 15 July 2021.

As per Sri Lanka Accounting Standard – LKAS 39 'Financial Instruments: Recognition and Measurement', the Bank identified this particular transaction as a 'Cash Flow Hedge' after documenting the hedge relationship.

The objective of the hedge was 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 SWAP arrangements are given 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% 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: |
| | 15 July 2019 USD 5 million |
| | 15 January 2020 USD 5 million |
| | 15 July 2020 USD 5 million |
| | 15 January 2021 USD 5 million |

| Details | Description of the Hedge | |
|---|--------------------------|--|
| 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 credited to the cash flow hedge reserve during the year 2014 |
| Fair value of the hedged item as at 31 December 2015 | – | LKR 16,487 million as at 31 December 2014 |
| Fair value of the hedged instrument as at 31 December 2015 | – | LKR 116.29 million as at 31 December 2014 |
| 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 | |

The above SWAP arrangement was cancelled on 31 March 2015, as the Bank opted to repay the 1 year USD denominated borrowing of USD 105 million, which had a roll over option for a maximum period of 12 months.

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% 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: | |
| | 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 |
| | 7 year USD denominated borrowing – USD 60 million with a grace period of 5 years. Repayment periods are as follows: | |
| | 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 287.6 million debit to the cash flow hedge reserve | |
| Fair value of the hedged item as at 31 December 2015 | LKR 10,800 million | |
| Fair value of the hedged instrument as at 31 December 2015 | LKR 841.4 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 Other Comprehensive Income Relating to the Currency SWAPs

| | BANK | | GROUP | |
|-----------------------------------|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| SWAP Agreement 01 [Note 22.1 (a)] | – | 299,016 | – | 299,016 |
| SWAP Agreement 02 [Note 22.1 (b)] | (287,692) | 98,836 | (287,692) | 98,836 |
| Total | (287,692) | 397,852 | (287,692) | 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 | 5,370 | – |
| Forecast payable cash flow | (710) | (15,840) |
| | 4,660 | (15,840) |

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 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 gains/(losses) from financial investments'. Dividend income is recorded in 'Net Gains/(Losses) from financial investments' according to the terms of the contract, or when the right to receive the payment has been established.

| | BANK | | GROUP | |
|--|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Sri Lanka Government Securities – Treasury Bills | 969 | 51,534 | 969 | 51,534 |
| Sri Lanka Government Securities – Treasury Bonds | 576,964 | 480,732 | 576,964 | 480,732 |
| Equity Securities | – | – | 336,769 | 713,868 |
| Investment in Unit Trusts | 2,407,329 | 2,253,011 | 4,314,791 | 4,782,424 |
| Total | 2,985,262 | 2,785,277 | 5,229,493 | 6,028,558 |

There were no securities purchased under Resale Agreements which were pledged as collateral for borrowings under repurchase agreements as at 31 December 2015 (2014 – LKR 532 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 | |
|---|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Gross loans and receivables – Refinance loans in local currency | 102,632 | 311,144 | 102,632 | 311,144 |
| Less: Allowance for impairment charges for loans and receivables to banks | - | - | - | - |
| Net loans and receivables – Refinance loans in local currency | 102,632 | 311,144 | 102,632 | 311,144 |

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 to Other Customers

Loans and Receivables (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 and receivables 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 as '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 | |
|---|--------------------|--------------------|--------------------|--------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Gross loans and receivables to other customers | 215,012,449 | 180,189,406 | 215,075,941 | 180,250,109 |
| Less: Allowance for impairment charges for loans and receivables to other customers [Note 25.5 (a)] | (5,410,380) | (5,014,203) | (5,410,380) | (5,014,203) |
| Net loans and receivables to other customers | 209,602,069 | 175,175,203 | 209,665,561 | 175,235,906 |

25.1 Gross Loans and Receivables to Other Customers – By Product

| | BANK | | GROUP | |
|--|--------------------|--------------------|--------------------|--------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Long-term loans | 47,867,326 | 39,723,175 | 47,867,326 | 39,723,697 |
| Medium and short-term loans | 56,920,084 | 43,261,887 | 56,920,084 | 43,261,887 |
| Overdrafts | 25,868,746 | 24,275,911 | 25,866,356 | 24,259,447 |
| Trade finance loans | 31,041,387 | 34,177,923 | 31,041,387 | 34,177,923 |
| Consumer loans | 23,565,859 | 18,934,195 | 23,565,859 | 18,934,195 |
| Leasing and hire purchases (Note 25.6) | 17,692,190 | 11,612,539 | 17,692,190 | 11,612,539 |
| Housing loans | 8,308,954 | 6,403,174 | 8,308,954 | 6,403,174 |
| Pawning | 208,024 | 416,594 | 208,024 | 416,594 |
| Staff loans | 1,235,347 | 1,052,993 | 1,301,229 | 1,129,638 |
| Islamic loans | 2,304,532 | 331,015 | 2,304,532 | 331,015 |
| Total | 215,012,449 | 180,189,406 | 215,075,941 | 180,250,109 |

25.2 Gross Loans and Receivables to Other Customers – By Currency

| | BANK | | GROUP | |
|----------------------|--------------------|--------------------|--------------------|--------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Sri Lanka Rupee | 159,620,705 | 135,682,065 | 159,684,197 | 135,742,768 |
| United States Dollar | 54,720,377 | 43,330,879 | 54,720,377 | 43,330,879 |
| Great Britain Pound | 5,247 | 5,213 | 5,247 | 5,213 |
| Euro | 666,120 | 1,146,721 | 666,120 | 1,146,721 |
| Australian Dollar | – | 1,798 | – | 1,798 |
| Others | – | 22,730 | – | 22,730 |
| Total | 215,012,449 | 180,189,406 | 215,075,941 | 180,250,109 |

25.3 Gross Loans and Receivables to Other Customers – By Industry

| | BANK | | | |
|--|--------------------|--------------|--------------------|------------|
| | 2015 LKR '000 | % | 2014 LKR '000 | % |
| Food, beverages and tobacco | 8,168,057 | 3.9 | 7,352,472 | 4.1 |
| Agriculture, agro-business and fisheries | 24,953,670 | 11.6 | 25,825,680 | 14.3 |
| Textiles and garments | 25,146,732 | 11.7 | 18,576,296 | 10.3 |
| Wood and paper products | 2,071,006 | 1.0 | 1,712,788 | 1.0 |
| Leather and plastic products | 2,867,901 | 1.3 | 3,421,065 | 1.9 |
| Metals, chemicals and engineering | 13,495,659 | 6.3 | 9,951,950 | 5.5 |
| Hotels and tourism | 7,820,940 | 3.6 | 5,637,670 | 3.1 |
| Utilities | 10,983,028 | 5.1 | 9,707,923 | 5.4 |
| Constructions and housing finance | 19,643,386 | 9.1 | 18,950,619 | 10.5 |
| Services | 32,055,355 | 14.9 | 24,338,304 | 13.5 |
| Transport | 5,933,805 | 2.8 | 5,137,648 | 2.9 |
| Consumer | 40,687,899 | 18.9 | 33,568,891 | 18.6 |
| Trading | 21,133,366 | 9.8 | 15,958,787 | 8.9 |
| Others | 51,645 | 0.0 | 49,313 | 0.0 |
| Total | 215,012,449 | 100.0 | 180,189,406 | 100 |

25.4 Gross Loans and Receivables to Other Customers – By Province

| | BANK | | GROUP | |
|------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Western Province | 184,679,731 | 157,093,779 | 184,743,223 | 157,154,482 |
| Southern Province | 7,309,362 | 4,985,666 | 7,309,362 | 4,985,666 |
| North-Western Province | 5,605,710 | 4,266,750 | 5,605,710 | 4,266,750 |
| Central Province | 6,339,923 | 4,372,669 | 6,339,923 | 4,372,669 |
| Northern Province | 1,305,200 | 3,151,333 | 1,305,200 | 3,151,333 |
| Sabaragamuwa Province | 3,636,529 | 2,741,651 | 3,636,529 | 2,741,651 |
| North-Central Province | 2,779,375 | 1,447,569 | 2,779,375 | 1,447,569 |
| Eastern Province | 1,624,097 | 1,022,989 | 1,624,097 | 1,022,989 |
| Uva Province | 1,732,522 | 1,107,000 | 1,732,522 | 1,107,000 |
| Total | 215,012,449 | 180,189,406 | 215,075,941 | 180,250,109 |

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 to other customers 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 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, loans and receivables to other customers 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 | Medium and Short-term Loans | Overdrafts | Trade Finance Loans | Consumer Loans | Leasing & Hire Purchases | Housing Loans | Pawning | Islamic Banking | Staff Loans | Total |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| As at 1 January 2015 | 1,304,096 | 1,203,015 | 1,300,513 | 410,404 | 535,360 | 149,383 | 32,425 | 69,378 | - | 9,629 | 5,014,203 |
| Charges/(reversals) for the year | 26,242 | 901,599 | 187,673 | 205,492 | (97,322) | 93,377 | 12,799 | (54,649) | 691 | (5,370) | 1,270,532 |
| Amounts written-off | (88,942) | (104,859) | (470,229) | (147,264) | (63,061) | - | - | - | - | - | (874,355) |
| As at 31 December 2015 | 1,241,396 | 1,999,755 | 1,017,957 | 468,632 | 374,977 | 242,760 | 45,224 | 14,729 | 691 | 4,259 | 5,410,380 |
| Individual impairment | 309,331 | 1,634,915 | 343,229 | 305,481 | - | 15,676 | - | 9,000 | - | 3,711 | 2,621,343 |
| Collective impairment | 932,065 | 364,840 | 674,728 | 163,151 | 374,977 | 227,084 | 45,224 | 5,729 | 691 | 548 | 2,789,037 |
| Total | 1,241,396 | 1,999,755 | 1,017,957 | 468,632 | 374,977 | 242,760 | 45,224 | 14,729 | 691 | 4,259 | 5,410,380 |
| Gross amount of loans individually determined to be impaired, before deduction of individually assessed impairment allowances | 3,394,490 | 7,296,870 | 1,988,631 | 7,368,552 | - | 92,048 | - | 19,318 | - | 3,711 | 20,163,620 |
| Gross amount of loans individually impaired, before deduction of individually assessed impairment allowances | 1,474,979 | 3,040,103 | 403,712 | 827,472 | - | 15,676 | - | 19,318 | - | 3,711 | 5,784,971 |
| Gross amount of loans individually impaired, after deduction of individually assessed impairment allowances | 1,165,648 | 1,405,188 | 60,483 | 521,991 | - | - | - | 10,318 | - | - | 3,163,628 |

| | BANK & GROUP | | | | | | | | | | |
|---|------------------|-----------------------------|------------------|---------------------|----------------|--------------------------|---------------|---------------|--------------|------------------|--|
| | Long-term Loans | Medium and Short-term Loans | Overdrafts | Trade Finance Loans | Consumer Loans | Leasing & Hire Purchases | Housing Loans | Pawning | Staff Loans | Total | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | 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 | |

25.5 (b) Movements in the Allowances for Individual and Collective Impairment Charges During the Year for Loans and Receivables to Other Customers

| | BANK | | GROUP | |
|---------------------------------|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Individual Impairment | | | | |
| As at 1 January | 2,289,590 | 1,828,065 | 2,289,590 | 1,828,065 |
| Charge/(reversals) for the year | 1,119,859 | 461,525 | 1,119,859 | 461,525 |
| Write-off during the year | (788,106) | – | (788,106) | – |
| As at 31 December | 2,621,343 | 2,289,590 | 2,621,343 | 2,289,590 |
| Collective Impairment | | | | |
| As at 1 January | 2,724,613 | 2,359,407 | 2,724,613 | 2,359,407 |
| Charge/(reversals) for the year | 150,673 | 387,276 | 150,673 | 387,276 |
| Write-off during the year | (86,249) | (22,070) | (86,249) | (22,070) |
| As at 31 December | 2,789,037 | 2,724,613 | 2,789,037 | 2,724,613 |
| Total | 5,410,380 | 5,014,203 | 5,410,380 | 5,014,203 |

25.6 Leasing and Hire Purchases

| | BANK | | GROUP | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Gross lease and hire purchase rentals receivables | 19,305,434 | 14,671,685 | 19,305,434 | 14,671,685 |
| Less: Unearned income | (1,613,247) | (3,059,146) | (1,613,247) | (3,059,146) |
| Total lease and hire purchase rentals receivables | 17,692,187 | 11,612,539 | 17,692,187 | 11,612,539 |
| Less: Allowance for impairment charges [Note 25.6.(a)] | (242,760) | (149,383) | (242,760) | (149,383) |
| Total | 17,449,427 | 11,463,156 | 17,449,427 | 11,463,156 |

25.6 (a) Allowance for Impairment Charges

| | BANK & GROUP | |
|--|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 |
| As at 1 January | 149,383 | 84,441 |
| Charges/(reversals) for the year | 93,377 | 64,942 |
| As at 31 December | 242,760 | 149,383 |
| Individual impairment | 15,676 | 1,085 |
| Collective impairment | 227,084 | 148,298 |
| Total | 242,760 | 149,383 |
| Gross amount of loans individually determined to be impaired, before deduction of the individually assessed impairment allowance | 92,048 | 191,551 |
| Gross amount of loans individually impaired, before deduction of the individually assessed impairment allowance | 15,676 | 7,370 |
| Gross amount of loans individually impaired, after deduction of the individually assessed impairment allowance | – | 6,285 |

25.6 (b) Movements in Individual and Collective Impairment Provision during the Year for Lease and Hire Purchase Rentals Receivables

| | BANK | | GROUP | |
|---------------------------------|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Individual Impairment | | | | |
| As at 1 January | 1,085 | 3,233 | 1,085 | 3,233 |
| Charge/(reversals) for the year | 14,591 | (2,148) | 14,591 | (2,148) |
| As at 31 December | 15,676 | 1,085 | 15,676 | 1,085 |
| Collective Impairment | | | | |
| As at 1 January | 148,298 | 81,208 | 148,298 | 81,208 |
| Charge/(reversals) for the year | 78,786 | 67,090 | 78,789 | 67,090 |
| As at 31 December | 227,084 | 148,298 | 227,087 | 148,298 |
| Total | 242,760 | 149,383 | 242,763 | 149,383 |

25.7 Maturity of Leasing and Hire Purchases

25.7 (a) Gross Lease and Hire Purchase Rentals Receivables within One Year

| | BANK | | GROUP | |
|---|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Total rental receivables | 743,391 | 602,767 | 743,391 | 602,767 |
| Less: Allowance for impairment charges | (150,370) | (48,123) | (150,370) | (48,123) |
| Interest in suspense | (99,817) | (82,559) | (99,817) | (82,559) |
| Unearned income | (27,218) | (22,829) | (27,218) | (22,829) |
| Net rentals receivables within one year | 465,986 | 449,256 | 465,986 | 449,256 |

25.7 (b) Gross Lease and Hire Purchase Rentals Receivables after One Year

| | BANK | | GROUP | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Total rental receivables | 18,709,351 | 14,197,184 | 18,709,351 | 14,197,184 |
| Less: Allowance for impairment charges | (92,390) | (101,260) | (92,390) | (101,260) |
| Interest in suspense | (47,491) | (45,707) | (47,491) | (45,707) |
| Unearned income | (1,586,029) | (3,036,317) | (1,586,029) | (3,036,317) |
| Net rentals receivables after one year | 16,983,441 | 11,013,900 | 16,983,441 | 11,013,900 |
| Total | 17,449,427 | 11,463,156 | 17,449,427 | 11,463,156 |

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 as impairment for loans and receivables 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 | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Sri Lanka Development Bonds | 21,298,039 | 13,662,172 | 21,298,039 | 13,662,172 |
| Redeemable cumulative preference shares | – | 69,421 | – | 69,421 |
| Quoted debentures | – | – | 1,538,395 | 381,048 |
| Securities purchased under resale agreements | 14,532,272 | 24,570,835 | 14,532,271 | 24,570,835 |
| Investment in private equity fund | – | – | 53,691 | – |
| Less: Allowance for impairment of investment | – | – | (53,691) | – |
| Total | 35,830,311 | 38,302,428 | 37,368,705 | 38,683,476 |

The securities purchased under resale agreements which were pledged as collateral for borrowings under repurchase agreements amounted to LKR 12,831 million as at 31 December 2015 (2014 – Nil).

27. FINANCIAL INVESTMENTS – AVAILABLE-FOR-SALE**ACCOUNTING POLICY**

Available-for-sale investments include equity and Government 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.

Government 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 gains/(losses) 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 consider impairment adjustments if the impairment is more than 20% of the carrying value of the investment.

| | BANK | | GROUP | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Sri Lanka Government Securities – Treasury Bills | 12,981,321 | 5,068,917 | 12,981,321 | 5,068,917 |
| Sri Lanka Government Securities – Treasury Bonds | 13,936,379 | 11,891,025 | 13,936,379 | 11,891,025 |
| Quoted ordinary shares | 1,568,673 | 85,215 | 1,846,975 | 897,765 |
| Non-quoted ordinary shares | 15,145 | 15,145 | 200,145 | 200,145 |
| Total | 28,501,518 | 17,060,302 | 28,964,820 | 18,057,852 |

Financial investments available-for-sale, pledged as collateral for borrowings under repurchase agreements amounted to LKR 12,791 million as at 31 December 2015 (2014 – LKR 16,960 million).

The majority of non-quoted ordinary shares include share investments that have been made primarily for regulatory purposes. Such investments are recorded at cost due to the 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 up 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 as '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 | |
|--|------------------|------------------|------------------|-------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Sri Lanka Government Securities – Treasury Bonds | 1,044,602 | 7,052,992 | 1,044,602 | 7,052,992 |
| Quoted Debentures | 3,392,371 | 1,917,971 | 4,616,266 | 3,114,333 |
| Total | 4,436,973 | 8,970,963 | 5,660,868 | 10,167,325 |

Financial investments held-to-maturity, pledged as collateral for borrowings under repurchase agreements amounted to LKR 1,044 million as at 31 December 2015 (2014 – LKR 7,052 million).

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 was passed by the Board of Directors of the Company to wind-up the affairs voluntarily and appointed a liquidator, for the distribution of the assets.

The amount shown in the Statement of Financial Position is the fair value of the investment which the Bank will receive at the time of concluding the liquidation process and an impairment provision has not been made as sufficient liquid assets are available in the Financial Statements of the Company based on the liquidation Financial Statements prepared as at 31 December 2015.

| | BANK | | GROUP | |
|------------------------------------|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| NDB Venture Investments (Pvt) Ltd. | 18,526 | 18,526 | 33,302 | 33,302 |
| Total | 18,526 | 18,526 | 33,302 | 33,302 |

30. INVESTMENTS IN SUBSIDIARY COMPANIES**ACCOUNTING POLICY**

Investments in subsidiary companies are accounted at cost less allowance for 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 loss in net assets.

| | Corporate Status | BANK | | | |
|---|------------------|----------------------|--------------------|----------------------|--------------------|
| | | Percentage Holding % | 2015 Cost LKR '000 | Percentage Holding % | 2014 Cost LKR '000 |
| NDB Capital Holdings Ltd. | Non-quoted | 99.9 | 1,802,089 | 99.6 | 1,748,141 |
| Development Holdings (Pvt) Ltd. | Non-quoted | 58.7 | 228,150 | 58.7 | 228,150 |
| NDB Capital Ltd. (Bangladesh) | Non-quoted | 77.8 | 180,552 | 77.8 | 130,673 |
| Less: Allowance for impairment of investments (Note 30.2) | | | (106,674) | | (106,674) |
| Total | | | 2,104,117 | | 2,000,290 |

NDB Capital Holdings Ltd. (previously known as NDB Capital Holding PLC) was officially de-listed from the Colombo Stock Exchange on 26 January 2015.

30.1 Movement in the Allowance for Impairment of Investments

| | 2015 LKR '000 | 2014 LKR '000 |
|---------------------------------------|------------------|------------------|
| As at 1 January | 106,674 | 69,380 |
| Charge to Statement of Profit or Loss | – | 37,294 |
| As at 31 December | 106,674 | 106,674 |

30.2 Summarized Financial Information of the NDB Group's Investments in Subsidiaries

| | Total | NDB Zephyr Partners Ltd. LKR '000 | NDB Investment Bank Ltd. LKR '000 | NDB Capital Ltd. LKR '000 | NDB Capital Holdings Ltd. LKR '000 | NDB Securities (Pvt) Ltd. LKR '000 | Development Holdings (Pvt) Ltd. LKR '000 | NDB Wealth Management Ltd. LKR '000 |
|-------------------|------------|--|--|------------------------------------|---|---|---|--|
| 2015 | | | | | | | | |
| Total assets | 10,313,315 | 132,790 | 752,126 | 131,902 | 5,771,546 | 455,281 | 2,344,419 | 725,251 |
| Total liabilities | 484,384 | 20,837 | 115,294 | 23,677 | 76,452 | 122,081 | 68,478 | 57,565 |
| Net assets | 9,828,931 | 111,953 | 636,832 | 108,225 | 5,695,093 | 333,200 | 2,275,941 | 667,687 |
| Gross income | 2,099,313 | 116,178 | 374,743 | 92,269 | 617,716 | 176,507 | 323,483 | 398,417 |
| Profits | 1,151,020 | 16,873 | 169,315 | 15,474 | 495,601 | 18,183 | 277,282 | 158,292 |
| 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 |

30.3 NDB Capital Holdings Ltd. 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. 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 by 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 the loss of significant influence and the fair value of the retained investment and proceeds from disposal are recognized in the Statement of Profit or Loss.

| | Corporate Status | Percentage Holding % | BANK | | |
|---|-------------------|----------------------|----------|----------|-------|
| | | | 2015 | 2014 | |
| | | | LKR '000 | LKR '000 | |
| Ayojana Fund (Pvt) Ltd. | Under liquidation | 50 | 100 | 50 | 100 |
| Less: Allowance for impairment of investments | | | (100) | | (100) |
| Total | | | – | | – |

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. 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 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 appreciation has 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 engaged 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.

Owner occupied portion of an Investment property is recognized and measured in line with the accounting policy used for property, plant & equipment of the Bank and the Group and are presented under 'Property, Plant & Equipment' in the Financial Statements.

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.

Basis of Valuation

Investment properties are stated at fair value, which has been determined based on valuations performed by a Professional Valuer 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 (2014 – 40%)
- Capitalize YP at 16% (2014 – 16%)

| | GROUP | |
|--|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 |
| As at 1 January | 1,545,693 | 1,383,693 |
| Change in the fair value during the year | 150,000 | 162,000 |
| Less: Fair value of the owner occupied portion | (23,693) | – |
| As at 31 December | 1,672,000 | 1,545,693 |

33. INTANGIBLE ASSETS

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 years ended 31 December 2015 and 2014 are given below:

| | Period | % per Annum |
|-------------------|---------|-------------|
| Computer software | 5 years | 20 |

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.

33.1 Computer Software

| | BANK | | GROUP | |
|--------------------------------------|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Cost/Valuation | | | | |
| As at 1 January | 565,006 | 507,344 | 653,162 | 572,407 |
| Additions during the year | 35,032 | 67,330 | 43,529 | 92,138 |
| Disposals during the year | – | (4,129) | – | (5,844) |
| Transfers/adjustments | – | (5,539) | – | (5,539) |
| As at 31 December | 600,038 | 565,006 | 696,691 | 653,162 |
| Depreciation/Amortization | | | | |
| As at 1 January | 365,352 | 292,128 | 409,570 | 320,938 |
| Charge for the year | 85,673 | 77,190 | 103,596 | 94,050 |
| Disposals during the year | – | (3,966) | – | (5,418) |
| Transfers/adjustments | – | – | – | – |
| As at 31 December | 451,025 | 365,352 | 513,166 | 409,570 |
| Net book value as at 31 December (a) | 149,013 | 199,654 | 183,525 | 243,592 |

33.2 Software Under Development

| | BANK | | GROUP | |
|--|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Cost/Valuation | | | | |
| As at 1 January | 53,478 | 45,209 | 53,478 | 45,209 |
| Additions during the year | 46,212 | 63,621 | 46,212 | 63,621 |
| Transfers/adjustments | (8,469) | (55,352) | (8,469) | (55,352) |
| As at 31 December (b) | 91,221 | 53,478 | 91,221 | 53,478 |
| Net book value of total intangible assets (a) + (b) | 240,234 | 253,132 | 274,746 | 297,070 |

34. PROPERTY, PLANT & EQUIPMENT**ACCOUNTING POLICY****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 or the fair value of the asset can be reliably measured.

Basis of Measurement

An item of property, plant & equipment excluding freehold land and buildings 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 engaged an Independent Valuer to determine the fair value of freehold land and buildings. In estimating the fair values, the Independent Valuer considered current market prices of similar assets. The valuation was carried out as at 31 December 2015 and 31 December 2014 by professional valuer Mr. A A M Fathihz, B.Sc (Hons.) EMV, FIV Sri Lanka.

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, in which 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 the date 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. Judgement 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 2015 and 2014, are as follows:

| Class of Assets | Period | % Per Annum |
|--------------------------------|----------|-------------|
| Freehold buildings | 20 years | 5 |
| Leasehold buildings | 5 Years | 20 |
| Motor vehicles | 4 years | 25 |
| Office Equipment and Furniture | 5 years | 20 |
| Computer equipment | 5 years | 20 |

The depreciation rates are determined separately for each significant part of the assets and depreciation is provided proportionately for the completed number of months for which 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 buildings are amortized over the lower of the useful life and the lease period of the respective assets.

34.1 The Movement in Property, Plant & Equipment – Bank

| | Freehold Land | Freehold Buildings | Leasehold Buildings | Computer Equipment | Motor Vehicles | Office Equipment & Furniture | Capital Work-in-Progress | Total |
|--|----------------|--------------------|---------------------|--------------------|----------------|------------------------------|--------------------------|------------------|
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| (a) Cost or Valuation | | | | | | | | |
| As at 1 January 2014 | 165,016 | 431,683 | 237,033 | 591,610 | 204,066 | 531,964 | 3,423 | 2,164,795 |
| Additions during the year | – | 2,787 | 28,126 | 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 | 949,526 | 265,159 | 673,634 | 185,105 | 607,464 | 19,052 | 3,131,440 |
| Additions during the year | – | 12,864 | 42,794 | 169,773 | 98,901 | 83,285 | 105,929 | 513,546 |
| Disposals during the year | – | – | – | (10,791) | (30,689) | (2,708) | – | (44,188) |
| Transfers/adjustments | – | – | – | – | – | – | (114,831) | (114,831) |
| As at 31 December 2015 | 431,500 | 962,390 | 307,953 | 832,616 | 253,317 | 688,041 | 10,150 | 3,485,967 |
| (b) Depreciation/Amortization | | | | | | | | |
| As at 1 January 2014 | – | 287,668 | 159,442 | 385,348 | 106,075 | 353,372 | – | 1,291,905 |
| Charge for the year | – | 28,194 | 29,167 | 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 | – | 14,041 | 188,609 | 458,347 | 126,812 | 416,135 | – | 1,203,944 |
| Charge for the year | – | 35,118 | 34,887 | 96,539 | 40,939 | 77,261 | – | 284,744 |
| On disposals | – | – | – | (10,769) | (19,250) | (2,707) | – | (32,726) |
| As at 31 December 2015 | – | 49,159 | 223,496 | 544,117 | 148,501 | 490,689 | – | 1,455,962 |
| Net book value as at 31 December 2015 | 431,500 | 913,231 | 84,457 | 288,499 | 104,816 | 197,352 | 10,150 | 2,030,005 |
| Net book value as at 31 December 2014 | 431,500 | 935,485 | 76,550 | 215,287 | 58,293 | 191,329 | 19,052 | 1,927,496 |

34.2 Details of Revalued Freehold Land and Buildings

| Location | Extent (Perches) | Revaluation of Land (LKR '000) | Buildings (Square Feet) | Revaluation of Buildings (LKR '000) | Total Value (LKR '000) | Accumulated Depreciation (LKR '000) | Net Book Value (LKR '000) | As a % of Total Cost |
|---|------------------|--------------------------------|-------------------------|-------------------------------------|------------------------|-------------------------------------|---------------------------|----------------------|
| Head Office – Dharmapala Mawatha No. 103A, Dharmapala Mawatha, Colombo 7 | 20.00 | 420,000 | 41,143 | 324,852 | 744,852 | 13,381 | 731,471 | 54.40 |
| Head Office – Navam Mawatha No. 40, Navam Mawatha, Colombo 02 | 1.43 | 11,500 | 95,343 | 637,538 | 649,038 | 35,778 | 613,260 | 45.60 |
| | 21.43 | 431,500 | 136,486 | 962,390 | 1,393,890 | 49,159 | 1,344,731 | 100.00 |

34.3 Freehold Land and Buildings on a Cost Basis

The carrying amount of the Bank's revalued freehold land and buildings that would have been included in the Financial Statements at cost less depreciation is as follows:

| Class of assets | Cost | Accumulated | Net Book | Cost | Accumulated | Net Book |
|--------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2015 | Depreciation | Value | 2014 | Depreciation | Value |
| | LKR '000 |
| Freehold land | 165,016 | – | 165,016 | 165,016 | – | 165,016 |
| Freehold buildings | 446,863 | 372,632 | 74,231 | 435,344 | 310,140 | 125,204 |
| Total | 611,879 | 372,632 | 239,247 | 600,360 | 310,140 | 290,220 |

34.4 The Movement in Property, Plant & Equipment – Group

| | Freehold Land | Freehold Buildings | Leasehold Buildings | Computer Equipment | Motor Vehicles | Office Equipment & Furniture | Capital Work-in-Progress | Total |
|--|----------------|--------------------|---------------------|--------------------|----------------|------------------------------|--------------------------|------------------|
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| (a) Cost or Valuation | | | | | | | | |
| As at 1 January 2014 | 165,016 | 736,183 | 237,033 | 638,199 | 265,330 | 669,675 | 3,423 | 2,714,859 |
| Additions during the year | – | 2,787 | 28,126 | 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 | 1,254,026 | 265,159 | 725,593 | 287,595 | 758,937 | 19,052 | 3,741,862 |
| Additions during the year | – | 12,864 | 42,794 | 174,885 | 109,092 | 94,209 | 105,929 | 539,773 |
| Disposals during the year | – | (193) | – | (12,515) | (48,402) | (57,311) | – | (118,421) |
| Revaluation adjustment during the year* | – | 95,339 | – | – | – | – | – | 95,339 |
| Transfers/adjustments | – | – | – | – | – | – | (114,831) | (114,831) |
| As at 31 December 2015 | 431,500 | 1,362,036 | 307,953 | 887,963 | 348,285 | 795,835 | 10,150 | 4,143,722 |
| (b) Depreciation/Amortization | | | | | | | | |
| As at 1 January 2014 | – | 287,851 | 159,442 | 424,288 | 144,779 | 522,008 | – | 1,538,368 |
| Charge for the year | – | 48,419 | 29,167 | 86,019 | 51,965 | 75,570 | – | 291,140 |
| On disposals | – | (605) | – | (10,731) | (20,339) | (7,402) | – | (39,077) |
| Transfers/adjustments | – | (301,216) | – | – | – | – | – | (301,216) |
| As at 31 December 2014 | – | 34,449 | 188,609 | 499,576 | 176,405 | 590,176 | – | 1,489,215 |
| Charge for the year | – | 35,118 | 34,887 | 103,889 | 60,428 | 83,476 | – | 317,798 |
| On disposals | – | (193) | – | (19,294) | (45,491) | (53,196) | – | (118,174) |
| As at 31 December 2015 | – | 69,374 | 223,496 | 584,171 | 191,342 | 620,456 | – | 1,688,839 |
| Net book value as at 31 December 2015 | 431,500 | 1,292,662 | 84,457 | 303,792 | 156,943 | 175,379 | 10,150 | 2,454,883 |
| Net book value as at 31 December 2014 | 431,500 | 1,219,577 | 76,550 | 226,017 | 111,190 | 168,761 | 19,052 | 2,252,647 |

* Revaluation adjustment includes the revaluation gain of the owner occupied portion of the property, which has been accounted and classified as 'Investment Property' (Note 32).

34.5 Cost of Fully Depreciated Property, Plant & Equipment and Intangible Assets

The initial cost of fully depreciated property, plant & equipment and intangible assets as at 31 December 2015, which are still in use as at 31 December 2015, are as follows:

| | BANK | | GROUP | |
|--------------------------------|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Computer equipment | 292,703 | 247,999 | 305,170 | 278,814 |
| Freehold buildings | 138 | 138 | 138 | 138 |
| Leasehold buildings | 138,826 | 119,218 | 138,826 | 119,218 |
| Motor vehicles | 64,561 | 37,050 | 64,895 | 45,882 |
| Office equipment and furniture | 276,214 | 256,062 | 327,958 | 353,140 |
| Computer software | 207,372 | 136,135 | 211,650 | 136,135 |
| Total | 979,814 | 796,602 | 1,048,637 | 933,327 |

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 comprise 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 cost 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 a 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 | |
|--|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Other financial assets (Note 35.1) | – | 54,450 | – | 54,450 |
| Other non-financial assets (Note 35.2) | 1,427,365 | 1,399,282 | 2,021,058 | 1,821,884 |
| Total | 1,427,365 | 1,453,732 | 2,021,058 | 1,876,334 |

35.1 Other Financial Assets

| | BANK | | GROUP | |
|----------------------------|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Investment control account | – | 54,450 | – | 54,450 |
| | – | 54,450 | – | 54,450 |

35.2 Other Non-Financial Assets

| | BANK | | GROUP | |
|------------------------------------|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Sundry receivables | 550,850 | 635,310 | 1,057,834 | 994,923 |
| Deposits and prepayments | 279,432 | 232,286 | 344,079 | 273,269 |
| Unamortized staff cost (Note 35.3) | 596,381 | 529,883 | 618,439 | 551,889 |
| Others | 702 | 1,803 | 706 | 1,803 |
| Total | 1,427,365 | 1,399,282 | 2,021,058 | 1,821,884 |

35.3 Unamortized Staff Cost

| | BANK | | GROUP | |
|--|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| As at 1 January | 529,883 | 541,525 | 551,889 | 565,249 |
| Add: Adjustment for new grants and settlements | 140,769 | 66,059 | 147,360 | 68,757 |
| Charged to personnel expenses | (74,271) | (77,701) | (80,810) | (82,117) |
| As at 31 December | 596,381 | 529,883 | 618,439 | 551,889 |

36. DUE TO BANKS

ACCOUNTING POLICY

Due to banks, include call money borrowings and unfavourable 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 | |
|--|-------------------|------------------|-------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Borrowings from local banks | 6,553,426 | 6,498,487 | 6,553,426 | 6,498,487 |
| Borrowings from foreign banks | 5,049,686 | 395,733 | 5,049,686 | 395,733 |
| Unfavourable balances in Nostro accounts | 16,891 | 135,122 | 16,891 | 135,122 |
| Total | 11,620,003 | 7,029,342 | 11,620,003 | 7,029,342 |

36.1 Due to Banks – By Currency

| | BANK | | GROUP | |
|------------------|-------------------|------------------|-------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Local currency | 5,692,115 | 3,450,598 | 5,692,115 | 3,450,598 |
| Foreign currency | 5,927,888 | 3,578,744 | 5,927,888 | 3,578,744 |
| Total | 11,620,003 | 7,029,342 | 11,620,003 | 7,029,342 |

37. DUE TO OTHER CUSTOMERS

ACCOUNTING POLICY

Due to other customers include non-interest bearing deposits, savings deposits, term deposits, margin deposits 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'.

37.1 Due to Other Customers – By Product

| | BANK | | GROUP | |
|------------------|--------------------|--------------------|--------------------|--------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Savings deposits | 30,983,005 | 24,056,643 | 30,983,005 | 24,056,642 |
| Time deposits | 137,018,391 | 115,167,079 | 136,262,411 | 114,866,084 |
| Demand deposits | 16,384,842 | 12,291,825 | 16,359,872 | 12,254,307 |
| Margin deposits | 462,935 | 237,751 | 462,935 | 237,751 |
| Other deposits | 84,057 | 70,417 | 84,057 | 70,417 |
| Total | 184,933,230 | 151,823,715 | 184,152,280 | 151,485,201 |

37.2 Due to Other Customers – By Currency

| | BANK | | | | GROUP | | | |
|----------------------------------|--------------------|------------|--------------------|------------|--------------------|------------|--------------------|------------|
| | 2015 LKR '000 | % | 2014 LKR '000 | % | 2015 LKR '000 | % | 2014 LKR '000 | % |
| Local Currency Deposits | | | | | | | | |
| Savings deposits | 24,032,428 | 13 | 18,291,268 | 12 | 24,032,427 | 13 | 18,291,268 | 12 |
| Time deposits | 97,558,696 | 53 | 86,689,126 | 57 | 96,802,717 | 53 | 86,388,131 | 57 |
| Demand deposits | 11,770,327 | 6 | 10,073,086 | 7 | 11,745,357 | 6 | 10,035,568 | 7 |
| Margin deposits | 425,098 | – | 181,050 | – | 425,098 | – | 181,050 | – |
| Other deposits | 36,097 | – | 29,031 | – | 36,097 | – | 29,030 | – |
| Sub Total | 133,822,646 | 72 | 115,263,561 | 76 | 133,041,696 | 72 | 114,925,047 | 76 |
| Foreign Currency Deposits | | | | | | | | |
| Savings deposits | 6,950,576 | 4 | 5,765,375 | 4 | 6,950,576 | 4 | 5,765,375 | 4 |
| Time deposits | 39,459,695 | 21 | 28,477,953 | 19 | 39,459,695 | 21 | 28,477,953 | 19 |
| Demand deposits | 4,614,516 | 3 | 2,218,739 | 1 | 4,614,516 | 3 | 2,218,739 | 1 |
| Margin deposits | 37,837 | – | 56,701 | – | 37,837 | – | 56,701 | – |
| Other deposits | 47,960 | – | 41,386 | – | 47,960 | – | 41,386 | – |
| Sub total | 51,110,584 | 28 | 36,560,154 | 24 | 51,110,584 | 28 | 36,560,154 | 24 |
| Total | 184,933,230 | 100 | 151,823,715 | 100 | 184,152,280 | 100 | 151,485,201 | 100 |

37.3 Due to Other Customers – By Province

| | BANK | | GROUP | |
|------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Western Province | 168,208,584 | 137,661,581 | 167,427,634 | 137,323,068 |
| North-Western Province | 3,595,126 | 3,400,871 | 3,595,126 | 3,400,871 |
| Southern Province | 3,481,097 | 2,681,806 | 3,481,097 | 2,681,806 |
| Central Province | 3,412,002 | 2,683,919 | 3,412,002 | 2,683,919 |
| Sabaragamuwa Province | 2,606,505 | 2,596,387 | 2,606,505 | 2,596,387 |
| Northern Province | 1,164,815 | 850,963 | 1,164,815 | 850,963 |
| Eastern Province | 992,615 | 671,416 | 992,615 | 671,416 |
| North-Central Province | 624,467 | 524,847 | 624,467 | 524,847 |
| Uva Province | 848,019 | 751,925 | 848,019 | 751,924 |
| Total | 184,933,230 | 151,823,715 | 184,152,280 | 151,485,201 |

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 | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Concessionary credit lines | 1,839,337 | 2,343,544 | 1,839,337 | 2,343,544 |
| Refinance borrowings | 3,208,678 | 3,398,459 | 3,208,678 | 3,398,459 |
| Foreign borrowings | 28,412,489 | 31,155,496 | 28,412,489 | 31,155,496 |
| Securities sold under repurchase agreements | 26,667,250 | 24,630,586 | 26,667,250 | 24,630,928 |
| Local borrowings | – | 27,290 | – | 27,290 |
| Non-quoted debentures (Note 38.1) | 400,090 | 400,085 | 370,090 | 370,085 |
| Total | 60,527,844 | 61,955,460 | 60,497,844 | 61,925,802 |

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 | |
|--|----------------------------|------------|---------------|------------------|------------------|------------------|------------------|
| | | | | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 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 | 22.07.2011 | 30.06.2016 | 290,090 | 290,085 | 260,090 | 260,085 |
| | | | | 400,090 | 400,085 | 370,090 | 370,085 |

39. DEFERRED TAX LIABILITIES/ASSETS

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 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 profits 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 profits will be available against which the temporary differences can be utilized.

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 profits 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 profits 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.

Significant Accounting Estimates & Assumptions

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.

Deferred Tax Liabilities/Assets Recorded in the Statement of Financial Position

| | BANK | | GROUP | |
|---|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Deferred Tax Liabilities | | | | |
| Accelerated depreciation for tax purposes | 74,753 | 80,670 | 84,046 | 83,977 |
| Revaluation surplus on freehold buildings | 230,729 | 230,729 | 230,729 | 230,729 |
| Finance leases | 702,435 | 453,037 | 702,435 | 453,037 |
| Gains on financial investments – available-for-sale | – | 7,791 | 17,090 | 24,881 |
| Total (a) | 1,007,917 | 772,227 | 1,034,300 | 792,624 |
| Deferred Tax Assets | | | | |
| Defined benefit plans | 70,791 | 69,273 | 82,895 | 76,577 |
| Carry forward losses on leasing business | 151,442 | 64,929 | 151,442 | 64,929 |
| Losses on other operations | – | – | 3,834 | 22,625 |
| Deferred expenses to be claimed in income tax liability of future years | 12,040 | 12,103 | 12,040 | 12,103 |
| Losses on financial investments – available-for-sale | 70,968 | – | 70,968 | – |
| Allowance for impairment charges | 298 | 6,455 | 298 | 6,455 |
| Total (b) | 305,539 | 152,760 | 321,477 | 182,689 |
| Net deferred tax liability (a) - (b) | 702,378 | 619,467 | 712,823 | 609,935 |

Deferred Tax Charge/(Reversal) to the Statement of Profit or Loss and Other Comprehensive Income

| | Statement of Profit or Loss | | | | Other Comprehensive Income | | | |
|---|-----------------------------|------------------|------------------|------------------|----------------------------|------------------|------------------|------------------|
| | BANK | | GROUP | | BANK | | GROUP | |
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Deferred Tax Liabilities | | | | | | | | |
| Accelerated depreciation for tax purposes | (5,917) | 9,167 | 69 | 10,643 | – | – | – | – |
| Revaluation surplus on freehold buildings | – | – | – | – | – | 230,729 | – | 230,729 |
| Finance leases | 249,398 | 102,298 | 249,398 | 102,298 | – | – | – | – |
| Gains on financial investments – available-for-sale | – | – | – | – | (7,791) | (33,691) | (7,791) | (33,691) |
| Total (a) | 243,481 | 111,465 | 249,467 | 112,941 | (7,791) | 197,038 | (7,791) | 197,038 |
| Deferred Tax Assets | | | | | | | | |
| Defined benefit plans | (8,844) | (4,772) | (13,643) | (12,765) | 7,326 | (16,897) | 7,326 | (16,897) |
| Carry forward losses on leasing business | (86,513) | (2,686) | (86,513) | (2,686) | – | – | – | – |
| Losses on other operations | – | – | 18,789 | (15,033) | – | – | – | – |
| Deferred expenses to be claimed in income tax liability of future years | 64 | (12,102) | 64 | (12,102) | – | – | – | – |
| Losses on financial investments – available-for-sale | – | – | – | – | (70,968) | – | (70,968) | – |
| Allowance for impairment charges | 6,157 | 34,988 | 6,157 | 34,988 | – | – | – | – |
| Total (b) | (89,136) | 15,428 | (75,146) | (7,598) | (63,642) | (16,897) | (63,642) | (16,897) |
| Net impact (a) - (b) | 154,345 | 126,893 | 174,321 | 105,343 | (71,433) | 180,141 | (71,433) | 180,141 |

40. EMPLOYEE BENEFIT LIABILITIES

ACCOUNTING POLICY

Employee benefit liabilities include the provisions made for retirement gratuity and pension funds.

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 uncertainties. All assumptions are reviewed at each reporting date. The assumptions used to arrive at the defined benefit obligation, is given in Notes 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 policies on salary revisions.

40.1 Provision for Retirement Gratuity

| | BANK | | GROUP | |
|---|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| As at 1 January | 247,011 | 170,008 | 301,219 | 214,830 |
| Provision made during the year | | | | |
| Statement of Profit or Loss [Note 40.1 (a)] | 53,988 | 44,101 | 62,199 | 53,487 |
| Other Comprehensive Income [Note 40.1 (a)] | (26,160) | 60,348 | (31,238) | 60,348 |
| Contribution made for retirement gratuity | 27,828 | 104,449 | 30,961 | 113,835 |
| Benefits paid by the plan | (22,014) | (27,446) | (35,028) | (27,446) |
| As at 31 December | 252,825 | 247,011 | 297,152 | 301,219 |
| 40.1 (a) Contributions Made for Retirement Gratuity | | | | |
| Current service cost | 31,757 | 25,400 | 36,259 | 25,400 |
| Interest cost | 22,231 | 18,701 | 25,940 | 28,087 |
| Amount recognised in the Statement of Profit or Loss | 53,988 | 44,101 | 62,199 | 53,487 |
| Recognition of transitional liability/(asset) | – | 38,540 | (5,782) | 38,540 |
| Liability experience losses/(gains) | (7,337) | 21,808 | (1,969) | 21,808 |
| Liability loss/(gain) due to changes in assumptions | (18,823) | – | (23,487) | – |
| Amount recognised in the Other Comprehensive Income | (26,160) | 60,348 | (31,238) | 60,348 |

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 2015 and 31 December 2014 by Messrs Piyal S Goonetilleke and Associates, a professional Actuary.

The valuation method used by the Actuary to value the Liability was the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 – 'Employee Benefits'.

| | 31 December 2015 | 31 December 2014 |
|------------------------------|--|--|
| Actuarial Assumptions | | |
| Discount rate | 10.75% | 9% |
| Salary increment rate | 8% | 7% |
| 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 | | | |
|---|---|--|--|--|--|
| | | 2015 | | 2014 | |
| 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 | | 21.83 | (21.83) | 21.79 | (21.79) |
| (-1) | | (25.23) | 25.23 | (25.27) | 25.27 |
| | 1 | (24.92) | 24.92 | (24.78) | 24.78 |
| | (-1) | 21.94 | (21.94) | 21.76 | (21.76) |

40.1 (c) The Expected Benefit Payout in the Future Years for Retirement Gratuity

| | 2015 LKR '000 | 2014 LKR '000 |
|---------------------------|------------------|------------------|
| Within the next 12 months | 38,521 | 18,052 |
| Between 2 and 5 years | 188,656 | 176,414 |
| Beyond 5 years | 412,265 | 325,703 |

The expected benefits are estimated, based on the same assumptions used to measure the benefit obligation of the Bank and the Group, 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 (2014 – 12.5 years).

40.2 Pension Fund

The amount recognized in the Statement of Financial Position is as follows:

| | BANK & GROUP | |
|--|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 |
| Present value of the funded obligation as at 31 December | 616,578 | 604,818 |
| Fair value of plan assets as at 31 December | (724,713) | (670,398) |
| Retirement Benefit (Asset)/Liability* | (108,135) | (65,580) |

* The overpayment is recognized as prepaid expenses in Other Assets.

40.2 (a) Contribution Made to the Pension Fund

| | BANK & GROUP | |
|---|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 |
| Current service cost | 19,613 | 18,753 |
| Interest cost | (4,329) | (11,590) |
| Amount recognized in the Statement of Profit or Loss | 15,284 | 7,163 |
| Assets loss/(gain) arising during the year | 20,985 | 23,508 |
| Liability experience loss | 38,908 | 10,612 |
| Liability loss/(gain) due to changes in assumptions | (66,089) | 16,751 |
| Difference between the return on plan assets and interest income on plan assets | (19,443) | (6,391) |
| Effect of net assets recognition in the pension fund | (42,554) | 34,907 |
| Amount recognised in the Other Comprehensive Income | (68,193) | 79,387 |

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 2015 and 31 December 2014 by Messrs Piyal S Goonetilleke Associates, a professional Actuary.

The valuation method used by the Actuary to value the Fund is the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 – 'Employee Benefits'.

| | 31 December 2015 | 31 December 2014 |
|------------------------------|----------------------------|----------------------------|
| Actuarial Assumptions | | |
| Discount rate | 11.80% | 10% |
| Salary increment | 8% | 6% |
| Annual return on assets rate | 6% | 7% |
| Mortality | UP 1984 Mortality Table | UP 1984 Mortality Table |
| Retirement age | Normal retirement age | Normal retirement age |

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 | | | | | |
|--|--|--|--|--|--|
| | | 2015 | | 2014 | |
| 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 | | 50.29 | (50.29) | 54.73 | (54.73) |
| (-1) | | (58.24) | 58.24 | (64.26) | 64.26 |
| | 1 | (19.86) | 19.86 | (21.03) | 21.03 |
| | (-1) | 18.60 | (18.60) | 19.57 | (19.57) |

| | | 2015 | | 2014 | |
|--|--|--|--|--|--|
| Increase/(Decrease) in Life Expectancy | | 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 Year | | (6.79) | 6.79 | (7.81) | 7.81 |
| -1 Year | | 7.08 | (7.08) | 8.10 | (8.10) |

The fair value of the total plan assets are as follows:

| | 2015 LKR '000 | 2014 LKR '000 |
|-------------------------------------|------------------|------------------|
| Investment in Government Securities | 35,000 | 537,270 |
| Investment in Fixed Deposits | 123,459 | 113,500 |
| | 158,459 | 650,770 |

40.2 (c) The Expected Benefit Payout from the Pension Fund in Future Years

| | 2015 LKR '000 | 2014 LKR '000 |
|---------------------------|------------------|------------------|
| Within the next 12 months | 41,804 | 32,866 |
| Between 2 and 5 years | 210,926 | 202,991 |
| Beyond 5 years | 506,011 | 432,625 |

The expected benefits are based on the same assumptions used to measure the Bank's benefit obligation at the end of the year and include benefits attributable to estimated future employee service.

The average duration of the defined benefit obligation was 24 years as at 31 December 2015 (2014 – 24 years).

40.2 (d) The Total Amount Recognized in the Other Comprehensive Income Relating to the Employee Benefit Liabilities

| | BANK | | GROUP | |
|-------------------------------------|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Retirement Gratuity [Note 40.1 (a)] | (26,160) | 60,348 | (31,238) | 60,348 |
| Pension Fund [Note 40.2 (a)] | (68,193) | 79,387 | (68,193) | 79,387 |
| Total | (94,353) | 139,735 | (99,431) | 139,735 |

41. OTHER LIABILITIES

ACCOUNTING POLICY

Other liabilities include other financial liabilities and other non-financial liabilities. Other non-financial liabilities include fees, expenses and 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 summarized below:

| | BANK | | GROUP | |
|---|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Other financial liabilities (Note 41.1) | 2,889,782 | 2,423,677 | 2,893,671 | 2,423,677 |
| Other non-financial liabilities (Note 41.2) | 4,831,027 | 3,752,970 | 5,042,068 | 3,937,165 |
| Total | 7,720,809 | 6,176,647 | 7,935,739 | 6,360,842 |

41.1 Other Financial Liabilities

| | | | | |
|--------------------------------|------------------|------------------|------------------|------------------|
| Unpresented cheques/pay orders | 2,883,208 | 2,387,210 | 2,887,096 | 2,387,210 |
| Others | 6,574 | 36,467 | 6,575 | 36,467 |
| Total | 2,889,782 | 2,423,677 | 2,893,671 | 2,423,677 |

41.2 Other Non-Financial Liabilities

| | | | | |
|-----------------------------------|------------------|------------------|------------------|------------------|
| Accrued expenses | 616,237 | 571,246 | 829,498 | 772,639 |
| Provision for deposit insurance | 42,417 | 34,250 | 42,417 | 34,250 |
| Dividend payable (Note 41.3) | 60,014 | 51,428 | 60,014 | 51,428 |
| Other liabilities [Note 41.2 (a)] | 4,112,359 | 3,096,046 | 4,110,139 | 3,078,848 |
| Total | 4,831,027 | 3,752,970 | 5,042,068 | 3,937,165 |

41.2. (a) Other liabilities include the amounts due to the staff Pension Fund and Sundry Creditors.

41.3 Dividend Payable

| | BANK & GROUP | |
|---|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 |
| Balance as at 1 January | 51,428 | 40,657 |
| Final dividend declared for the prior year | 660,376 | 824,245 |
| Interim dividend declared for the current year | 1,156,171 | 1,155,587 |
| Reversal of dividends declared in prior years [Note 41.3 (a)] | (1,098) | (2,299) |
| Dividend paid | (1,806,863) | (1,966,762) |
| As at 31 December | 60,014 | 51,428 |

41.3 (a) Reversal of Dividends Declared in Prior Years

Reversal of dividends declared in previous years, represent unclaimed dividends which are written back after six years.

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. 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 | |
|--|-------------------|-------------------|
| | 2015 LKR '000 | 2014 LKR '000 |
| As at 1 January | 11,149,439 | 11,682,674 |
| Additions during the year | 8,922,617 | – |
| Redemptions during the year | (511,650) | (563,082) |
| Balance before adjusting for amortized interest | 19,560,406 | 11,119,592 |
| Net effect on amortized interest payable | 13,477 | 29,847 |
| As at 31 December (Note 42.1) | 19,573,883 | 11,149,439 |

42.1 Subordinated Term Debts – by Product

| | Repayment Terms | Issued Date | Maturity Date | Rate of Interest % | Amount In FCY | BANK & GROUP | |
|--|-----------------|--------------|----------------------------|---|----------------|------------------|------------------|
| | | | | | | 2015 LKR '000 | 2014 LKR '000 |
| 42.1 (a) Term Loans | | | | | | | |
| Nederland's Financierings Maatschappij Voor Ontwikkelingslanden N.V. (FMO) | | | | | | | |
| FMO Loan I | Semi Annually | 20 Jan. 2006 | Fully settled on Feb. 2015 | AWDR 6 months +5% | EUR 7,500,000 | – | 190,797 |
| 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 | 666,877 | 1,000,911 |
| Total (a) | | | | | | 666,877 | 1,191,708 |

| | Interest Payable Frequency | Issued Date | Maturity Date | BANK & GROUP | |
|--|--|------------------|------------------|-------------------|-------------------|
| | | | | 2015 LKR '000 | 2014 LKR '000 |
| 42.1 (b) Debentures | | | | | |
| Fixed Rate Debenture Issuance – December 2013 | | | | | |
| Type A – 13.0% – (60 Months) | Semi Annually | 19 December 2013 | 18 December 2018 | 1,238,493 | 1,242,526 |
| Type B – 13.40% – (60 Months) | Annually | 19 December 2013 | 18 December 2018 | 1,523,517 | 1,522,148 |
| Type C – 13.90% – (120 Months) | Annually | 19 December 2013 | 18 December 2023 | 3,621,915 | 3,620,874 |
| Type D – 14.00% – (144 Months) | Annually | 19 December 2013 | 18 December 2025 | 3,572,947 | 3,572,183 |
| Total (b) | | | | 9,956,872 | 9,957,731 |
| Fixed Rate Debenture Issuance – June 2015 | | | | | |
| Type A – 9.40% – (60 Months) | Annually | 24 June 2015 | 24 June 2020 | 6,958,142 | – |
| Type B – Zero coupon – (60 months) | 9.40% Annual compounding on the Issue Price of LKR 63.8136 payable on the Date of Redemption | 24 June 2015 | 24 June 2020 | 1,991,992 | – |
| Total (c) | | | | 8,950,134 | – |
| Total subordinated term debts (a)+(b)+(c) | | | | 19,573,883 | 11,149,439 |
| The maturity of the subordinated term debts are given below: | | | | | |
| Due within one year | | | | 340,177 | 511,650 |
| Due after one year | | | | 19,233,706 | 10,637,789 |
| | | | | 19,573,883 | 11,149,439 |

43. CAPITAL

| | BANK | | | | GROUP | | | |
|---|--------------------|------------------|--------------------|------------------|--------------------|------------------|--------------------|------------------|
| | Number of Shares | 2015 LKR '000 | Number of Shares | 2014 LKR '000 | Number of Shares | 2015 LKR '000 | Number of Shares | 2014 LKR '000 |
| Issued and fully paid | 165,093,922 | 1,225,162 | 164,693,034 | 1,172,904 | 164,600,914 | 1,145,353 | 160,559,308 | 943,746 |
| Adjustment on Employee Share Ownership Plan | – | – | – | – | – | – | 4,131,850 | 229,158 |
| Adjustment on Equity Linked Compensation Plan | – | – | – | – | – | – | (491,132) | (79,809) |
| Transfer from share based payment reserve | – | 5,653 | – | – | – | 5,653 | – | – |
| Issue of shares under the Equity Linked Compensation Plan [Note 43.2 (d)] | 73,420 | 11,957 | 400,888 | 52,258 | 73,420 | 11,957 | 400,888 | 52,258 |
| Total | 165,167,342 | 1,242,772 | 165,093,922 | 1,225,162 | 164,674,334 | 1,162,963 | 164,600,914 | 1,145,353 |

| | BANK & GROUP | | | |
|----------------------------|--------------------|------------------|--------------------|------------------|
| | Number of Shares | 2015 LKR '000 | Number of Shares | 2014 LKR '000 |
| 43.1 Stated Capital | 165,167,342 | 1,242,772 | 165,093,922 | 1,225,162 |

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 grants and the share options made available to the relevant staff members are given below:

| | 2015 | 2014 |
|---|---------|---------|
| Share Grant | | |
| Award 01 – (1 July 2010) – vested on 30 June 2014 | | |
| Number of ordinary shares awarded and vested | – | – |
| Award 04 – (1 July 2013) – to be vested on 30 June 2016 | | |
| Number of ordinary shares awarded and to be vested | 491,132 | 491,132 |
| Share Option | | |
| Award 01 – (1 July 2010) – exercised during 1 July 2011 to 30 June 2014 | | |
| Number of ordinary shares allocated at a price of LKR 124.21 | – | 491,132 |
| Number of ordinary shares exercised at a price of LKR 124.21 | – | 337,146 |
| Number of ordinary shares cancelled | – | 153,986 |
| Award 04 – (1 July 2013) – exercisable from 1 July 2014 to 30 June 2017 | | |
| Number of ordinary shares exercisable as at 1 January | 427,390 | 491,132 |
| Number of ordinary shares exercised at a price of LKR 162.86 | 73,420 | 63,742 |
| Number of ordinary shares to be exercised | 353,970 | 427,390 |
| 43.2 (b) Expense Arising from ELCP Recognised in the Statement of Profit or Loss | 27,248 | 46,504 |
| 43.2 (c) The Following Tables List the Inputs to the Models used for the Award 04 (Option Plan): | | |
| Expected volatility (%) | 2 | |
| Risk-free interest rate (%) | 7.50 | |
| Expected life of share options (years) | 3 | |
| Exercise share price (LKR) | 162.86 | |

43.2 (d) Number of ordinary shares issued to the eligible staff members during the year as per the ELCP is given below:

| | BANK & GROUP | | | |
|--------------------------|---------------------|------------------|---------------------|------------------|
| | Number of Shares | 2015 LKR '000 | Number of Shares | 2014 LKR '000 |
| Award 01 – (1 July 2010) | – | – | 337,146 | 41,877 |
| Award 04 – (1 July 2014) | 73,420 | 11,957 | 63,742 | 10,381 |
| | 73,420 | 11,957 | 400,888 | 52,258 |

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 | |
|--|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| As at 1 January | 1,010,785 | 958,527 | 1,010,785 | 958,527 |
| Transferred from retained earnings (Note 45) | 231,987 | 52,258 | 231,987 | 52,258 |
| As at 31 December | 1,242,772 | 1,010,785 | 1,242,772 | 1,010,785 |

45. RETAINED EARNINGS

| | 2015 | | | 2014 | | |
|--|-----------------------------|-------------------------------|-------------------|-----------------------------|-------------------------------|-------------------|
| | General Reserve LKR '000 | Retained Earnings LKR '000 | Total LKR '000 | General Reserve LKR '000 | Retained Earnings LKR '000 | Total LKR '000 |
| BANK | | | | | | |
| As at 1 January | 5,805,707 | 12,819,737 | 18,625,444 | 5,805,707 | 9,847,553 | 15,653,260 |
| Super Gain Tax | - | (732,081) | (732,081) | - | - | - |
| Adjusted opening balance as at 1 January | 5,805,707 | 12,087,656 | 17,893,363 | 5,805,707 | 9,847,553 | 15,653,260 |
| Total comprehensive income for the year | - | 3,598,459 | 3,598,459 | - | 3,295,226 | 3,295,226 |
| Transferred from investment fund account | - | - | - | - | 1,706,751 | 1,706,751 |
| Transferred to statutory reserve fund | - | (231,987) | (231,987) | - | (52,258) | (52,258) |
| Dividends to equity holders | - | (1,815,450) | (1,815,450) | - | (1,977,535) | (1,977,535) |
| As at 31 December | 5,805,707 | 13,638,678 | 19,444,385 | 5,805,707 | 12,819,737 | 18,625,444 |

| | 2015 | | | 2014 | | |
|---|-----------------------------|-------------------------------|-------------------|-----------------------------|-------------------------------|-------------------|
| | General Reserve LKR '000 | Retained Earnings LKR '000 | Total LKR '000 | General Reserve LKR '000 | Retained Earnings LKR '000 | Total LKR '000 |
| GROUP | | | | | | |
| As at 1 January | 5,805,707 | 18,440,117 | 24,245,824 | 5,805,707 | 14,926,094 | 20,731,801 |
| Super Gain Tax | - | (833,548) | (833,548) | - | - | - |
| Adjusted opening balance as at 1 January | 5,805,707 | 17,606,569 | 23,412,276 | 5,805,707 | 14,926,094 | 20,731,801 |
| Total comprehensive income for the year | - | 3,644,798 | 3,644,798 | - | 4,011,426 | 4,011,426 |
| Transferred from investment fund account | - | - | - | - | 1,706,751 | 1,706,751 |
| Adjustment due to changes in group companies | - | (33,662) | (33,662) | - | - | - |
| Adjustment on employee share ownership plan | - | - | - | - | (161,059) | (161,059) |
| Adjustment on equity linked compensation plan | - | - | - | - | (13,302) | (13,302) |
| Transferred to statutory reserve fund | - | (231,987) | (231,987) | - | (52,258) | (52,258) |
| Dividends to equity holders | - | (1,815,450) | (1,815,450) | - | (1,977,535) | (1,977,535) |
| As at 31 December | 5,805,707 | 19,170,268 | 24,975,975 | 5,805,707 | 18,440,117 | 24,245,824 |

46. OTHER RESERVES

| Current Year 2015 | 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 |
| Revaluation reserve (Note 46.1) | 853,456 | – | 853,456 | 853,456 | 95,339 | 948,795 |
| Available-for-sale reserve (Note 46.2) | 105,250 | (312,527) | (207,277) | 162,355 | (301,914) | (139,559) |
| Share based payment reserve (Note 46.3) | 20,243 | (5,653) | 14,590 | 60,148 | 20,950 | 81,098 |
| Cash flow hedge reserve [Note 22.1 (c)] | 397,852 | (287,692) | 110,160 | 397,852 | (287,692) | 110,160 |
| Total | 1,376,801 | (605,872) | 770,929 | 1,473,811 | (473,317) | 1,000,494 |

| Previous Year 2014 | 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 |
| 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 | 1,706,751 | (1,706,751) | – | 1,706,751 | (1,706,751) | – |
| Share based payment reserve (Note 46.3) | 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 |

46.1 Revaluation Reserve

| | BANK | | GROUP | |
|---|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| As at 1 January | 853,456 | – | 853,456 | – |
| Surplus on revaluation of freehold land and building | – | 1,084,185 | – | 1,084,185 |
| Adjustment for revaluation of owner occupied portion of investment property | – | – | 95,339 | – |
| Deferred tax effect on revaluation surplus of freehold building | – | (230,729) | – | (230,729) |
| As at 31 December | 853,456 | 853,456 | 948,795 | 853,456 |

The Bank carried out a revaluation of all its freehold lands and buildings as at 31 December 2014 and the resulting revaluation surplus was LKR 1,084 million as at 31 December 2015 (Note 34).

46.2 Available-for-Sale Reserve

| | BANK | | GROUP | |
|--|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| As at 1 January | 105,250 | 106,669 | 162,355 | 150,614 |
| Net gains/(losses) on re-measuring financial investments – available-for-sale | (363,461) | 459,062 | (380,673) | 472,222 |
| Fair value gains/(losses) realised and reclassified to the Statement of Profit or Loss during the year | (27,825) | (494,172) | – | (494,172) |
| Add: Tax effect on available-for-sale reserve | 78,759 | 33,691 | 78,759 | 33,691 |
| | (312,527) | (1,419) | (301,914) | 11,741 |
| As at 31 December | (207,277) | 105,250 | (139,559) | 162,355 |

The available-for-sale reserve comprises the cumulative net change in fair value of financial investments available-for-sale, until such investments are derecognized or impaired.

46.3 Share Based Payment Reserve

| | BANK | | GROUP | |
|---|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| As at 1 January | 20,243 | 22,367 | 60,148 | 22,367 |
| Adjustments | – | (2,124) | 26,603 | 37,781 |
| Capitalisation of the fair value of the options exercised | (5,653) | – | (5,653) | – |
| As at 31 December | 14,590 | 20,243 | 81,098 | 60,148 |

The share based payment reserve represents the fair value of the options available as per the Equity Linked Compensation Plan (Note 43.2).

47. NON-CONTROLLING INTERESTS**ACCOUNTING POLICY**

Non-controlling interests represent the portion of profit or 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 it is 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 | |
|--|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 |
| Balance as at 1 January | 922,646 | 847,848 |
| Super Gain Tax | (21,123) | – |
| Adjusted opening balance as at 1 January 2015 | 901,523 | 847,848 |
| Profit for the year | 128,055 | 112,040 |
| Other comprehensive income, net of tax | 5,573 | 149 |
| Adjustment due to changes in group companies | 24,645 | – |
| Dividends to equity holders | (41,283) | (37,391) |
| Balance as at 31 December | 1,018,513 | 922,646 |

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 of that loans/contingent liabilities and are not recognized in the Statement of Financial Position but are disclosed unless they are remote.

48.1 Business Commitments

| | BANK | | GROUP | |
|--|--------------------|--------------------|--------------------|--------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Contingencies | | | | |
| Guarantees | 18,270,312 | 15,584,522 | 17,435,312 | 15,586,541 |
| Performance bonds | 8,614,302 | 6,503,688 | 8,614,302 | 6,503,688 |
| Documentary credits | 8,132,261 | 7,521,595 | 8,132,261 | 7,521,595 |
| Other contingencies (Refer Note 48 .1 (a)) | 92,081,612 | 107,596,800 | 92,081,612 | 107,596,800 |
| Commitments | | | | |
| Undrawn commitments | 110,649,926 | 93,937,028 | 112,326,086 | 93,940,238 |
| Total | 237,748,413 | 231,143,633 | 238,589,573 | 231,148,862 |

48.1 (a) Other Contingencies

| | BANK | | GROUP | |
|-------------------------------|-------------------|--------------------|-------------------|--------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Forward exchange contracts | 79,090,652 | 83,183,409 | 79,090,652 | 83,183,409 |
| Interest rate Swap agreements | 5,370,000 | 17,264,625 | 5,370,000 | 17,264,625 |
| Acceptances | 7,620,960 | 7,148,766 | 7,620,960 | 7,148,766 |
| Sub Total | 92,081,612 | 107,596,800 | 92,081,612 | 107,596,800 |

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 | |
|---|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Commitments in relation to property, plant & equipment | | | | |
| Approved and contracted for | 64,680 | 41,040 | 64,680 | 41,040 |
| Approved and not contracted for | 144,620 | 104,160 | 144,620 | 104,160 |
| Sub Total | 209,300 | 145,200 | 209,300 | 145,200 |
| Commitments in relation to intangible assets | | | | |
| Approved and contracted for | 103,300 | 44,200 | 103,300 | 44,200 |
| Total | 312,600 | 189,400 | 312,600 | 189,400 |

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 at the date of the Statement of Financial Position, twenty-four 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.

48.4 Tax Assessments Against the Bank/Group Companies

The following tax assessments are outstanding, against which the Bank/Group Companies have duly appealed.

1. The income tax assessment received by the Bank for the Year of Assessment 2010-2011, which was determined by the Commissioner General of Inland Revenue amounting to LKR 108.1 million will be forwarded to the Tax Appeal Commission for their determination.
2. The assessments on income tax received by the Bank for the Years of Assessments 2011-2012 and 2012-2013 amounting to LKR 620.5 million and the assessments on VAT on financial services for the years 2012 and 2013 amounting to LKR 302.6 million are to be determined by the Commissioner General of Inland Revenue.
3. The assessments on VAT on financial services issued to NDB Capital Holdings Ltd. for the years 2012 and 2013 amounting to LKR 183.8 million. The Company has taken up the position that it is not in the business of provision of loans, and thereby do not carry out financial services, as charged in the assessments.

The Bank and the Group Companies are of the view that the above assessments will not have any material adverse impact on the Financial Statements.

49. NET ASSETS VALUE PER ORDINARY SHARE

| | BANK | | GROUP | |
|--|---------------|---------------|---------------|---------------|
| | 2015 | 2014 | 2015 | 2014 |
| Amount used as the Numerator: | | | | |
| Total equity attributable to equity holders of the Bank (LKR '000) | 22,700,858 | 22,238,192 | 28,382,204 | 27,875,773 |
| Number of ordinary shares used as the Denominator: | | | | |
| Total number of shares ('000) | 165,167,342 | 165,093,922 | 164,674,334 | 164,600,914 |
| Net assets value per share (LKR) | 137.44 | 134.70 | 172.35 | 169.35 |

50. MATURITY GAP ANALYSIS

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, are as follows:

| As at 31 December 2015 | BANK | | Total LKR '000 |
|---|------------------------------|-----------------------------|--------------------|
| | Within 12 Months LKR '000 | After 12 Months LKR '000 | |
| Assets | | | |
| Cash and cash equivalents | 11,821,503 | – | 11,821,503 |
| Balance with the Central Bank of Sri Lanka | 6,805,961 | 193,937 | 6,999,898 |
| Placements with banks | 1,153,619 | – | 1,153,619 |
| Derivative financial instruments | 1,903,573 | – | 1,903,573 |
| Financial assets held-for-trading | 2,985,262 | – | 2,985,262 |
| Loans and receivables to banks | 64,397 | 38,235 | 102,632 |
| Loans and receivables to other customers | 121,569,050 | 88,033,019 | 209,602,069 |
| Financial investments - loans and receivables | 35,830,311 | – | 35,830,311 |
| Financial investments – available-for-sale | 28,501,518 | – | 28,501,518 |
| Financial investments – held-to-maturity | 1,388,981 | 3,047,992 | 4,436,973 |
| Investments – held-for-sale | 18,526 | – | 18,526 |
| Investments in subsidiary companies | – | 2,104,117 | 2,104,117 |
| Intangible assets | – | 240,234 | 240,234 |
| Property, plant & equipment | – | 2,030,005 | 2,030,005 |
| Other assets | 705,770 | 721,595 | 1,427,365 |
| Total Assets | 212,748,471 | 96,409,134 | 309,157,605 |
| Liabilities | | | |
| Due to banks | 11,620,003 | – | 11,620,003 |
| Derivative financial instruments | 639,272 | – | 639,272 |
| Due to other customers | 179,809,515 | 5,123,715 | 184,933,230 |
| Debt securities issued and other borrowed funds | 30,367,708 | 30,160,136 | 60,527,844 |
| Tax liabilities | 486,503 | – | 486,503 |
| Deferred tax liabilities | – | 702,378 | 702,378 |
| Employee benefit liabilities | – | 252,825 | 252,825 |
| Other liabilities | 5,190,512 | 2,530,297 | 7,720,809 |
| Subordinated term debts | 304,815 | 19,269,068 | 19,573,883 |
| Total Liabilities | 228,418,328 | 58,038,419 | 286,456,747 |
| Net | (15,669,857) | 38,370,715 | 22,700,858 |

| As at 31 December 2014 | BANK | | |
|---|------------------------------|-----------------------------|--------------------|
| | 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 the Central Bank of Sri Lanka | 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 | 18,526 | – | 18,526 |
| 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 | 661,901 | 791,831 | 1,453,732 |
| 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 |

| As at 31 December 2015 | GROUP | | |
|---|------------------------------|-----------------------------|--------------------|
| | Within 12 Months LKR '000 | After 12 Months LKR '000 | Total LKR '000 |
| Assets | | | |
| Cash and cash equivalents | 11,848,575 | – | 11,848,575 |
| Balance with the Central Bank of Sri Lanka | 6,805,961 | 193,937 | 6,999,898 |
| Placements with banks | 1,153,619 | – | 1,153,619 |
| Derivative financial instruments | 1,903,573 | – | 1,903,573 |
| Financial assets held-for-trading | 5,229,493 | – | 5,229,493 |
| Loans and receivables to banks | 64,397 | 38,235 | 102,632 |
| Loans and receivables to other customers | 121,561,396 | 88,104,165 | 209,665,561 |
| Financial investments – loans and receivables | 35,875,665 | 1,493,040 | 37,368,705 |
| Financial investments – available-for-sale | 28,964,820 | – | 28,964,820 |
| Financial investments – held-to-maturity | 1,874,998 | 3,785,870 | 5,660,868 |
| Investments – held-for-sale | 33,302 | – | 33,302 |
| Investments Property | – | 1,672,000 | 1,672,000 |
| Intangible assets | – | 274,746 | 274,746 |
| Property, plant & equipment | – | 2,454,883 | 2,454,883 |
| Other assets | 1,299,463 | 721,595 | 2,021,058 |
| Total Assets | 216,615,262 | 98,738,471 | 315,353,733 |
| Liabilities | | | |
| Due to banks | 11,620,003 | – | 11,620,003 |
| Derivative financial instruments | 639,272 | – | 639,272 |
| Due to other customers | 179,028,565 | 5,123,715 | 184,152,280 |
| Debt securities issued and other borrowed funds | 30,337,708 | 30,160,136 | 60,497,844 |
| Tax liabilities | 524,020 | – | 524,020 |
| Deferred tax liabilities | – | 712,823 | 712,823 |
| Employee benefit liabilities | – | 297,152 | 297,152 |
| Other liabilities | 5,405,442 | 2,530,297 | 7,935,739 |
| Subordinated term debts | 304,815 | 19,269,068 | 19,573,883 |
| Total Liabilities | 227,859,825 | 58,093,191 | 285,953,016 |
| Net | (11,244,563) | 40,645,280 | 29,400,717 |

| 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 the Central Bank of Sri Lanka | 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 | 33,302 | – | 33,302 |
| 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 | 1,084,507 | 791,827 | 1,876,334 |
| 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 |

51. 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 2015 and 2014.

| For the period ended 31 December | Banking | | Capital Markets | | Property Investment | | Others | | Consolidated | |
|---|------------------|------------------|------------------|------------------|---------------------|------------------|------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Revenue | | | | | | | | | | |
| Interest Income | 21,167,848 | 20,974,578 | 242,616 | 177,398 | - | - | - | - | 21,410,464 | 21,151,976 |
| Net Fee and Commission Income | 2,016,260 | 1,866,242 | 858,034 | 509,825 | 124,355 | 90,080 | 116,178 | - | 3,114,827 | 2,466,147 |
| Foreign exchange profit | 1,088,464 | 910,027 | - | - | - | - | - | - | 1,088,464 | 910,027 |
| Net gain/(loss) from financial investments | 262,048 | 716,507 | 231,691 | 176,377 | - | - | - | - | 493,739 | 892,884 |
| Other Income | 425,767 | 328,197 | 192,813 | 195,447 | 126,307 | 162,000 | - | - | 744,887 | 685,644 |
| Total revenue from external customers | 24,960,387 | 24,795,551 | 1,525,154 | 1,059,047 | 250,662 | 252,080 | 116,178 | - | 26,852,381 | 26,106,678 |
| Inter-segment Revenue | - | - | 14,405 | 56,130 | 49,077 | 41,818 | - | - | 63,482 | 97,948 |
| Total Revenue | 24,960,387 | 24,795,551 | 1,539,559 | 1,115,177 | 299,739 | 293,898 | 116,178 | - | 26,915,863 | 26,204,626 |
| Impairment (charge)/reversal for loans & other losses | (711,833) | (566,003) | (34,312) | - | - | - | - | - | (746,145) | (566,003) |
| Segment expenses | (19,674,136) | (18,510,469) | (767,152) | (560,674) | (13,147) | (40,748) | - | - | (20,454,435) | (19,111,891) |
| Total segment expenses | (20,385,969) | (19,076,472) | (801,464) | (560,674) | (13,147) | (40,748) | - | - | (21,200,580) | (19,677,894) |
| Segment Results | 4,574,418 | 5,719,079 | 738,095 | 554,503 | 286,592 | 253,150 | 116,178 | - | 5,715,283 | 6,526,732 |
| Share of associate companies' profit before taxation | - | - | - | - | - | - | 77,818 | 97,274 | 77,818 | 97,274 |
| Taxation | - | - | - | - | - | - | - | - | (1,212,564) | (1,348,784) |
| Tax on financial services | - | - | - | - | - | - | - | - | (910,442) | (1,029,250) |
| Profit after taxation | - | - | - | - | - | - | - | - | 3,670,095 | 4,245,972 |
| Other Information | | | | | | | | | | |
| Segment assets | 308,629,425 | 262,689,237 | 4,800,410 | 4,796,767 | 1,821,766 | 1,610,299 | 68,830 | - | 315,320,431 | 269,096,303 |
| Investments – Held-for-sale | - | - | - | - | - | - | 33,302 | 33,302 | 33,302 | 33,302 |
| Consolidated total assets | - | - | - | - | - | - | - | - | 315,353,733 | 269,129,605 |
| Segment liabilities | 286,118,047 | 240,111,004 | (182,918) | 155,925 | 11,411 | 64,257 | 6,476 | - | 285,953,016 | 240,331,186 |
| Consolidated total liabilities | - | - | - | - | - | - | - | - | 285,953,016 | 240,331,186 |
| Segmental Cash Flows | | | | | | | | | | |
| Cash flows from operating activities | 3,722,421 | (9,321,209) | (212,671) | 15,158 | 75,219 | 123,558 | (31,363) | - | 3,553,606 | (9,182,493) |
| Cash flows from investing activities | (5,761,439) | (17,240,344) | 22,087 | 6,939 | 17,760 | (7,830) | (5,396) | - | (5,726,988) | (17,241,235) |
| Cash flows from financing activities | 9,565,397 | 30,915,369 | 56,026 | 62,211 | (97,310) | (87,578) | 33,075 | - | 9,557,188 | 30,890,002 |

52. RELATED PARTY DISCLOSURES

52.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

52.2 Terms and Conditions

The Bank carries out transactions with Key Management Personnel 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 which are uniformly applicable to all the staff.

52.3 Key Management Personnel (KMPs) of the Bank and the Group

KMPs 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. Key Management Personnel include the members of the Board of Directors of the Bank (including the Executive and Non-Executive) and the Group Chief Financial Officer.

KMPs of the Group

The Bank is the ultimate parent of the subsidiaries listed out on page 307. The Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. Accordingly, the Board of Directors of the Bank (including Executive and Non-Executive) and the Group Chief Financial Officer are also KMPs of the Group.

52.3.1 Compensation to Key Management Personnel of the Bank and the Group.

| | 2015 LKR '000 | 2014 LKR '000 |
|---|------------------|------------------|
| Short-term employee benefits | 81,819 | 55,500 |
| Directors' fees and allowances | 27,905 | 32,360 |
| Post-employment benefits (defined benefit plan) | 7,086 | 4,968 |
| | 116,810 | 92,828 |

The amounts disclosed above are the amounts recognised as an expense during the reporting period relating to Key Management Personnel.

In addition to the remuneration, the Bank has also provided non-cash benefits to Key Management Personnel in line with the approved benefit plan of the Bank.

52.3.2 Share Based Payments to Key Management Personnel of the Bank.

| | 2015 | 2014 |
|---|--------|--------|
| Share Grant | | |
| Award 04 – (1 July 2013) | | |
| No. of ordinary shares awarded and to be vested | 23,452 | 23,452 |

Share Option

Share options held by Key Management Personnel under the Equity Linked Compensation Plan (ELCP) to purchase ordinary shares have the following expiry dates and exercise prices.

| | Issue date | Expiry date | Exercise Price | 2015 | 2014 |
|---|------------|-------------|----------------|--------|--------|
| Award 04 | 01.07.2013 | 30.06.2017 | 162.86 | | |
| No. of shares allocated and outstanding | | | | 23,452 | 23,452 |

52.3.3 Key Management Personnel of the Bank and their Close Family Members had the following related party transactions during the year.

| | Limit | | Outstanding Balance | | Average Balance | |
|---|------------------|------------------|---------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Items in the Statement of Financial Position | | | | | | |
| Assets | | | | | | |
| Loans and receivables | 4,559 | – | 4,559 | – | 3,437 | 3 |
| Credit cards | 1,500 | 1,000 | 236 | – | 158 | 65 |
| | 6,059 | 1,000 | 4,795 | – | 3,595 | 68 |
| Liabilities | | | | | | |
| Deposits | | | 280,535 | 222,346 | 247,825 | 187,543 |
| Debt securities and other borrowings | | | 52,432 | 82,936 | 105,657 | 58,190 |
| | | | 332,967 | 305,282 | 353,482 | 245,733 |
| Items in the Statement of Profit or Loss | | | | | | |
| Interest income | | | 114 | – | | |
| Interest expenses | | | 24,718 | 30,142 | | |
| Fee and commission income | | | 103 | 16 | | |
| Dividends paid | | | 44,060 | 47,939 | | |

Share investments in the Bank, by the Key Management Personnel of the Bank and their Close Family Members are given below:

| | Number Outstanding | |
|---|--------------------|-----------|
| | 2015 | 2014 |
| Investments in ordinary shares (including the shares held in the slash account) | 4,004,974 | 3,994,906 |

52.3.4 Transactions involving entities which are controlled/jointly controlled by the Key Management Personnel of the Bank and their Close Family Members.

| | Outstanding Balance | | Average Balance | |
|---|---------------------|-----------------|-----------------|-----------------|
| | 2015 LKR'000 | 2014 LKR'000 | 2015 LKR'000 | 2014 LKR'000 |
| Items in the Statement of Financial Position | | | | |
| Assets | | | | |
| Loans and receivables | 1 | 35 | 173 | 26,732 |
| Liabilities | | | | |
| Deposits | 13,436 | 343,123 | 51,657 | 264,476 |
| Debt securities and other borrowings | 120,000 | 232,500 | 47,426 | 68,292 |
| | 133,436 | 575,623 | 99,083 | 332,768 |
| Items in the Statement of Profit or Loss | | | | |
| Interest income | 75 | 7,804 | | |
| Interest expenses | 3,323 | 34,431 | | |
| Fee and commission income | 225 | 607 | | |
| Capital expenditure and services rendered | 83,137 | 75,846 | | |
| Dividends paid | 121,486 | 132,530 | | |

Share investments in the Bank, by the entities which are controlled/jointly controlled by the Key Management Personnel of the Bank and their Close Family Members are given below:

| | Number Outstanding | |
|--------------------------------|--------------------|------------|
| | 2015 | 2014 |
| Investments in ordinary shares | 11,044,177 | 11,044,177 |

52.4 Transactions with the Government of Sri Lanka and its Related Entities

The Bank enters into transactions, arrangements and agreements with the Government of Sri Lanka and its related entities.

52.4.1 The financial dealings carried out with the Government of Sri Lanka and its related entities for the year and as of the date of the Statement of Financial Position are disclosed on a collective basis as follows.

| | Outstanding Balance | | Average Balance | |
|---|---------------------|------------------|------------------|------------------|
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Items in the Statement of Financial Position | | | | |
| Assets | | | | |
| Loans and receivables | 4,758,986 | 4,214,129 | 4,209,193 | 3,421,419 |
| Liabilities | | | | |
| Deposits | 6,678,149 | 3,621,031 | 4,569,477 | 2,441,659 |
| Debt securities and other borrowings | 20,305,950 | 13,471,978 | 12,478,110 | 11,195,621 |
| | 26,984,099 | 17,093,009 | 17,047,587 | 13,637,280 |
| Commitments and Contingencies | | | | |
| Guarantees and letters of credit | 104,891 | 286,422 | 128,339 | 134,022 |
| Forward exchange contracts | 1,726,600 | 902,029 | 2,298,467 | 2,457,811 |
| Commitments | 2,561,921 | 4,205,485 | 3,803,151 | 3,240,617 |
| | 4,393,412 | 5,393,936 | 6,229,957 | 5,832,450 |
| Items in the Statement of Profit or Loss | | | | |
| Interest income | 1,393,786 | 1,848,069 | | |
| Interest expenses | 1,064,600 | 989,889 | | |
| Other income | 3,121 | 10,338 | | |
| Dividends paid | 616,159 | 709,755 | | |

52.4.2 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:

- Investments 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

52.4.3 Individually Significant Transactions

The Bank uses an internal assessments methodology in order to identify significant transactions with the Government of Sri Lanka and Government related entities in accordance with the disclosure requirements of LKAS 24. Accordingly the individually significant transactions for the year ended 31 December 2015 are as follows.

52.4.3.1 The Bank raised USD 125 million on 16 April 2014 through foreign borrowings for a period of 1 year and 7 years, against which a SWAP arrangement has been entered into with the Central Bank of Sri Lanka for 75% of the borrowing value. However, the Bank opted to repay the 1 year USD 105 million on 31 March 2015 and hence the aforesaid SWAP arrangement was cancelled on 31 March 2015. 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. The SWAP arrangement will be renewed annually over the tenor of the borrowing.

52.4.3.2 The Bank has approved a term loan facility of LKR 8,353 million to the Road Development Authority which is Guaranteed by the Government Treasury of Sri Lanka and the Capital outstanding balance of the facility as at the reporting date was LKR 5,983 million.

52.4.3.3 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 the 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 a total of USD 299 million during 2014 and 2015, and the balance outstanding as at 31 December 2015 was USD 191 million.

52.5 Transactions with Related Entities

52.5.1 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 as follows:

| Items in the Statement of Financial Position | Subsidiaries of the Bank* | | | | Associates of the Bank* | | | |
|---|---------------------------|------------------|------------------|------------------|-------------------------|------------------|------------------|------------------|
| | Outstanding Balance | | Average Balance | | Outstanding Balance | | Average Balance | |
| | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
| Assets | | | | | | | | |
| Loans and receivables | 64 | 1 | 5,190 | 4 | - | - | 45,834 | - |
| Investments | 2,407,328 | 2,253,011 | 2,300,569 | 1,811,415 | - | - | - | - |
| Group company receivables | 705 | 1,804 | 413,511 | 24,435 | - | - | - | - |
| Investment in ordinary shares net of allowance for impairment | 2,104,117 | 2,000,290 | 2,066,707 | 2,030,019 | 18,526 | 18,526 | 18,526 | 53,873 |
| Liabilities | | | | | | | | |
| Deposits | 783,638 | 427,689 | 794,363 | 334,099 | - | - | - | - |
| Debt securities and other borrowings | 30,000 | 30,000 | 31,309 | 32,017 | - | - | - | - |
| Other payables | - | - | - | - | 2,403 | - | 2,403 | 1,802 |
| Commitments and Contingencies | | | | | | | | |
| Guarantees | 835,000 | - | 46,212 | - | - | - | - | - |

* Refer Note 30 and Note 31 for details of subsidiary and associate companies.

| Items in the Statement of Profit or Loss | 2015 LKR '000 | 2014 LKR '000 | 2015 LKR '000 | 2014 LKR '000 |
|--|------------------|------------------|------------------|------------------|
| Gross income received/(paid) – Net | (17,581) | (61,406) | 1,424 | - |
| Rent and utilities received/(paid) | (17,204) | 1,898 | - | - |
| Expenses and fees paid | 43,467 | 4,834 | - | - |
| Dividends received | 894,925 | 321,967 | - | - |
| Capital gains | - | - | 164,397 | 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 realised gain to the Bank amounted to LKR 96 million.
- NDB Capital Holdings Ltd. 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. Accordingly, the equity investment took place on 2 January 2015.
- The Bank's 99.89% owned subsidiary, NDB Capital Holdings Ltd. divested part of its 32% owned investment in Resus Energy PLC on 17 September 2015. Accordingly the investment which was accounted as an Investment in Associates, was reclassified as 'Available for Sale' Investments on 30 September 2015. The transaction resulted in a capital gain of LKR 164 million to the NDB Group.

52.5.2 The contribution made by the Bank and the employees for EPF is managed as a separate fund by the Bank. The Bank had the undermentioned financial dealings during the year with the NDB Provident Fund.

| | 2015 LKR '000 | 2014 LKR '000 |
|---|------------------|------------------|
| Deposits | 53,930 | 40,264 |
| Interest paid on deposits during the year | 6,170 | 2,938 |
| Contribution made by the Bank | 214,508 | 187,974 |

52.5.3 NDB Wealth Management Ltd., a subsidiary of the Bank had the undermentioned financial dealings with the NDB Provident Fund.

| | 2015 LKR '000 | 2014 LKR '000 |
|----------------------------|------------------|------------------|
| Portfolio under management | 1,705,719 | 1,574,818 |

52.5.4 The Bank had the undermentioned financial dealings with the NDB Pension Fund during the year.

| | 2015 LKR '000 | 2014 LKR '000 |
|---|------------------|------------------|
| Deposits | 123,460 | 113,500 |
| Interest paid on deposits during the year | 11,131 | 11,977 |
| Contribution made by the Bank | (10,355) | 51,644 |

52.5.5 The Bank had the undermentioned financial dealings with the NDB Employee Share Ownership Plan during the year.

| | 2015 LKR '000 | 2014 LKR '000 |
|--|------------------|------------------|
| No of ordinary shares held | 1,876 | 4,133,726 |
| Distribution of ESOP shares to eligible Bank's employees | 1,876 | 4,131,850 |
| No of ordinary shares pending transfer to an eligible employee | - | 1,876 |
| Dividends paid by the Bank (LKR '000) | - | 20,718 |

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 Ownership Plan and the distribution of the ESOP shares amounting to 4,133,726 to the eligible employees of the Bank in the year of 2014.

53. EVENTS OCCURRING AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

(a) On 12 February 2016 the Bank declared a final dividend of LKR 4.00 per share for the financial year 2015 (2014 – final dividend of LKR 4.00 per share). Out of the final dividend LKR 3.79 per share will be liable to a dividend tax at 10%, and the balance LKR 0.21 per share will be paid out of dividend income.

(b) As per the Government Budget 2016 passed in the Parliament, the banks are required to cease leasing business with effect from 1 June 2016. However, this will be effective after the same will be legally enacted by the Government.

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:

| As reported Previously | Current Presentation | Note | BANK | GROUP | BANK | GROUP |
|---------------------------------|---|------|------------------|------------------|------------------|------------------|
| | | | 2015 LKR '000 | 2015 LKR '000 | 2014 LKR '000 | 2014 LKR '000 |
| Profit or Loss | | | | | | |
| Net gains/(losses) from Trading | Net gains/(losses) from financial investments | 8 | – | – | 716,507 | 1,250,884 |
| Assets | | | | | | |
| Investments in associates | Investments – held-for-sale | 29 | – | – | 18,526 | 33,302 |
| Freehold building | Leasehold buildings (Net Book Value) | 34 | 84,457 | 84,457 | 76,550 | 76,550 |

55. FAIR VALUE OF FINANCIAL INSTRUMENTS AND NON-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 such instruments.

Significant Accounting Estimates and Assumptions

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active market, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values.

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 debt securities. The Government debt 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 buildings presented in the Financial Statements are provided by an independent valuer based on the valuations carried out at the reporting date.

Freehold land – valuations are performed by the valuer are based on the market approach (direct comparison method), for similar properties in the same location and conditions (Note 34).

Freehold buildings – valuations are performed by the valuer are based on the cost approach (current replacement cost – Note 34).

Investment Property – valuations are performed based on the income approach using the current market rents by the valuer to value the Investment Property (Income approach – Note 32).

Valuation Framework

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.

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.

55. (a) Determination of Fair Value of Financial Instruments and Non-Financial Instruments by Hierarchy

The following table shows an analysis of financial instruments and non-financial instruments recorded at fair value in the Statement of Financial Position by the level of the fair value hierarchy in accordance with disclosure requirements LKAS 13:

| 31 December 2015 | 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 | – | 1,912 | – | 1,912 |
| Forward foreign exchange contracts | – | 1,060,248 | – | 1,060,248 |
| Currency SWAP | – | – | 841,413 | 841,413 |
| Financial Assets – Held-for-Trading | | | | |
| Treasury Bills | 969 | – | – | 969 |
| Treasury Bonds | 576,964 | – | – | 576,964 |
| Investment in unit trusts | 2,407,329 | – | – | 2,407,329 |
| Financial Investments – Available-for-Sale | | | | |
| Treasury Bills | 12,981,321 | – | – | 12,981,321 |
| Treasury Bonds | 13,936,379 | – | – | 13,936,379 |
| Quoted ordinary shares | 1,568,673 | – | – | 1,568,673 |
| Non-quoted ordinary shares | – | 15,145 | – | 15,145 |
| Total Financial Assets | 31,471,635 | 1,077,305 | 841,413 | 33,390,353 |
| Non-Financial Assets | | | | |
| Freehold land | – | – | 431,500 | 431,500 |
| Freehold buildings | – | – | 913,231 | 913,231 |
| Total Non-Financial Assets | – | – | 1,344,731 | 1,344,731 |
| Financial Liabilities | | | | |
| Derivative Financial Instruments | | | | |
| Currency options | – | 1,912 | – | 1,912 |
| Forward foreign exchange contracts | – | 637,360 | – | 637,360 |
| Total Financial Liabilities | – | 639,272 | – | 639,272 |

| 31 December 2014 | 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 | – | 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 |
| Quoted ordinary shares | 85,215 | – | – | 85,215 |
| Non-quoted ordinary shares | – | 15,145 | – | 15,145 |
| Total Financial Assets | 19,830,434 | 924,899 | 994,028 | 21,749,361 |
| Non-Financial Assets | | | | |
| Freehold land | – | – | 431,500 | 431,500 |
| Freehold buildings | – | – | 935,485 | 935,485 |
| Total Non-Financial Assets | – | – | 1,366,985 | 1,366,985 |
| 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 2015 | 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 | – | 1,912 | – | – | 1,912 |
| Forward foreign exchange contracts | – | 1,060,248 | – | – | 1,060,248 |
| Currency SWAP | – | – | 841,413 | – | 841,413 |
| Financial Assets – Held-for-Trading | | | | | |
| Treasury Bills | 969 | – | – | – | 969 |
| Treasury Bonds | 576,964 | – | – | – | 576,964 |
| Equity securities | 336,769 | – | – | – | 336,769 |
| Investment in unit trusts | 4,314,791 | – | – | – | 4,314,791 |
| Financial Investments – Available-for-Sale | | | | | |
| Treasury Bills | 12,981,321 | – | – | – | 12,981,321 |
| Treasury Bonds | 13,936,379 | – | – | – | 13,936,379 |
| Quoted ordinary shares | 1,846,977 | – | – | – | 1,846,977 |
| Non-quoted ordinary shares | – | 15,145 | 185,000 | – | 200,145 |
| Total Financial Assets | 33,994,170 | 1,077,305 | 1,026,413 | – | 36,097,887 |
| Non-Financial Assets | | | | | |
| Freehold land | – | – | 431,500 | – | 431,500 |
| Freehold buildings | – | – | 1,292,662 | – | 1,292,662 |
| Investment property | – | – | 1,672,000 | – | 1,672,000 |
| Total Non-Financial Assets | – | – | 3,396,162 | – | 3,396,162 |
| Financial Liabilities | | | | | |
| Derivative Financial Instruments | | | | | |
| Currency options | – | 1,912 | – | – | 1,912 |
| Forward foreign exchange contracts | – | 637,360 | – | – | 637,360 |
| Total Financial Liabilities | – | 639,272 | – | – | 639,272 |

| 31 December 2014 | GROUP | | | 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 | |
| | Fair Value Measurement Using | | | |
| 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 | 897,765 | – | – | 897,765 |
| Non-quoted ordinary shares | – | 15,145 | 185,000 | 200,145 |
| Total Financial Assets | 23,886,265 | 924,899 | 1,179,028 | 25,990,192 |
| Non-Financial Assets | | | | |
| Freehold land | – | – | 431,500 | 431,500 |
| Freehold buildings | – | – | 1,219,577 | 1,219,577 |
| Investment property | – | – | 1,545,693 | 1,545,693 |
| Total Non-Financial Assets | – | – | 3,196,770 | 3,196,770 |
| 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 |

55. (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 | | | | | |
|------------------------------|----------------------------------|----------------------|--------------------------------------|--|---|------------------------|--|
| 31 December 2015 | Included in | As at 1 January 2015 | Additions/ Disposals during the Year | Total gains/(losses) Recorded in Statement of Profit or Loss | Total gains/(losses) Recorded in Equity | As at 31 December 2015 | |
| | | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | |
| Financial Assets | | | | | | | |
| Currency SWAP | Derivative financial instruments | 994,028 | 135,077 | – | (287,692) | 841,413 | |
| Non-Financial Assets | | | | | | | |
| Freehold land | Property, plant & equipment | 431,500 | – | – | – | 431,500 | |
| Freehold buildings (Note 34) | Property, plant & equipment | 935,485 | (22,254) | – | – | 913,231 | |
| | | 2,361,013 | 112,823 | – | (287,692) | 2,186,144 | |
| Financial Liabilities | | | | | | | |
| Currency SWAP | Derivative financial instruments | 52,477 | (52,477) | – | – | – | |
| | | 52,477 | (52,477) | – | – | – | |

| | | GROUP | | | | | |
|------------------------------|--|----------------------|--------------------------------------|--|---|------------------------|--|
| 31 December 2015 | Included in | As at 1 January 2015 | Additions/ Disposals during the Year | Total gains/(losses) Recorded in Statement of Profit or Loss | Total gains/(losses) Recorded in Equity | As at 31 December 2015 | |
| | | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | |
| Financial Assets | | | | | | | |
| Currency SWAP | Derivative financial instruments | 994,028 | 135,077 | – | (287,692) | 841,413 | |
| Non-quoted ordinary shares | Financial investments – Available-for-sale | 185,000 | – | – | – | 185,000 | |
| Non-Financial Assets | | | | | | | |
| Freehold land | Property, plant & equipment | 431,500 | – | – | – | 431,500 | |
| Freehold buildings (Note 34) | Property, plant & equipment | 1,219,577 | (22,254) | – | 95,339 | 1,292,662 | |
| Investment property | Investment property | 1,545,693 | – | 126,307 | – | 1,672,000 | |
| | | 4,375,798 | 112,823 | 126,307 | (192,353) | 4,422,575 | |
| Financial Liabilities | | | | | | | |
| Currency SWAP | Derivative financial instruments | 52,477 | (52,477) | – | – | – | |
| | | 52,477 | (52,477) | – | – | – | |

| | | BANK | | | | | |
|---------------------------------|----------------------------------|-------------------------|--|---|---|------------------------------|--|
| 31 December 2014 | Included in | As at 1 January 2014 | Additions/ Disposals during the Year | Total gains/(losses) Recorded in Statement of Profit or Loss | Total gains/ (losses) Recorded in Equity | As at 31 December 2014 | |
| | | LKR '000 | LKR '000 | LKR '000 | LKR '000 | 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 buildings (Note 34) | Property, plant & equipment | 144,015 | (26,231) | – | 817,701 | 935,485 | |
| | | 309,031 | 569,945 | – | 1,482,037 | 2,361,013 | |
| Financial Liabilities | | | | | | | |
| Currency SWAP | Derivative Financial instruments | – | 52,477 | – | – | 52,477 | |
| | | – | 52,477 | – | – | 52,477 | |

| | | GROUP | | | | | |
|---------------------------------|---|-------------------------|--|---|---|------------------------------|--|
| 31 December 2014 | Included in | As at 1 January 2014 | Additions/ Disposals during the Year | Total gains/(losses) Recorded in Statement of Profit or Loss | Total gains/ (losses) Recorded in Equity | As at 31 December 2014 | |
| | | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | |
| Financial Assets | | | | | | | |
| Currency SWAP | Derivative financial instruments | – | 596,176 | – | 397,852 | 994,028 | |
| Non-quoted ordinary shares | Financial investments – Available-for-sale | 185,000 | – | – | – | 185,000 | |
| Non-Financial Assets | | | | | | | |
| Freehold land | Property, plant & equipment | 165,016 | – | – | 266,484 | 431,500 | |
| Freehold buildings (Note 34) | Property, plant & equipment | 448,332 | (46,456) | – | 817,701 | 1,219,577 | |
| Investment property | Investment property | 1,383,693 | – | 162,000 | – | 1,545,693 | |
| | | 2,182,041 | 549,720 | 162,000 | 1,482,037 | 4,375,798 | |
| Financial Liabilities | | | | | | | |
| Currency SWAP | Derivative Financial instruments | – | 52,477 | – | – | 52,477 | |
| | | – | 52,477 | – | – | 52,477 | |

55. (c) Unobservable Inputs Used in Measuring the Fair Value of Non-Financial Instruments

The tables below set out information about significant unobservable inputs used as at 31 December 2015 and as at 31 December 2014 in measuring the non-financial instruments categorized as Level 3 in the fair value hierarchy:

| BANK | | | | | |
|---------------------------|------------------------------------|--------------------------|---|---|---|
| Type of Instrument | Fair Values at 31 December 2015 | Valuation Technique | Significant Unobservable Inputs | Range of Estimates (Weighted Average) for Unobservable Inputs | Fair Value Measurement Sensitivity to Unobservable Inputs |
| Navam Mawatha | | | | | |
| Freehold Land | LKR 11.5 million | Direct comparison method | Per perch value | Per perch – LKR 8 million | Positive impact to the fair value |
| Freehold Building | LKR 621.5 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 | | | | | |
| Freehold Land | LKR 420 million | Direct comparison method | Per perch value | Per perch – LKR 7 million | Positive impact to the fair value |
| Freehold 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 2015 | Valuation Technique | Significant Unobservable Inputs | Range of Estimates (Weighted Average) for Unobservable Inputs | Fair Value Measurement Sensitivity to Unobservable Inputs |
| Navam Mawatha | | | | | |
| Freehold Land | LKR 11.5 million | Direct comparison method | Per perch value | Per perch – LKR 8 million | Positive impact to the fair value |
| Freehold Building | LKR 621.5 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 | | | | | |
| Freehold Land | LKR 420 million | Direct comparison method | Per perch value | Per perch – LKR 7 million | Positive impact to the fair value |
| Freehold 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 2,000 million (Including the fair value of owner occupied portion of LKR 328 million) | Income approach | Rent per square feet | Rentable area at LKR 160/- Non-rentable area at LKR 95/- | Positive impact to the fair value |

| 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 | | | | | |
| Freehold Land | LKR 11.5 million | Direct comparison method | Per perch value | Per perch – LKR 8 million | Positive impact to the fair value |
| Freehold Building | LKR 621.5 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 | | | | | |
| Freehold Land | LKR 420 million | Direct comparison method | Per perch value | Per perch – LKR 7 million | Positive impact to the fair value |
| Freehold 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 | | | | | |
| Freehold Land | LKR 11.5 million | Direct comparison method | Per perch value | Per perch – LKR 8 million | Positive impact to the fair value |
| Freehold Building | LKR 621.5 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 | | | | | |
| Freehold Land | LKR 420 million | Direct comparison method | Per perch value | Per perch – LKR 7 million | Positive impact to the fair value |
| Freehold 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 (Including the fair value of owner occupied portion of LKR 328 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 |

55. (d) Fair Value of the Financial Assets and Financial Liabilities that are not Carried at Fair Value in the Financial Statements

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial assets and financial liabilities that are not carried at fair value in the Statement of Financial Position. This table does not include the fair values of non-financial assets and non-financial liabilities.

| | Fair Value Classification | BANK | | | |
|---|---------------------------|--------------------------|---------------------|--------------------------|---------------------|
| | | 2015 | | 2014 | |
| | | Carrying Amount LKR '000 | Fair Value LKR '000 | Carrying Amount LKR '000 | Fair Value LKR '000 |
| Financial Assets | | | | | |
| Cash and cash equivalents | Note 55 (e) | 11,821,503 | 11,821,503 | 3,104,391 | 3,104,391 |
| Balances with the Central Bank of Sri Lanka | Note 55 (e) | 6,999,898 | 6,999,898 | 6,740,590 | 6,740,590 |
| Placements with banks | Note 55 (e) | 1,153,619 | 1,153,619 | 2,721,891 | 2,721,891 |
| Loans and receivables to banks | Level 2 | 102,632 | 102,714 | 311,144 | 313,781 |
| Loans and receivables to other customers | Level 2 | 209,602,069 | 210,444,878 | 175,175,203 | 177,054,711 |
| Financial investments – loans and receivable | Level 2 | 35,830,311 | 35,792,766 | 38,302,428 | 37,954,272 |
| Financial investments – held-to-maturity | Level 1 | 4,436,973 | 4,572,341 | 8,970,963 | 8,693,340 |
| Total Financial Assets | | 269,947,005 | 270,887,719 | 235,326,610 | 236,582,976 |
| Financial Liabilities | | | | | |
| Due to banks | Note 55 (e) | 11,620,003 | 11,620,003 | 7,029,342 | 7,029,342 |
| Due to other customers | Level 2 | 184,933,230 | 184,889,633 | 151,823,715 | 149,393,839 |
| Debt securities issued and other borrowed funds | Level 2 | 60,527,844 | 60,527,844 | 61,955,460 | 61,955,460 |
| Subordinated term debts | Level 2 | 19,573,883 | 22,004,203 | 11,149,439 | 13,434,176 |
| Other financial liabilities | Note 55 (e) | 2,889,782 | 2,889,783 | 2,423,677 | 2,423,677 |
| Total Financial Liabilities | | 279,544,742 | 281,931,466 | 234,381,633 | 234,236,494 |

| | Fair Value Classification | GROUP | | | |
|---|---------------------------|--------------------------|---------------------|--------------------------|---------------------|
| | | 2015 | | 2014 | |
| | | Carrying Amount LKR '000 | Fair Value LKR '000 | Carrying Amount LKR '000 | Fair Value LKR '000 |
| Financial Assets | | | | | |
| Cash and cash equivalents | Note 55 (e) | 11,848,575 | 11,848,575 | 3,274,036 | 3,274,036 |
| Balances with the Central Bank of Sri Lanka | Note 55 (e) | 6,999,898 | 6,999,898 | 6,740,590 | 6,740,590 |
| Placements with banks | Note 55 (e) | 1,153,619 | 1,153,619 | 2,721,891 | 2,721,891 |
| Loans and receivables to banks | Level 2 | 102,632 | 102,714 | 311,144 | 313,781 |
| Loans and receivables to other customers | Level 2 | 209,665,561 | 210,522,603 | 175,235,906 | 176,994,008 |
| Financial investments – loans and receivable | Level 2 | 37,368,705 | 37,390,608 | 38,683,476 | 38,335,320 |
| Financial investments – held-to-maturity | Level 1 | 5,660,868 | 6,036,352 | 10,167,325 | 9,889,702 |
| Total Financial Assets | | 272,799,858 | 274,054,369 | 237,134,368 | 238,269,328 |
| Financial Liabilities | | | | | |
| Due to banks | Note 55 (e) | 11,620,003 | 11,620,003 | 7,029,342 | 7,029,342 |
| Due to other customers | Level 2 | 184,152,280 | 185,671,700 | 151,485,201 | 149,055,326 |
| Debt securities issued and other borrowed funds | Level 2 | 60,497,844 | 60,497,844 | 61,925,802 | 61,925,802 |
| Subordinated term debts | Level 2 | 19,573,883 | 22,004,203 | 11,149,439 | 13,434,176 |
| Other financial liabilities | Note 55 (e) | 2,893,671 | 2,893,671 | 2,423,677 | 2,423,677 |
| Total Financial Liabilities | | 278,737,681 | 282,687,421 | 234,013,461 | 233,868,323 |

55. (e) Basis of Measurement for the Fair Value of Financial Assets and Financial Liabilities not Carried at Fair Value

Given below are 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 Financial investments – held-to-maturity, Due to other 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 instruments issued, the fair values are determined based on quoted market prices. For instruments 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.

56. RISK MANAGEMENT DISCLOSURES

Introduction

The following disclosures are made in accordance with the SLFRS 7 – ‘Financial Instruments Disclosures’.

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 risk strategy focuses on managing principal risks faced by the Bank while, striking a fair balance between the risk return trade-off and the efficient capital allocation across risk exposures.

The Bank is mainly exposed to credit risk, liquidity risk, market risk and operational risk. Market risk could be further subdivided into trading and non-trading risks. Exposure to country risk and any risks due to changes in environment, technology and industry is managed through the Bank’s strategic planning process.

Risk Management Framework 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/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 the CEO, CFO, the Heads of Business Units, Treasury and representatives of 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 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.

56.1 Credit Risk

Credit Risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual/group counterparties and for geographical and industry concentrations and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. Counterparty limits are established by the use of an internally designed Credit Risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

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

- credit culture of the Bank
- specifies target markets for lending
- specifies prohibited lending which the Bank under no circumstances will entertain
- sets acceptable risk parameters
- sets remedial and recovery actions

Impairment Assessment

Impairment of Financial Assets

The Bank has in place a detailed impairment policy, which was approved by the Board of Directors.

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. At each reporting date the Bank/Group assess whether there is objective evidence of a specific loss event.

Individually Assessed Impairment 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 Impairment 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 analysis 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 for impairment 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 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 in the individual loans assessments. The collective assessment takes account of data from the loans and receivables (such as loan types, industry codes and level of arrears).

| As at 31 December 2014 | GROUP | | | | | | | | |
|---|-------------------------------|---------------------------|------------|------------|-------------|--------------|---------------------|-----------------------|-------------|
| | Neither Past Due nor Impaired | Past Due but not Impaired | | | | | | Individually Impaired | Total |
| | | Less than 1 Month | 1-3 Months | 3-6 Months | 6-12 Months | 12-18 Months | More than 18 Months | | |
| LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | |
| Products | | | | | | | | | |
| Cash and cash equivalents | 3,274,036 | - | - | - | - | - | - | - | 3,274,036 |
| Balances with the Central Bank of Sri Lanka | 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 | 137,111,521 | 18,215,777 | 11,612,326 | 584,913 | 377,622 | 1,884,382 | 2,351,406 | 3,097,959 | 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 |

56.1 (b) Maximum Exposure to Credit Risk

The following table shows the maximum exposure to credit risk and net exposure to credit risk by class of financial asset.

| As at 31 December 2015 | BANK | |
|--|--|-------------------------------------|
| | Maximum Exposure to Credit Risk LKR '000 | Exposure Net of Collateral LKR '000 |
| Balances with the Central Bank of Sri Lanka | 6,999,898 | 6,999,898 |
| Placements with banks | 1,153,619 | 1,153,619 |
| Derivative financial instruments | 1,903,573 | 1,903,573 |
| Financial assets – held-for-trading | 2,985,262 | 2,985,262 |
| Loans and receivables to banks | 102,632 | 102,632 |
| Loans and receivables to other customers (net) | | |
| Corporate lending | 120,646,375 | 62,367,197 |
| Branch lending | 29,778,809 | 8,450,093 |
| Consumer lending | 47,852,802 | 35,961,558 |
| Residential mortgages | 8,758,937 | - |
| Others | 2,565,146 | 1,539,260 |
| | 209,602,069 | 108,318,108 |
| Financial investments – loans and receivables | 35,830,311 | 21,298,039 |
| Financial investments – available-for-sale | 28,501,518 | 28,501,518 |
| Financial investments – held-to-maturity | 4,436,973 | 4,436,973 |

| As at 31 December 2014 | BANK | |
|--|---|--|
| | Maximum Exposure to Credit Risk LKR '000 | Exposure Net of Collateral LKR '000 |
| Balances with the Central Bank of Sri Lanka | 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 (net) | | |
| 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 |

| As at 31 December 2015 | GROUP | |
|--|---|--|
| | Maximum Exposure to Credit Risk LKR '000 | Exposure Net of Collateral LKR '000 |
| Balances with the Central Bank of Sri Lanka | 6,999,898 | 6,999,898 |
| Placements with banks | 1,153,619 | 1,153,619 |
| Derivative financial instruments | 1,903,573 | 1,903,573 |
| Financial assets – held-for-trading | 5,229,493 | 5,229,493 |
| Loans and receivables to banks | 102,632 | 102,632 |
| Loans and receivables to other customers (net) | | |
| Corporate lending | 120,646,375 | 62,367,197 |
| Branch lending | 29,778,809 | 8,450,093 |
| Consumer lending | 47,852,802 | 35,961,558 |
| Residential mortgages | 8,758,937 | – |
| Others | 2,628,638 | 1,602,752 |
| | 209,665,561 | 108,381,600 |
| Financial investments – loans and receivables | 37,368,705 | 22,836,434 |
| Financial investments – available-for-sale | 28,964,820 | 28,964,820 |
| Financial investments – held-to-maturity | 5,660,868 | 5,660,868 |

| As at 31 December 2014 | GROUP | |
|--|---|--|
| | Maximum Exposure to Credit Risk LKR '000 | Exposure Net of Collateral LKR '000 |
| Balances with the Central Bank of Sri Lanka | 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 (net) | | |
| 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 |

56.1 (c) Concentrations of Credit Risk

Concentration by Sector

The Bank monitors concentration of credit risk by sector. An analysis of risk concentration by industry for the financial assets is given below:

| As at 31 December 2015 | BANK | | | | | | | | | |
|--|-----------------------|------------------|------------|---------------------------------|------------|------------|---------------------|-------------|------------|-------------|
| | 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 | – | – | – | – | – | 11,821,503 | – | – | – | 11,821,503 |
| Balances with the Central Bank of Sri Lanka | – | – | – | – | – | – | – | 6,999,898 | – | 6,999,898 |
| Placements with banks | – | – | – | – | – | 1,153,619 | – | – | – | 1,153,619 |
| Derivative financial instruments | – | – | – | – | – | 1,903,573 | – | – | – | 1,903,573 |
| Financial assets – held-for-trading | – | – | – | – | – | 2,407,328 | – | 577,934 | – | 2,985,262 |
| Loans and receivables to banks | – | – | – | – | – | 102,632 | – | – | – | 102,632 |
| Loans and receivables to other customers (net) | 24,612,175 | 7,670,692 | 20,124,022 | 12,980,130 | 40,138,496 | 36,622,318 | 24,027,169 | – | 43,427,067 | 209,602,069 |
| Financial investments – loans and receivables | – | – | – | – | – | – | – | 35,830,311 | – | 35,830,311 |
| Financial investments – available-for-sale | – | – | – | – | – | 1,483,458 | – | 26,917,700 | 100,359 | 28,501,518 |
| Financial investments – held-to-maturity | – | 797,980 | 196,000 | – | – | 1,328,650 | – | 1,044,602 | 1,069,741 | 4,436,973 |

*Government refers to the investments held with the Central Bank of Sri Lanka.

| As at 31 December 2014 | BANK | | | | | | | | | |
|--|-----------------------|------------------|------------|---------------------------------|------------|------------|---------------------|-------------|------------|-------------|
| | 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 the Central Bank of Sri Lanka | - | - | - | - | - | - | - | 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 (net) | 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 the Central Bank of Sri Lanka and the current account balance with the Central Bank of Sri Lanka.

| As at 31 December 2015 | GROUP | | | | | | | | | |
|--|-----------------------|------------------|------------|---------------------------------|------------|------------|---------------------|-------------|------------|-------------|
| | 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 | - | - | - | - | - | 11,848,575 | - | - | - | 11,848,575 |
| Balances with the Central Bank of Sri Lanka | - | - | - | - | - | - | - | 6,999,898 | - | 6,999,898 |
| Placements with banks | - | - | - | - | - | 1,153,619 | - | - | - | 1,153,619 |
| Derivative financial instruments | - | - | - | - | - | 1,903,573 | - | - | - | 1,903,573 |
| Financial assets – held-for-trading | - | 6,794 | 55,527 | 2,910 | - | 2,671,240 | 1,775 | 577,933 | 1,913,314 | 5,229,493 |
| Loans and receivables to banks | - | - | - | - | - | 102,632 | - | - | - | 102,632 |
| Loans and receivables to other customers (net) | 24,612,175 | 7,670,692 | 20,124,022 | 12,980,130 | 40,138,496 | 36,622,318 | 24,027,169 | - | 43,490,559 | 209,665,561 |
| Financial investments – loans and receivables | - | - | 83,221 | - | - | 857,045 | - | 35,830,311 | 598,128 | 37,368,705 |
| Financial investments – available-for-sale | - | - | - | - | - | 1,483,458 | - | 26,917,700 | 563,662 | 28,964,820 |
| Financial investments – held-to-maturity | - | 797,980 | 528,940 | - | - | 1,976,197 | - | 1,044,602 | 1,313,149 | 5,660,868 |

*Government refers to the investments held with the Central Bank of Sri Lanka.

| As at 31 December 2014 | GROUP | | | | | | | | | |
|--|-----------------------|------------------|------------|---------------------------------|------------|------------|---------------------|-------------|------------|-------------|
| | 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 | - | - | - | - | - | 3,274,036 | - | - | - | 3,274,036 |
| Balances with the Central Bank of Sri Lanka | - | - | - | - | - | - | - | 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 (net) | 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 the Central Bank of Sri Lanka and the current account balance with the Central Bank of Sri Lanka.

56.1 (d) 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 guarantees and contingencies is the maximum amount the Bank has to pay if the guarantees and commitments are called upon.

| As at 31 December | BANK | |
|-------------------------------------|--------------------|--------------------|
| | 2015 LKR '000 | 2014 LKR '000 |
| Guarantees and bonds | 21,862,258 | 17,719,368 |
| Shipping guarantees | 4,058,389 | 3,503,056 |
| Advance documents endorsed | 963,966 | 865,787 |
| Letters of credit | 8,132,261 | 7,521,595 |
| Acceptances | 7,620,960 | 7,148,766 |
| Undrawn overdrafts and credit cards | 14,836,720 | 10,745,651 |
| Commitments | 95,813,207 | 83,191,376 |
| Forward foreign exchange contracts | 84,460,652 | 100,448,034 |
| Total | 237,748,413 | 231,143,633 |

| As at 31 December | GROUP | |
|-------------------------------------|--------------------|--------------------|
| | 2015 LKR '000 | 2014 LKR '000 |
| Guarantees and bonds | 21,027,258 | 17,721,386 |
| Shipping guarantees | 4,058,389 | 3,503,056 |
| Advance documents endorsed | 963,966 | 865,787 |
| Letters of credit | 8,132,261 | 7,521,595 |
| Acceptances | 7,620,960 | 7,148,766 |
| Undrawn overdrafts and credit cards | 14,836,720 | 10,745,651 |
| Commitments | 97,489,367 | 83,194,587 |
| Forward foreign exchange contracts | 84,460,652 | 100,448,034 |
| Total | 238,589,573 | 231,148,862 |

56.1 (e) Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the Statement of Financial Position when the Group has the right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial Assets and Liabilities Not Subject to Offsetting

Amounts that do not qualify for offsetting in the Statement of Financial Position include netting arrangements that only permit outstanding transactions with the same counterparty to be offset in an event of default or occurrence of their predetermined events. Such netting arrangements include repurchase agreements and other similar secured lending and borrowing arrangements.

The amount of the financial collateral received or pledged subject to netting arrangements but not qualified for offsetting are disclosed below:

| As at 31 December | BANK & GROUP | | | | | |
|---|---------------------------|--|------------------------|---------------------------|--|------------------------|
| | 2015 | | | 2014 | | |
| | Gross Amounts LKR '000 | Amount Subject to Netting but do not Qualify for Offsetting LKR '000 | Net Amount LKR '000 | Gross Amounts LKR '000 | Amount Subject to Netting but do not Qualify for Offsetting LKR '000 | Net Amount LKR '000 |
| Financial Assets | | | | | | |
| Loans and receivables from other customers | 40,846,345 | 19,423,046 | 21,423,299 | 33,740,730 | 14,000,506 | 19,740,224 |
| Financial Liabilities | | | | | | |
| Securities sold under repurchase agreements | 26,667,251 | 26,667,251 | – | 24,276,840 | 24,276,840 | – |

56.2 Market Risk

Market Risk function is attached to the Group Risk Management Unit and operates within a well-defined Policy framework, which ensures that the Bank operates within the pre defined risk appetite of the Bank. Guided by these policies and Regulatory directions; we have set internal prudential limits, taking in to account the balance sheet size, structure and the business model; thereby business units optimize the risk and reward relationship without exposing the Bank to unexpected losses.

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. Whilst the Trading portfolios are fair valued through the Statement of Profit or Loss; AFS (available-for-sale) portfolios are fair valued through the Other Comprehensive Income, of which realised capital gains/losses are recognised in the Statement of Profit or Loss.

56.2 (a) 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 of the Bank's Statement of Financial Profit or Loss.

56.2 (b) Sensitivity of the Financial Assets Held-for-Trading of Fixed Income Securities

| 2015 | BANK | | | |
|----------------------------|-----------------------------|--|--|---|
| | Portfolio Size LKR. '000 | Increase/ Decrease in Basis Points | Sensitivity of Profit or Loss Bank LKR. '000 | Sensitivity of Profit or Loss Group LKR. '000 |
| Held-for-Trading Portfolio | 560,908 | +100/(100) | (7,377)/7,377 | (7,377)/7,377 |

| 2014 | BANK | | | |
|----------------------------|-----------------------------|--|--|---|
| | Portfolio Size LKR. '000 | Increase/ Decrease in Basis Points | Sensitivity of Profit or Loss Bank LKR. '000 | Sensitivity of Profit or Loss Group LKR. '000 |
| Held-for-Trading Portfolio | 504,799 | +100/(100) | (846)/846 | (846)/846 |

Fair value of the AFS portfolio is recognized in the Other Comprehensive Income – OCI (Reserves) 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 of Fixed Income Securities

| 2015 | BANK | | | |
|------------------------------|------------|--|-------------------------------------|--------------------------------------|
| | | Increase/ Decrease in Basis Points | Sensitivity on Bank LKR. '000 | Sensitivity on Group LKR. '000 |
| Available-for-Sale Portfolio | 26,997,647 | +100/(100) | (281,080)/281,080 | (281,080)/281,080 |

| 2014 | BANK | | | |
|------------------------------|-----------------------------|--|-------------------------------------|--------------------------------------|
| | Portfolio Size LKR. '000 | Increase/ Decrease in Basis Points | Sensitivity on Bank LKR. '000 | Sensitivity on Group LKR. '000 |
| Available-for-Sale Portfolio | 16,345,863 | +100/(100) | (226,776)/226,776 | (226,776)/226,776 |

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 2015.

56.2 (c) Interest Rates Sensitivity Analysis

The tables below analyse the Bank's and the Group's interest rate risk exposure on financial assets and liabilities as at 31 December 2015.

| As at 31 December 2015 | BANK | | | | | | |
|--|----------------------|----------------------------------|---------------------------|-------------------------|----------------------------|------------------------------------|-------------------------------|
| | 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 cash equivalents | - | - | - | - | - | 11,821,503 | 11,821,503 |
| Balances with the Central Bank of Sri Lanka | - | - | - | - | - | 6,999,898 | 6,999,898 |
| Placements with banks | 1,619 | 1,152,000 | - | - | - | - | 1,153,619 |
| Financial assets held-for-trading | 2,985,262 | - | - | - | - | - | 2,985,262 |
| Loans and receivables to banks | 3,469 | 40,169 | 20,759 | 38,235 | - | - | 102,632 |
| Loans and receivables to other customers | 33,178,038 | 61,409,854 | 26,981,158 | 66,305,160 | 21,727,859 | - | 209,602,069 |
| Financial assets – loans and receivables | 274,039 | 29,220,272 | 6,336,000 | - | - | - | 35,830,311 |
| Financial assets – available-for-sale | 26,917,702 | - | - | - | - | 1,583,816 | 28,501,518 |
| Financial assets – held-to-maturity | 145,761 | - | 1,243,220 | 3,047,992 | - | - | 4,436,973 |
| Total Financial Assets | 63,505,890 | 91,822,295 | 34,581,137 | 69,391,387 | 21,727,859 | 20,405,217 | 301,433,785 |
| Liabilities | | | | | | | |
| Due to banks | 49,366 | 11,127,600 | 443,037 | - | - | - | 11,620,003 |
| Due to other customers | 34,765,742 | 72,410,382 | 55,701,557 | 3,917,124 | 1,206,591 | 16,931,834 | 184,933,230 |
| Debt securities issued and other borrowed funds | 658,115 | 25,924,483 | 3,785,111 | 23,656,543 | 6,503,592 | - | 60,527,844 |
| Subordinated term debts | - | - | 304,815 | 12,012,698 | 7,256,370 | - | 19,573,883 |
| Other financial liabilities | 2,889,783 | - | - | - | - | - | 2,889,783 |
| Total Financial Liabilities | 38,363,006 | 109,462,465 | 60,234,520 | 39,586,365 | 14,966,553 | 16,931,834 | 279,544,743 |
| Total Interest Sensitivity Gap | 25,142,884 | (17,640,170) | (25,653,383) | 29,805,022 | 6,761,306 | 3,473,383 | 21,889,042 |

| As at 31 December 2014 | BANK | | | | | | |
|--|-----------------------|-----------------------------------|------------------------------|--------------------------|-----------------------------|-------------------------------------|--------------------------------|
| | 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 cash equivalents | - | - | - | - | - | 3,104,391 | 3,104,391 |
| Balances with the Central Bank of Sri Lanka | - | - | - | - | - | 6,740,590 | 6,740,590 |
| Placements with banks | - | 2,721,891 | - | - | - | - | 2,721,891 |
| Financial assets held-for-trading | 2,785,277 | - | - | - | - | - | 2,785,277 |
| 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 | 16,959,942 | - | - | - | - | 100,360 | 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 | 53,617,464 | 99,243,849 | 26,484,376 | 51,214,334 | 14,721,275 | 9,945,341 | 255,226,639 |
| 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 | 18,344,451 | 24,134,980 | (47,092,394) | 31,631,703 | (3,870,866) | (2,302,868) | 20,845,006 |

| As at 31 December 2015 | GROUP | | | | | | |
|--|-----------------------|-----------------------------------|-----------------------------|--------------------------|-----------------------------|-------------------------------------|--------------------------------|
| | 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 cash equivalents | - | - | - | - | - | 11,848,575 | 11,848,575 |
| Balances with the Central Bank of Sri Lanka | - | - | - | - | - | 6,999,898 | 6,999,898 |
| Placements with banks | 1,619 | 1,152,000 | - | - | - | - | 1,153,619 |
| Loans and receivables to banks | 5,229,493 | - | - | - | - | - | 5,229,493 |
| Financial assets – held-for-trading | 3,468 | 40,169 | 20,759 | 38,235 | - | - | 102,632 |
| Loans and receivables to other customers | 33,154,376 | 61,414,552 | 26,992,468 | 66,353,399 | 21,750,766 | - | 209,665,561 |
| Financial assets – loans and receivables | 319,393 | 29,220,272 | 6,336,000 | 1,408,317 | 84,724 | - | 37,368,705 |
| Financial assets – available-for-sale | 26,917,700 | - | - | - | - | 2,047,120 | 28,964,820 |
| Financial assets – held-to-maturity | 201,448 | - | 1,673,550 | 3,785,870 | - | - | 5,660,868 |
| Total Financial Assets | 65,827,497 | 91,826,993 | 35,022,777 | 71,585,821 | 21,835,490 | 20,895,593 | 306,994,171 |
| Liabilities | | | | | | | |
| Due to banks | 49,366 | 11,127,600 | 443,037 | - | - | - | 11,620,003 |
| Due to other customers | 34,660,880 | 71,759,264 | 55,701,557 | 3,917,124 | 1,206,591 | 16,906,864 | 184,152,280 |
| Debt securities issued and other borrowed funds | 658,115 | 25,924,483 | 3,755,111 | 23,656,543 | 6,503,592 | - | 60,497,844 |
| Subordinated term debts | - | - | 304,815 | 12,012,698 | 7,256,370 | - | 19,573,883 |
| Other financial liabilities | 2,893,671 | - | - | - | - | - | 2,893,671 |
| Total Financial Liabilities | 38,262,032 | 108,811,347 | 60,204,520 | 39,586,365 | 14,966,553 | 16,906,864 | 278,737,681 |
| Total Interest Sensitivity Gap | 27,565,465 | (16,984,354) | (25,181,743) | 31,999,456 | 6,868,937 | 3,988,729 | 28,256,490 |

| As at 31 December 2014 | GROUP | | | | | | |
|--|-----------------------|-----------------------------------|-----------------------------|--------------------------|-----------------------------|-------------------------------------|--------------------|
| | 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 | Total LKR '000 |
| Assets | | | | | | | |
| Cash and cash equivalents | - | - | - | - | - | 3,274,036 | 3,274,036 |
| Balances with Central Bank of Sri Lanka | - | - | - | - | - | 6,740,590 | 6,740,590 |
| Placements with banks | - | 2,721,891 | - | - | - | - | 2,721,891 |
| Financial assets held-for-trading | 6,028,558 | - | - | - | - | - | 6,028,558 |
| 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 | 16,959,942 | - | - | - | - | 1,097,910 | 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 | 56,860,745 | 99,260,800 | 26,592,590 | 52,691,140 | 14,757,417 | 11,112,536 | 261,275,228 |
| Financial 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 | 16,631,746 | 29,689,938 | (46,984,180) | 33,138,509 | (3,834,724) | (1,379,522) | 21,261,767 |

56.2 (d) Mark-to-Market Valuation

Trading and AFS (available-for-sale) portfolios of Fixed Income Securities (Treasury Bills/Bonds), Foreign Exchange positions 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 reviewed at monthly ALCO and the IRMC on a quarterly basis, to assess the portfolio performance and investment decisions.

56.2 (e) Currency Risk

Currency risk is the risk that the value of a financial instrument denominated in foreign currency, will fluctuate due to the 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 indicate, the currencies to which the Bank had significant exposure as at 31 December 2015 and 31st December 2014 on its currency exposures. The analysis calculates the sensitivity of each currency position to the increase in the exchange rate against the Sri Lankan Rupees (functional currency) with all other variables held constant on the Statement of Profit or Loss and equity. A negative amount in the table reflects a potential net reduction in the Statement of Profit or Loss or 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 functional currency. An equivalent decrease in below currencies against the Sri Lankan Rupees would have resulted in an equivalent but opposite impact.

Change in Currency Rates in %

| Currency | Spot Rate Shock % | Effect on Profit | Effect on Equity | Effect on Profit | Effect on Equity |
|----------------------|-------------------|------------------|------------------|------------------|------------------|
| | | 2015 LKR '000 | 2015 LKR '000 | 2014 LKR '000 | 2014 LKR '000 |
| United States Dollar | 2.50 | 3,996 | 3,996 | 3,050 | 3,050 |
| Great Britain Pound | 2.50 | 10 | 10 | 144 | 144 |
| Euro | 2.50 | (236) | (236) | 275 | 275 |
| Japanese Yen | 2.50 | (1,749) | (1,749) | (3,297) | (3,297) |
| Australian Dollar | 2.50 | (20) | (20) | 11 | 11 |

56.2 (f) Price Risk

Equity Price Risk

Equity price risk is the risk that the fair value of equity decreases as a result of changes in the level of equity indices and individual stocks. The Bank did not hold an equity trading portfolio for the year concerned. 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:

| 2015 Entity | Magnitude of Shock and the Fall in Value of Equities - LKR '000 | | | |
|----------------|---|------------------|-------------------|-------------------|
| | Portfolio Value | Scenario 1 5% | Scenario 2 10% | Scenario 3 15% |
| Bank | 1,458,609 | 72,930 | 145,861 | 218,791 |
| Group | 2,073,681 | 103,224 | 206,448 | 309,673 |

| 2014 Entity | Magnitude of Shock and the Fall in Value of Equities - LKR '000 | | | |
|----------------|---|------------------|-------------------|-------------------|
| | Portfolio Value | Scenario 1 5% | Scenario 2 10% | Scenario 3 15% |
| Bank | - | - | - | - |
| Group | 1,526,419 | 72,346 | 144,692 | 283,253 |

Sensitivity of the Unit Trust Investments

The Bank's and the Group's investments in Unit trust fund 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.

| 2015 | 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 | | 2,407,804 | 120,390 | 240,780 | 361,171 |
| Group | | 4,315,266 | 215,763 | 431,527 | 647,290 |

| 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 |

56.2 (g) 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:

| 2015 | BANK | | | | |
|---------|------|--------------|--|------------------|------------------|
| | Item | No. of Units | Change in Value due to Decrease in Market Price – LKR '000 | | |
| | | | Present Value at Market Price | Scenario 1 2% | Scenario 2 5% |
| Coin | 395 | 15,076 | 14,775 | 14,322 | 13,870 |
| Biscuit | 113 | 55,507 | 54,397 | 52,732 | 51,067 |

| 2014 | BANK | | | | |
|---------|------|--------------|--|------------------|------------------|
| | Item | No. of Units | Change in Value due to Decrease in Market Price – LKR '000 | | |
| | | | Present Value at Market Price | Scenario 1 2% | Scenario 2 5% |
| Coin | 411 | 16,019 | 15,699 | 15,219 | 14,738 |
| Biscuit | 106 | 53,173 | 52,110 | 50,515 | 48,919 |

56.2 (h) Country Risk

Country risk is the risk that an occurrence within a country could have an adverse effect on the Bank directly by impairing the value of the Bank or indirectly through an obligor's ability to meet its obligations to the Bank. Generally these occurrences relate, but are not limited to: sovereign events such as defaults or restructuring; political events such as contested elections; restrictions on currency movements; non-market currency convertibility; regional conflicts; economic contagion from other events such as sovereign default issues or regional turmoil; banking and currency crisis and natural disasters.

Concentration by Country

Geographical Analysis

| 31 December 2015 | BANK | | | | | | | Total LKR '000 |
|---|--------------------|------------------|------------------|----------------|--------------|---------------------------|--------------------|-------------------|
| | Sri Lanka | Europe | America | Asia | Middle East | Australia- New Zealand | | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | | |
| Cash and cash equivalents | 2,773,122 | 1,539,976 | 7,008,139 | 434,738 | 7,708 | 57,820 | 11,821,503 | |
| Balances with the Central Bank of Sri Lanka | 6,999,898 | - | - | - | - | - | 6,999,898 | |
| Placements with banks | 1,153,619 | - | - | - | - | - | 1,153,619 | |
| Derivative financial instruments | 1,903,573 | - | - | - | - | - | 1,903,573 | |
| Financial assets – held-for-trading | 2,985,262 | - | - | - | - | - | 2,985,262 | |
| Loans and receivables to banks | 102,632 | - | - | - | - | - | 102,632 | |
| Loans and receivables to other customers | 209,602,069 | - | - | - | - | - | 209,602,069 | |
| Financial Investments – loans and receivables | 35,830,311 | - | - | - | - | - | 35,830,311 | |
| Financial Investments – available-for-sale | 28,501,518 | - | - | - | - | - | 28,501,518 | |
| Financial Investments – held-to-maturity | 4,436,973 | - | - | - | - | - | 4,436,973 | |
| Total Financial Assets | 294,288,977 | 1,539,976 | 7,008,139 | 434,738 | 7,708 | 57,820 | 303,337,358 | |

| 31 December 2014 | BANK | | | | | | | Total LKR '000 |
|---|--------------------|----------------|----------------|----------------|--------------|---------------------------|--------------------|-------------------|
| | Sri Lanka | Europe | America | Asia | Middle East | Australia- New Zealand | | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | | |
| Cash and cash equivalents | 1,927,075 | 314,878 | 386,484 | 395,711 | 6,686 | 73,557 | 3,104,391 | |
| Balances with the Central Bank of Sri Lanka | 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

| 31 December 2015 | GROUP | | | | | | | Total LKR '000 |
|---|--------------------|------------------|------------------|----------------|--------------|---------------------------|--------------------|-------------------|
| | Sri Lanka | Europe | America | Asia | Middle East | Australia- New Zealand | | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | | |
| Cash and cash equivalents | 2,800,194 | 1,539,976 | 7,008,139 | 434,738 | 7,708 | 57,820 | 11,848,575 | |
| Balances with the Central Bank of Sri Lanka | 6,999,898 | - | - | - | - | - | 6,999,898 | |
| Placements with banks | 1,153,619 | - | - | - | - | - | 1,153,619 | |
| Derivative financial instruments | 1,903,573 | - | - | - | - | - | 1,903,573 | |
| Financial assets held-for-trading | 5,229,493 | - | - | - | - | - | 5,229,493 | |
| Loans and receivables to banks | 102,632 | - | - | - | - | - | 102,632 | |
| Loans and receivables to other customers | 209,665,561 | - | - | - | - | - | 209,665,561 | |
| Financial Investments – loans and receivables | 37,368,705 | - | - | - | - | - | 37,368,705 | |
| Financial Investments – available-for-sale | 28,964,820 | - | - | - | - | - | 28,964,820 | |
| Financial Investments – held-to-maturity | 5,660,868 | - | - | - | - | - | 5,660,868 | |
| Total Financial Assets | 299,849,363 | 1,539,976 | 7,008,139 | 434,738 | 7,708 | 57,820 | 308,897,744 | |

| 31 December 2014 | GROUP | | | | | | | Total LKR '000 |
|---|--------------------|----------------|----------------|----------------|--------------|---------------------------|--------------------|-------------------|
| | Sri Lanka | Europe | America | Asia | Middle East | Australia- New Zealand | | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | | |
| Cash and cash equivalents | 2,096,720 | 314,878 | 386,484 | 395,711 | 6,686 | 73,557 | 3,274,036 | |
| Balances with the Central Bank of Sri Lanka | 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 | |

56.2 (i) Liquidity Risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

The Bank has set forth policies on Liquidity Risk Management and Liquidity Contingency Funding Plan approved by the Board for effective management of liquidity. In addition to the Regulatory limits on liquidity, the Bank's internal prudential limit framework ensures that the exposures are managed and monitored at prudent levels.

In accordance with the Bank's 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. This ensures the maintenance of the liquid asset ratio at required levels. Liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale. The Bank is in possession of reciprocal Liquidity Contingency Funding Agreements signed up with Licensed Commercial Banks to deal in crisis situations.

Liquidity Risk

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's and the Group's financial assets and liabilities as at 31 December 2015 and 31 December 2014.

| As at 31 December 2015 | BANK | | | | | | Total LKR '000 |
|--|-----------------------|---------------------------------|--------------------------------|--------------------------|-----------------------|--------------------------|--------------------|
| | 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 | |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 11,821,503 | – | – | – | – | – | 11,821,503 |
| Balances with the Central Bank of Sri Lanka | 6,999,898 | – | – | – | – | – | 6,999,898 |
| Less: Restricted balance | (6,999,898) | – | – | – | – | – | (6,999,898) |
| Placements with banks | – | – | 1,154,104 | – | – | – | 1,154,104 |
| Derivative financial instruments | – | 1,903,573 | – | – | – | – | 1,903,573 |
| Financial assets held-for-trading | 2,985,262 | – | – | – | – | – | 2,985,262 |
| Loans and receivables to banks | 3,468 | – | 41,401 | 22,943 | 40,783 | – | 108,595 |
| Loans and receivables to other customers | 33,030,237 | – | 62,783,612 | 30,642,200 | 85,289,432 | 32,496,643 | 244,242,124 |
| Other financial assets classified as loans and receivables | – | – | 29,516,807 | 6,478,074 | – | – | 35,994,881 |
| Financial assets – available-for-sale | 28,501,518 | – | – | – | – | – | 28,501,518 |
| Financial assets – held-to-maturity | – | – | 89,654 | 1,594,061 | 3,905,614 | – | 5,589,329 |
| Total Undiscounted Financial Assets | 76,341,988 | 1,903,573 | 93,585,578 | 38,737,278 | 89,235,829 | 32,496,643 | 332,300,889 |
| Financial Liabilities | | | | | | | |
| Due to banks | 16,891 | – | 11,172,037 | 452,538 | – | – | 11,641,466 |
| Derivative financial instruments | – | 639,272 | – | – | – | – | 639,272 |
| Due to other customers | 48,792,521 | – | 74,538,114 | 59,192,048 | 5,313,208 | 1,636,588 | 189,472,479 |
| Debt securities issued and other borrowed funds | – | – | 26,672,790 | 5,106,707 | 27,483,576 | 9,339,611 | 68,602,684 |
| Subordinated term debts | – | – | – | 2,418,040 | 20,179,192 | 11,260,126 | 33,857,358 |
| Other financial liabilities | 2,889,783 | – | – | – | – | – | 2,889,783 |
| Total Undiscounted Financial Liabilities | 51,699,195 | 639,272 | 112,382,941 | 67,169,333 | 52,975,976 | 22,236,325 | 307,103,042 |
| Net Undiscounted Financial Assets and Liabilities | 24,642,793 | 1,264,301 | (18,797,363) | (28,432,055) | 36,259,853 | 10,260,318 | 25,197,847 |

| 31 December 2014 | BANK | | | | | | | Total LKR '000 |
|---|-------------------|------------------------|-----------------------|---------------------|-------------------|-------------------|--------------------|-------------------|
| | On Demand | Trading Derivatives | Less than 3 Months | 3-12 Months | 1-5 Years | Over 5 Years | | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | | |
| Financial Assets | | | | | | | | |
| Cash and cash equivalents | 3,104,391 | - | - | - | - | - | 3,104,391 | |
| Balances with the Central Bank of Sri Lanka | 6,740,590 | - | - | - | - | - | 6,740,590 | |
| Less: restricted balance | (6,740,590) | - | - | - | - | - | (6,740,590) | |
| Placements with banks | 1,514 | - | 2,722,129 | - | - | - | 2,723,643 | |
| Derivative financial instruments | - | 1,903,781 | - | - | - | - | 1,903,781 | |
| Financial assets held-for-trading | 2,802,515 | - | - | - | - | - | 2,802,515 | |
| 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 | 18,032,271 | - | - | - | - | - | 18,032,271 | |
| Other financial assets | 54,450 | - | - | - | - | - | 54,450 | |
| Total Undiscounted Financial Assets | 57,288,850 | 1,903,781 | 103,685,842 | 34,444,986 | 67,244,083 | 29,300,355 | 293,867,897 | |
| 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 | 15,775,997 | 1,240,595 | 22,470,481 | (42,069,711) | 36,756,685 | 4,556,207 | 38,730,254 | |

| As at 31 December 2015 | GROUP | | | | | | | Total LKR '000 |
|---|--------------------------|------------------------------------|-----------------------------------|-----------------------------|--------------------------|-----------------------------|----------|--------------------|
| | 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 | | |
| Financial Assets | | | | | | | | |
| Cash and cash equivalents | 11,848,575 | - | - | - | - | - | - | 11,848,575 |
| Balances with the Central Bank of Sri Lanka | 6,999,898 | - | - | - | - | - | - | 6,999,898 |
| Less: Restricted balance | (6,999,898) | - | - | - | - | - | - | (6,999,898) |
| Placements with banks | - | - | 1,154,104 | - | - | - | - | 1,154,104 |
| Derivative financial instruments | - | 1,903,573 | - | - | - | - | - | 1,903,573 |
| Financial assets held-for-trading | 5,229,493 | - | - | - | - | - | - | 5,229,493 |
| Loans and receivables to banks | 3,468 | - | 41,401 | 22,943 | 40,783 | - | - | 108,595 |
| Loans and receivables to other customers | 33,027,847 | - | 62,788,334 | 30,653,678 | 85,341,281 | 32,522,158 | - | 244,333,298 |
| Other financial assets classified as loans and receivables | - | - | 29,516,807 | 6,478,074 | 2,164,910 | 156,655 | - | 38,316,446 |
| Financial assets – available-for-sale | 28,964,820 | - | - | - | - | - | - | 28,964,820 |
| Financial assets – held-to-maturity | - | - | 89,654 | 2,221,544 | 5,061,213 | - | - | 7,372,411 |
| Total Undiscounted Financial Assets | 79,074,203 | 1,903,573 | 93,590,300 | 39,376,239 | 92,608,187 | 32,678,813 | - | 339,231,315 |
| Financial Liabilities | | | | | | | | |
| Due to banks | 16,891 | - | 11,172,037 | 452,538 | - | - | - | 11,641,466 |
| Derivative financial instruments | - | 639,272 | - | - | - | - | - | 639,272 |
| Due to other customers | 48,663,526 | - | 73,879,166 | 59,192,048 | 5,313,208 | 1,636,588 | - | 188,684,536 |
| Debt securities issued and other borrowed funds | - | - | 26,672,121 | 5,076,039 | 27,483,576 | 9,339,611 | - | 68,571,347 |
| Subordinated term debts | - | - | - | 2,418,040 | 20,179,192 | 11,260,126 | - | 33,857,358 |
| Other financial liabilities | 2,893,671 | - | - | - | - | - | - | 2,893,671 |
| Total Undiscounted Financial Liabilities | 51,574,088 | 639,272 | 111,723,324 | 67,138,665 | 52,975,976 | 22,236,325 | - | 306,287,650 |
| Net Undiscounted Financial Assets and Liabilities | 27,500,115 | 1,264,301 | (18,133,024) | (27,762,426) | 39,632,211 | 10,442,488 | - | 32,943,665 |

| 31 December 2014 | GROUP | | | | | | | Total LKR '000 |
|---|---------------------|-----------------------|-----------------------|---------------------|-------------------|-------------------|--------------------|-------------------|
| | On Demand | Trading Derivative | Less than 3 Months | 3-12 Months | 1-5 Years | Over 5 Years | | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | | |
| Financial Assets | | | | | | | | |
| Cash and cash equivalents | 3,274,036 | - | - | - | - | - | 3,274,036 | |
| Balances with Central Bank of Sri Lanka | 6,740,590 | - | - | - | - | - | 6,740,590 | |
| Less: restricted balance | (6,740,590) | - | - | - | - | - | (6,740,590) | |
| Placements with banks | 1,514 | - | 2,722,129 | - | - | - | 2,723,643 | |
| Derivative financial instruments | - | 1,903,781 | - | - | - | - | 1,903,781 | |
| Financial assets held-for-trading | 6,045,796 | - | - | - | - | - | 6,045,796 | |
| 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 | 18,047,046 | - | - | - | - | - | 18,047,046 | |
| Other financial assets | 54,450 | - | - | - | - | - | 54,450 | |
| Total Undiscounted Financial Assets | 60,716,551 | 1,903,781 | 103,703,136 | 34,447,157 | 67,350,036 | 30,188,717 | 298,309,378 | |
| 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 | (19,541,871) | 1,240,595 | 22,487,775 | (42,067,540) | 36,862,638 | 5,474,569 | 43,539,908 | |

56.2 (j) Contractual Maturities for Commitments and Contingencies

The table below summarises the maturity profile of the Bank's and the Group's commitments and contingencies as at 31 December 2015 and 31 December 2014.

| 31 December 2015 | BANK | | | | | | Total LKR '000 |
|---|--------------------|-----------------------|-------------------|------------------|------------------|--------------------|-------------------|
| | On Demand | Less than 3 Months | 3-12 Months | 1-5 Years | Over 5 Years | | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | | |
| Undisbursed financing commitments | 110,649,926 | - | - | - | - | 110,649,926 | |
| Guarantees | - | 5,201,238 | 8,841,725 | 7,814,944 | 5,026,707 | 26,884,614 | |
| Commitments on account of letters of credit | - | 5,925,841 | 1,742,216 | 464,204 | - | 8,132,261 | |
| Forward foreign exchange contracts | - | 51,558,561 | 32,758,091 | 144,000 | - | 84,460,652 | |
| Acceptances | - | 5,106,522 | 2,514,438 | - | - | 7,620,960 | |
| | 110,649,926 | 67,792,162 | 45,856,470 | 8,423,148 | 5,026,707 | 237,748,413 | |

| 31 December 2014 | BANK | | | | | |
|---|------------|-----------------------|----------------|--------------|-----------------|-------------|
| | On Demand | Less than 3 Months | 3-12 Months | 1-5 Years | Over 5 Years | Total |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | 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 |

| 31 December 2015 | GROUP | | | | | |
|---|-------------|-----------------------|----------------|--------------|-----------------|-------------|
| | On Demand | Less than 3 Months | 3-12 Months | 1-5 Years | Over 5 Years | Total |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Undisbursed financing commitments | 112,326,086 | – | – | – | – | 112,326,086 |
| Guarantees | – | 4,366,238 | 8,841,725 | 7,814,944 | 5,026,707 | 26,049,614 |
| Commitments on account of letters of credit | – | 5,925,841 | 1,742,216 | 464,204 | – | 8,132,261 |
| Forward foreign exchange contracts | – | 51,558,561 | 32,758,091 | 144,000 | – | 84,460,652 |
| Acceptances | – | 5,106,522 | 2,514,438 | – | – | 7,620,960 |
| | 112,326,086 | 66,957,162 | 45,856,470 | 8,423,148 | 5,026,707 | 238,589,573 |

| 31 December 2014 | GROUP | | | | | |
|---|------------|-----------------------|----------------|--------------|-----------------|-------------|
| | On Demand | Less than 3 Months | 3-12 Months | 1-5 Years | Over 5 Years | Total |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | 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 |

56.3 Capital Management

The Group realizes the importance of managing capital as it restricts the business growth unlike any other commercial organizations. 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 utilized for lending activities, thereby improving the net interest income of the Group. Further, the Group also maintains an effective balance between dividend payment and retention of profits, ensuring sufficient plough back of profits.

The detailed capital adequacy computation for the Bank and the Group as at 31 December 2015 and 31 December 2014 is given on page 255 to 259.

COMPLIANCE WITH DISCLOSURE REQUIREMENTS OF THE CENTRAL BANK OF SRI LANKA

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 55 – 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 56.1 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 Note 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 5.4 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 307 to 411. |
| 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 55 – Fair value of financial instruments |
| | ii. Description of how fair value was determined. | Note 55 – Fair value of financial instruments |
| | iii. The level of inputs used in determining fair value. | Note 55 – 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 55 (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 56 – Risk Management of the Financial Statements |
| 2.1.2 | Management's objectives, policies and processes for managing those risks | Note 56 – 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 56 – 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 56 – Risk Management of the Financial Statements |

i. Credit Risk

- a. Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.
- b. For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset.
- c. Information about collateral or other credit enhancements obtained or called.
- d. For other disclosures, refer Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).

Note 56.1 – Risk Management of the Financial Statements

ii. Liquidity Risk

- 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).

Note 56.2 – Liquidity Risk and Funding Management of the Financial Statements

iii. Market Risk

- 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).

Note 56.2 – Market Risk of the Financial Statements

iv. Operational Risk

Refer Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).

Risk Management pages 212 to 254.

| | | |
|---|--|--|
| v. Equity Risk in the Banking Book | a. Qualitative disclosures <ul style="list-style-type: none"> - 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. | } Note 56.2 – Equity Price Risk of the Financial Statements |
| b. Quantitative disclosures | <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. | } Note 56.2 – Equity Price Risk of the Financial Statements |
| vi. Interest Rate Risk in the Banking Book | a. Qualitative disclosures <ul style="list-style-type: none"> - Nature of interest rate risk in the banking book (IRRBB) and key assumptions. | } Note 56.2 – Interest Rate Risk of the Financial Statements |
| b. Quantitative disclosures | <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). | } Note 56.2 – Interest Rate Risk of the Financial Statements |
| 2.2.3 | Information on concentration of risk | } Note 56.1 – Risk Management of the Financial Statements |
| 3. Other Disclosures | | |
| 3.1 Capital | | |
| 3.1.1 Capital structure | | |
| i. Qualitative disclosures | Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments. | } Not Applicable |
| ii. Quantitative disclosures | a. The amount of Tier 1 capital, with separate disclosure of <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 b. The total amount of Tier II and Tier III capital c. Other deductions from capital d. Total eligible capital | } Pages 255 to 259 on Capital Adequacy |
| 3.1.2 Capital adequacy | | |
| i. Qualitative disclosures | A summary discussion of the Bank’s approach to assessing the adequacy of its capital to support current and future activities. | } Pages 255 to 259 on Capital Adequacy |
| ii. Quantitative disclosures | a. Capital requirements for credit risk, market risk and operational risk b. Total and Tier I capital ratio | } Pages 255 to 259 on Capital Adequacy |

LIVE YOUR DREAMS

Every day we help hundreds of customers live life their way. Your life is yours to live as you see fit...and we are committed to nurturing this cause.





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CORRESPONDENT
RELATIONSHIPS



CORPORATE INFORMATION SUPPLEMENT

| | |
|----------|---|
| | Branch Network of the Bank |
| 420 | Branch network of Group Companies |
| 426 | Correspondent Relationships |
| 427 | GRI Content Index |
| 428 | Glossary of Financial and Banking Terms |
| 433 | Notice of Meeting |
| 437 | Corporate Information |
| 438 | Form of Proxy |
| Enclosed | |

SCAN TO VIEW

http://ndbbank2015.annualreports.lk/corporate_information/index.html



BRANCH NETWORK OF THE BANK

| No. | Region | Branch Name | Abbreviation | Branch Code | Address | District | Telephone: General |
|-------------------------------|--------|-------------------|--------------|-------------|---|--------------|-----------------------------|
| CENTRAL PROVINCE | | | | | | | |
| 1 | R 5 | Dambulla | DMB | 064 | No. 42, Kurunegala Road, Dambulla | Matale | 066 2285502/3 |
| 2 | R 6 | Gampola | GPL | 050 | No. 75, Nuwara-Eliya Road, Gampola | Kandy | 081 2354400/60 |
| 3 | R 6 | Kandy | KDY | 002 | No. 133, Kotugodella Veediya, Kandy | Kandy | 081 2202776/7 |
| 4 | R 6 | Kandy City Centre | KCC | 080 | L 1 - 3, Level 1, Kandy City Centre, No. 05, Dalada Weediya, Kandy | Kandy | 081 2 202893/4 |
| 5 | R 6 | Matale | MTL | 046 | No. 144, Main Street, Matale | Matale | 066 2224405/6 |
| 6 | R 6 | Nawalapitiya | NWP | 061 | No. 70B, Gampola Road, Nawalapitiya | Kandy | 054 2223933/ 054 2223949 |
| 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 | Pilimathalawa | PLM | 049 | No. 239, Colombo Road, Pilimathalawa | Kandy | 081 2579665/6 |
| NORTH-CENTRAL PROVINCE | | | | | | | |
| 1 | R 5 | Anuradhapura | ANP | 019 | No. 522/C, Maithreepala Senanayake Mawatha, New Town, Anuradhapura | Anuradhapura | 025 4581142/3 |
| 2 | R 5 | Kaduruwela | KRW | 060 | No. 300/2, Sawmill Junction, Kaduruwela, Polonnaruwa | Polonnaruwa | 027 2225193/ 027 2225103 |
| 3 | R 5 | Kekirawa | KKR | 083 | No. 61, Opposite Government Hospital, Main Street, Kekirawa | Anuradhapura | 025 2263061/2 |
| NORTHERN PROVINCE | | | | | | | |
| 1 | R 8 | Chunnakam | CNK | 062 | No. 30, K K S Road, Chunnakam | Jaffna | 021 2242093/4 |
| 2 | R 8 | Jaffna | JAF | 037 | No. 62/6, Stanley Road, Jaffna | Jaffna | 021 2221180/1 |
| 3 | R 8 | Nelliady | NDY | 066 | No. 109, Jaffna Road, Nelliady | Jaffna | 021 2263402/3 |
| 4 | R 8 | Vavuniya | VAV | 041 | No. 2, 1st Cross Street, Vavuniya | Vavuniya | 024 2225780/1 |
| EASTERN PROVINCE | | | | | | | |
| 1 | R 8 | Akkaraipattu | AKP | 094 | No. 487, Main Street, Akkaraipattu | Ampara | 067 2057612/3 |
| 2 | R 7 | Ampara | AMP | 040 | No. 103F, D S Senanayake Street, Ampara | Ampara | 063 2223209 |
| 3 | R 8 | Batticaloa | BAT | 039 | No. 42/1, Trinco Road, Batticaloa | Batticaloa | 065 2227944/5 |
| 4 | R 8 | Chenkalady | CDY | 093 | Trincomalee Road, Chenkalady | Batticaloa | 065 2054344/5 |
| 5 | R 8 | Kalmunai | KLM | 053 | No. 165, Batticaloa Road, Kalmunai | Ampara | 067 2225781/2 |
| 6 | R 8 | Trincomalee | TRI | 038 | No. 91 & 93, North Coast Road, Trincomalee | Trincomalee | 026 2226771/2 |
| NORTH WESTERN PROVINCE | | | | | | | |
| 1 | R 4 | Chilaw | CHI | 010 | No. 50-52, Skyline Building, Colombo Road, Chilaw | Puttalam | 032 2220107/8 |
| 2 | R 5 | Giriulla | GRU | 086 | No. 86, Negombo Road, Giriulla | Kurunegala | 037 2288583 |
| 3 | R 5 | Kuliyaipitiya | KUL | 042 | No. 133, Main Street, Kuliyaipitiya | Kurunegala | 037 2281255/6 |
| 4 | R 5 | Kurunegala | KUR | 007 | No. 06, Rajapihilla Mawatha, Kurunegala | Kurunegala | 037 2231952/3 |
| 5 | R 5 | Nikaweratiya | NKW | 069 | No. 65, Puttalam Road, Nikaweratiya | Kurunegala | 037 2260192/3 |
| 6 | R 5 | Puttalam | PUT | 033 | No. 104, Kurunegala Road, Puttalam | Puttalam | 032 2265529 |
| 7 | R 5 | Wariyapola | WPL | 056 | Navinna Bldg, Puttalam Road, Wariyapola | Kurunegala | 037 2267838/9 |
| 8 | R 4 | Wennappuwa | WEN | 036 | No. 56/C, Main Street, Wennappuwa | Puttalam | 031 2245431/2 |

| Telephone: Manager's Direct | Fax | E-mail Address | ATM | Business Hours | Saturday/Sunday/365 Days Banking |
|--------------------------------|-------------|----------------|-----|---|---|
| 066 2285501 | 066 2285500 | | Yes | Monday to Friday 9.00am to 6.00pm | Saturday Banking from 9.00am to 1.00pm |
| 081 2351370 | 081 2354388 | | Yes | Monday to Friday 9.00am to 4.00pm | Saturday Banking from 9.00am to 1.00pm |
| 081 2202779 | 081 2202778 | | Yes | Monday to Friday 9.00am to 4.00pm | Saturday Banking from 9.00am to 1.00pm |
| 081 2202 892 | 081 2202895 | | Yes | 365-Day Banking Monday to Friday (9.00am to 7.00pm) | 365-Day Banking/Saturday Banking (9.00am to 3.00pm)/Sunday and Holiday Banking (9.00am to 1.00pm) |
| 066 2224403 | 066 2224407 | | Yes | Monday to Friday 9.00am to 4.00pm | Saturday Banking from 9.00am to 1.00pm |
| 054 2223858 | 054 2223696 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 052 2235210 | 052 2235214 | | 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 |
| 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 | |
| 025 2263064 | 025 2263070 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 021 2242092 | 021 2242095 | | Yes | Monday to Friday 9.00am to 4.00pm | Saturday Banking from 9.00am to 1.00pm |
| 021 2221182 | 021 2221183 | | 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 | |
| 024 2225782 | 024 2225783 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 067 2057611 | 067 2057614 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 063 2223191 | 063 2223216 | | 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 |
| 065 2054343 | 065 2054346 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 067 2225780 | 067 2225783 | | Yes | Monday to Friday 9.00am to 4.00pm | Saturday Banking from 9.00am to 1.00pm |
| 026 2226773 | 026 2226774 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 032 2222227 | 032 2220109 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 037 2288581 | 037 2288584 | | Yes | Monday to Friday 9.00am to 4.00pm | Saturday Banking from 9.00am to 1.00pm |
| 037 2281260 | 037 2281264 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 037 2231955 | 037 2231954 | | Yes | Monday to Friday 9.00am to 6.00pm | |
| 037 2260191 | 037 2260196 | | Yes | Monday to Friday 9.00am to 6.00pm | Saturday Banking from 9.00am to 1.00pm |
| 032 2266031 | 032 2266030 | | 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 |
| 031 2245433 | 031 2245434 | | Yes | Monday to Friday 9.00am to 4.00pm | |

| No. | Region | Branch Name | Abbreviation | Branch Code | Address | District | Telephone: General |
|-----|--------|-------------|--------------|-------------|---------|----------|--------------------|
|-----|--------|-------------|--------------|-------------|---------|----------|--------------------|

SOUTHERN PROVINCE

| | | | | | | | |
|----|-----|------------------|-----|-----|--|------------|----------------|
| 1. | R 3 | Akuressa | AKU | 065 | No. 21, Main Street, Akuressa | Matara | 041 2284 541/2 |
| 2. | R 3 | Ambalangoda | AMB | 047 | No. 333, Galle Road, Ambalangoda | Galle | 091 2256562/3 |
| 3. | R 3 | Ambalantota | AMT | 048 | No. 127, Main Street, Ambalantota | Hambantota | 047 2225552/3 |
| 4. | R 3 | Elpitiya | ELP | 067 | No. 23, Ambalangoda Road, Elpitiya | Galle | 091 2290481/2 |
| 5. | R 3 | Galle | GLE | 021 | 1/A, Abeysekara Building, Wakwella Road, Galle | Galle | 091 2224136/8 |
| 6. | R 3 | Hambantota | HMT | 057 | No. 34, Wilmot Street, Hambantota | Hambantota | 047 2222178/9 |
| 7. | R 3 | Matara | MAT | 006 | No. 60, Uyanwatte Road, Matara | Matara | 041 2231542/3 |
| 8. | R 3 | Uragasmanhandiya | UGM | 081 | No. 131, Main Street, Uragasmanhandiya | Galle | 091 2264195/6 |
| 9. | R 3 | Tissamaharama | TSM | 092 | No. 133 E, New Town, Tissamaharama | Hambantota | 047 2 238184/5 |

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 |
| 3. | R 6 | Mahiyanganaya | MGN | 075 | No. 02, New Town, Mahiyanganaya | Badulla | 055 2051671/2 |
| 4. | R 7 | Moneragala | MNR | 070 | No. 29, Pothuwil Road, Moneragala | Moneragala | 055 2277327/8 |

SABARAGAMUWA PROVINCE

| | | | | | | | |
|----|-----|--------------|-----|-----|---|-----------|----------------|
| 1. | R 7 | Balangoda | BLG | 077 | No. 24 A, Barns Ratwatte Mawatha, Balangoda | Ratnapura | 045 2289487/8 |
| 2. | R 7 | Eheliyagoda | ELG | 078 | No. 153, Main Street, Ehaliyagoda | Ratnapura | 036 2257321/2 |
| 3. | R 7 | Embilipitiya | EBP | 058 | No. 67, Pallegama, Embilipitiya | Ratnapura | 047 2261752/3 |
| 4. | R 7 | Kahawatte | KHW | 084 | No. 149, Main Street, Kahawatte | Ratnapura | 045 2271538/48 |
| 5. | R 6 | Kegalle | KEG | 017 | No. 261/1, Kandy Road, Kegalle | Kegalle | 035 2232536/7 |
| 6. | R 7 | Ratnapura | RAT | 013 | No. 32 A, Zavia Road, Ratnapura | Ratnapura | 045 2230910/1 |

WESTERN PROVINCE

| | | | | | | | |
|-----|-----|----------------|---------|-----|---|----------|-----------------------------|
| 1. | R 3 | Aluthgama | ALG | 059 | No. 267, Galle Road, Aluthgama | Kalutara | 034 2275625/6 |
| 2. | R 2 | Athurugiriya | ATU/ATG | 071 | No. 70/15 A, Borella Road, Athurugiriya | Colombo | 011 2563325/ 011 2073244 |
| 3. | R 7 | Avissawella | AWL | 034 | No. 93, Ratnapura Road, Avissawella | Colombo | 036 2233610/1 |
| 4. | R 2 | Battaramulla | BTM | 090 | No. 245, Main Street, Battaramulla | Colombo | 011 2885928/9 |
| 5. | R 2 | Boralessgamuwa | BOR/BRG | 072 | No. 39, Kesbawa Road, Boralessgamuwa | Colombo | 011 2509701/ 011 2150798 |
| 6. | R 1 | Borella | BRL | 052 | No. 31/5, Dr. N M Perera Mawatha, Borella | Colombo | 011 2694484/5 |
| 7. | R 1 | Colombo 07 | HOB | 100 | No. 103A, Dharmapala Mawatha, Colombo 7 | Colombo | 011 2448448/ 011 4796262 |
| 8. | R 4 | Gampaha | GAM | 029 | No. 153, Colombo Road, Gampaha | Gampaha | 033 2225051/2/3 |
| 9. | R 1 | Havelock Town | HVL | 003 | No. 117, Havelock Road, Colombo 05 | Colombo | 011 2591140/1 |
| 10. | R 4 | Hendala | HND | 088 | No. 46A, Hendala Road, Hendala | Gampaha | 011 2945981/2 |
| 11. | R 2 | Homagama | HOM | 030 | No. 64A, Highlevel Road, Homagama | Colombo | 011 2894880/1 |
| 12. | R 1 | Horana | HOR | 027 | No. 135, Panadura Road, Horana | Kalutara | 034 2265171/2 |
| 13. | R 4 | Ja - Ela | JLA | 044 | No.121, Colombo Road, Ja-Ela | Gampaha | 011 2248982 - 3 |

| Telephone: Manager's Direct | Fax | E-mail Address | ATM | Business Hours | Saturday/Sunday/365 Days Banking |
|--------------------------------|--------------|----------------|-----|---|---|
| 041 2284540 | 041 2284 543 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 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 | |
| 091 2290480 | 091 2290483 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 091 2233752 | 091 2233751 | | Yes | Monday to Friday 9.00am to 6.00pm | Saturday Banking from 9.00am to 1.00pm |
| 047 2222177 | 047 2222180 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 041 2231544 | 041 2231545 | | Yes | Monday to Friday 9.00am to 4.00pm | Saturday Banking from 9.00am to 1.00pm |
| 091 2264019 | 091 2264016 | | Yes | Monday to Thursday 9.00am to 4.00pm/Friday 9.00am to 6.00pm | |
| 047 2238183 | 047 2238186 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 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 2051670 | 055 2051673 | | Yes | Monday to Friday 9.00am to 4.00pm | Saturday Banking from 9.00am to 1.00pm |
| 055 2277326 | 055 2277329 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 045 2289486 | 045 2289489 | | Yes | Monday to Friday 9.00am to 4.00pm | Sunday Banking from 9.00am to 1.00pm |
| 036 2257320 | 036 2257323 | | Yes | Monday to Friday 9.00am to 4.00pm | Sunday Banking from 9.00am to 1.00pm |
| 047 2261751 | 047 2261754 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 045 2271528 | 045 2271558 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 035 2232532 | 035 2232571 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 045 2226022 | 045 2226042 | | Yes | Monday to Friday 9.00am to 4.00pm | Saturday Banking from 9.00am to 1.00pm |
| 034 2275624 | 034 2275627 | | Yes | Monday to Friday 9.00am to 4.00pm | Saturday Banking from 9.00am to 1.00pm |
| 011 2073243 | 011 2563326 | | Yes | Monday to Friday 9.00am to 4.00pm | Saturday Banking from 9.00am to 1.00pm |
| 036 2233612 | 036 2233613 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 011 2885298 | 011 2885299 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 011 2150797 | 011 2509702 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 011 2694438 | 011 2694439 | | Yes | Monday to Friday 9.00am to 6.00pm | Saturday Banking from 9.00am to 1.00pm |
| 011 2446995 | 011 4796278 | | Yes | Monday to Friday 9.00am to 6.00pm | Saturday Banking from 9.00am to 1.00pm |
| 033 2234350 | 033 2234351 | | Yes | Monday to Friday 9.00am to 6.00pm | |
| 011 2591144 | 011 2591142 | | Yes | 365-Day Banking Monday to Friday (9.00am to 6.00pm) | 365-Day Banking/Saturday Banking (9.00am to 3.00pm)/Sunday and Holiday Banking (9.00am to 1.00pm) |
| 011 2945983 | 011 2945984 | | Yes | Monday to Friday 9.00am to 6.00pm | Saturday Banking from 9.00am to 1.00pm |
| 011 2894882 | 011 2894883 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 034 2265173 | 034 2265174 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 011 2248981 | 011 2248984 | | Yes | Monday to Friday 9.00am to 6.00pm | Saturday Banking from 9.00am to 1.00pm |

| No. | Region | Branch Name | Abbreviation | Branch Code | Address | District | Telephone: General |
|-----|--------|-----------------|--------------|-------------|--|----------|-----------------------------|
| 14. | R 4 | Kadawatha | KDW | 026 | No. 147, Kandy Road, Kadawatha | Gampaha | 011 2926453/4 |
| 15. | R 2 | Kaduwela | KWL | 055 | No. 501/2, Awissawella Road, Kaduwela | Colombo | 011 2548571/2 |
| 16. | R 3 | Kalutara | KAL | 016 | No. 290, Galle Road, Kalutara South | Kalutara | 034 2229680/2 |
| 17. | R 4 | Kandana | KDN | 028 | No. 54, Negombo Road, Kandana | Gampaha | 011 2228601/2 |
| 18. | R 4 | Katunayake | KTN | 082 | No. 745, Baseline Road, Aweriwatta, Katunayaka | Gampaha | 011 2254960/70 |
| 19. | R 4 | Kiribathgoda | KBG | 025 | No. 139/1, Kandy Road, Kiribathgoda | Gampaha | 011 2907511/2 |
| 20. | R 4 | Kochchikade | KCH | 089 | No. 96, Chilaw Road, Kochchikade. | Gampaha | 031 2272193/4 |
| 21. | R 2 | Kohuwela | KOH | 032 | No. 118, S De S Jayasinghe Mawatha, Kohuwela | Colombo | 011 2814224/5 |
| 22. | R 1 | Kollupitiya | KPY | 014 | No. 712, Galle Road, Colombo 3 | Colombo | 011 2504961/2 |
| 23. | R 1 | Kotahena | KOT | 024 | No. 295, George R De Silva Mawatha, Colombo 13 | Colombo | 011 2436169/70 |
| 24. | R 2 | Maharagama | MHG | 012 | No. 108 A, Highlevel Road, Maharagama | Colombo | 011 2745091/2 |
| 25. | R 2 | Malabe | MLB | 031 | No. 760, New Kandy Road, Malabe | Colombo | 011 2762345/6 |
| 26. | R 3 | Mathugama | MGM | 045 | No. 98, Agalawatta Road, Mathugama | Kalutara | 034 2249509/10 |
| 27. | R 4 | Minuwangoda | MNG | 063 | No. 49, Negombo Road, Minuwangoda | Gampaha | 011 2280970/1 |
| 28. | R 1 | Moratuwa | MOR | 015 | No. 255, Galle Road, Idama, Moratuwa | Colombo | 011 2642021/2 |
| 29. | R 1 | Mount Lavinia | MLV | 020 | No. 431/433, Galle Road, Mount Lavinia | Colombo | 011 2739176/ 011 2737144 |
| 30. | R 1 | Narahenpita | NAR | 074 | No. 193, Kirula Road, Narahenpita, Colombo 5 | Colombo | 011 2369580/ 011 2369507 |
| 31. | R 1 | Nawam Mawatha | NMB | 001 | No. 42, Dhpl Bldg, Nawam Mawatha, Colombo 02 | Colombo | 0112 314640/1 |
| 32. | R 4 | Negombo | NEG | 009 | No. 121, St. Joseph's Street, Negombo | Gampaha | 031 2220246/7 |
| 33. | R 4 | Nittambuwa | NTB | 054 | No. 496, Kandy Road, Nittambuwa | Gampaha | 033 229 4931/2 |
| 34. | R 2 | Nugegoda | NUG | 004 | No. 152, Nawala Road, Nugegoda | Colombo | 011 2820885/7 |
| 35. | R 1 | Old Moor Street | OMS | 079 | No. 311, Old Moor Street, Colombo 12 | Colombo | 011 2 339902/3 |
| 36. | R 1 | Panadura | PAN | 035 | No. 319, Galle Road, Panadura | Kalutara | 038 2241893/4 |
| 37. | R 2 | Pelawatte | PEL | 022 | No. 730A, Pannipitya Road, Pelawatte, Battaramulla | Colombo | 011 2786708/9 |
| 38. | R 1 | Pettah | PET | 043 | No. 202, Main Street, Colombo 01 | Colombo | 011 2331204/5 |
| 39. | R 2 | Piliyandala | PIL | 023 | No. 21, Second Cross Street, Piliyandala | Colombo | 011 2604600 |
| 40. | R 2 | Pitakotte | PTK | 087 | No. 322B, Kotte Road, Pitakotte | Colombo | 011 2856503/34 |
| 41. | R 2 | Rajagiriya | RAJ | 005 | No. 505, Sri Jayawardenapura Etul Kotte, Kotte | Colombo | 011 2885790/792 |
| 42. | R 1 | Ratmalana | RML | 073 | No 151, Galle Road, Ratmalana | Colombo | 011 2716684 011 2719361 |
| 43. | R 4 | Wattala | WTL | 011 | 378A, Negombo Road, Wattala | Gampaha | 011 2981519/20 |
| 44. | R 1 | Wellawatte | WEL | 008 | 302, Galle Road, Colombo 6 | Colombo | 011 2361903/4 |
| 45. | R 4 | Yakkala | YAK | 068 | 65/5 B, Kandy Road, Yakkala | Gampaha | 033 2239395/6 |

REGIONAL HEAD OFFICE

| Region Code | Region | Regional Office Located in | Regional Head |
|-------------|-------------------------|----------------------------|----------------------------------|
| 1. | Colombo Region | Borella Branch | Sydney Downall |
| 2. | Greater Colombo Region | Rajagiriya Branch | Indika Kudagamage |
| 3. | Southern Region | Matara Branch | Chandima Alwis |
| 4. | North-Western Region | Ja-Ela Branch | Romesh Tissera |
| 5. | North-Central Region | Kurunegala Branch | Suresh Weerasinghe |
| 6. | Central Region | Kandy Branch | Nalin Abeyratne |
| 7. | Uva-Sabaragamuwa Region | Ratnapura Branch | Sisira Herath |
| 8. | North East Region | Jaffna Branch | Thissaveerasingam Jeyarajasingam |

| Telephone: Manager's Direct | Fax | E-mail Address | ATM | Business Hours | Saturday/Sunday/365 Days Banking |
|--------------------------------|-------------|----------------|-----|---|---|
| 011 2926456 | 011 2926455 | | Yes | Monday to Friday 9.00am to 4.00pm | Saturday Banking from 9.00am to 1.00pm |
| 0112548569 | 011 2548573 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 034 2236577 | 034 2236579 | | Yes | Monday to Friday 9.00am to 4.00pm | Saturday Banking from 9.00am to 1.00pm |
| 011 2228603 | 011 2228604 | | Yes | Monday to Friday 9.00am to 6.00pm | |
| 011 2254950 | 011 2254930 | | 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 |
| 0312272192 | 031 2272195 | | Yes | Monday to Friday 9.00am to 4.00pm | Sunday Banking from 9.00am to 1.00pm |
| 011 2814226 | 011 2814227 | | Yes | Monday to Friday 9.00am to 6.00pm | |
| 011 2504964 | 011 2504963 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 011 2436171 | 011 2436199 | | Yes | Monday to Friday 9.00am to 6.00pm | |
| 011 2745093 | 011 2745094 | | Yes | Monday to Friday 9.00am to 6.00pm | Saturday Banking from 9.00am to 1.00pm |
| 011 2762347 | 011 2762348 | | Yes | Monday to Friday 9.00am to 4.00pm | 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 2280969 | 011 2280995 | | Yes | Monday to Friday 9.00am to 6.00pm | Sunday Banking from 9.00am to 1.00pm |
| 011 2642025 | 011 2642023 | | Yes | Monday to Friday 9.00am to 6.00pm | Saturday Banking from 9.00am to 1.00pm |
| 011 2739717 | 011 2721249 | | Yes | 365 Day Banking Monday to Friday (9.00am to 6.00pm) | 365-Day Banking/Saturday Banking (9.00am to 3.00pm)/Sunday and Holiday Banking (9.00am to 1.00pm) |
| 011 2369508 | 011 2369581 | | Yes | Monday to Friday 9.00am to 7.00pm | Saturday Banking from 9.00am to 1.00pm |
| 011 2314643 | 011 2314642 | | Yes | Monday to Friday 9.00am to 6.00pm | |
| 031 2220249 | 031 2220248 | | Yes | Monday to Friday 9.00am to 6.00pm | Saturday Banking from 9.00am to 1.00pm |
| 0332294945 | 033 2294947 | | Yes | Monday to Friday 9.00am to 4.00pm | Saturday Banking from 9.00am to 1.00pm |
| 011 2820879 | 011 2820893 | | Yes | Monday to Friday 9.00am to 6.00pm | Saturday Banking from 9.00am to 1.00pm |
| 011 2 339901 | 011 2339904 | | Yes | Monday to Friday 9.00am to 6.00pm | Saturday Banking from 9.00am to 1.00pm |
| 038-2241895 | 038 2241896 | | Yes | Monday to Friday 9.00am to 6.00pm | Saturday Banking from 9.00am to 1.00pm |
| 011 2786710 | 011 2786711 | | Yes | Monday to Friday 9.00am to 4.00pm | 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 2604685 | 011 2604800 | | Yes | Monday to Friday 9.00am to 6.00pm | Saturday Banking from 9.00am to 1.00pm |
| 011 2856491 | 011 2856479 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 011 2885794 | 011 2885793 | | Yes | 365 Day Banking Monday to Friday (9.00am to 7.00pm) | 365-Day Banking/Saturday Banking (9.00am to 3.00pm)/Sunday and Holiday Banking (9.00am to 1.00pm) |
| 0112 716685 | 011 2719377 | | Yes | Monday to Friday 9.00am to 4.00pm | |
| 011 2981522 | 011 2981521 | | Yes | Monday to Friday 9.00am to 6.00pm | Saturday Banking from 9.00am to 1.00pm |
| 011 2361906 | 011 2361905 | | Yes | Monday to Friday 9.00am to 6.00pm | Saturday 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 |

| Address | Telephone: Regional Head's Direct | Telephone: General | Fax |
|---|-----------------------------------|--------------------|-------------|
| No. 31/5, Dr. N M Perera Mawatha, Borella | 011 2685711 | 011 2685712 | 011 2685713 |
| No. 505, Sri Jayawardenapura Mawatha, Etul Kotte, Kotte | 011 2077483 | 011 2078715/16 | 011 2078714 |
| No. 60, Uyanwatte Road, Matara | 041 2227164 | 041 2227161/3 | 041 2222406 |
| No. 121, Colombo Road, Ja-Ela | 011 2071493 | 011 2071491/2 | 011 2341049 |
| No. 6, Rajapihilla Mawatha, Kurunegala | 037 2225341 | 037 4692421 | 037 2231954 |
| No. 133, Kotugodella Veediya, Kandy | 081 2238786 | 081 2228633/5 | 081 2202778 |
| No. 32 A, Zavia Road, Ratnapura | 045 2223839 | 045 2230912 | 045 2226042 |
| No. 62/6, Stanley Road, Jaffna | 021 2217395 | 021 2217396 | 021 2217397 |

BRANCH NETWORK OF GROUP COMPANIES

| Head Office/Branches | Postal Address | Contact Person | Telephone | Fax | E-mail Address |
|--|---|---------------------------|----------------------------|---------------|----------------------------|
| NDB Capital Holdings Ltd. | No. 40, Navam Mawatha, Colombo 02 | Isuru Somaratne | 011 2300385-90 | 011 2300393 | isuru@ndbib.com |
| NDB Investment Bank Ltd. | No. 40, Navam Mawatha, Colombo 02 | Darshan Perera | 011 2300385-90 | 011 2300393 | darshan@ndbib.com |
| NDB Wealth Management Ltd. | NDB-EDB Tower (Ground Floor), No. 42, Nawam Mawatha, Colombo 02 | Ruwan Perera | 011 2303232 | 011 2303237 | ruwan@ndbinvestors.com |
| NDB Securities (Pvt) Ltd. | | | | | |
| Head Office | 5th Floor, NDB Building, No. 40, Nawam Mawatha, Colombo 02 | Aroos Faleel | 011 2131000 | 011 2314181 | aroosfaleel@ndbs.lk |
| Ampara | No. 103F, D S Senanayake Street, Ampara | Ravi De Mel | 063 2224245 | 011 2314181 | ravi@ndbs.lk |
| CSE | No. 04-01, West Tower, Echelon Square, Colombo 01 | Ms. Shiromi De Silva | 011 2335054 | 011 2314181 | shiromi@ndbs.lk |
| Galle | No. 1/A, Abeysekera Building, Wakwella Road, Galle | Upul Hettiarachchi | 091 2225447 | 011 2314181 | upul@ndbs.lk |
| Jaffna | 1st Floor, NDB Bank, No. 62/6, Stanly Road, Jaffna | Chandru Padmanathan | 021 5671155 021 2224978 | 011 2314181 | chandru@ndbs.lk |
| Kalutara | No. 290, Galle Road, Kalutara South | W M Ranganath M Wijetunga | 034 2221589 | 011 2314181 | ranganath@ndbs.lk |
| NDB Capital Ltd. (Bangladesh) | Bilquis Tower, (5th floor), Plot-6, Gulshan-2, Dhaka-1212, Bangladesh | Kanti Kumar Saha | +880 29888626 | +880 29888979 | kanti@ndbcapital.com |
| NDB Zephyr Partners Lanka (Private) Ltd. | 97, Dharmapala Mawatha, Colombo 07 | Senaka Kakiriwaragodage | 011 2303810 | 011 2307155 | sk@emeraldfundsl.com |
| NDB Zephyr Partners Ltd. | IFS Court, Twenty Eight, Cybercity, Ebene, Mauritius | Ms. Divya Seebocus | 230 467 5187 | 230 467 4000 | dseebocus@ifsmauritius.com |
| Development Holdings (Pvt) Ltd. | NDB – EDB Tower (2nd Floor), No. 42, Navam Mawatha, Colombo 02 | Janitha Dissanayake | 011 2300174 | 011 2300174 | mgrdhpl@gmail.com |

CORRESPONDENT RELATIONSHIPS



- | | | | | |
|------------------|--------------------|-----------------|------------------------|--------------------------|
| 1. Algeria | 21. Czech Republic | 41. Kazakhstan | 61. Norway | 80. Spain |
| 2. Argentina | 22. Denmark | 42. Kenya | 62. Oman | 81. Sri Lanka |
| 3. Australia | 23. Egypt | 43. Kuwait | 63. Pakistan | 82. Sweden |
| 4. Austria | 24. Estonia | 44. Latvia | 64. Panama | 83. Switzerland |
| 5. Bahamas | 25. Finland | 45. Lebanon | 65. Peru | 84. Taiwan |
| 6. Bahrain | 26. France | 46. Luxembourg | 66. Philippines | 85. Tanzania |
| 7. Bangladesh | 27. Gabon | 47. Macao | 67. Poland | 86. Thailand |
| 8. Belgium | 28. Germany | 48. Madagascar | 68. Portugal | 87. Tunisia |
| 9. Bolivia | 29. Greece | 49. Malaysia | 69. Qatar | 88. Turkey |
| 10. Brazil | 30. Guernsey CI | 50. Maldives | 70. Romania | 89. Ukraine |
| 11. Bulgaria | 31. Hong Kong | 51. Mauritania | 71. Russian Federation | 90. United Arab Emirates |
| 12. Cambodia | 32. Hungary | 52. Mauritius | 72. Saudi Arabia | 91. United Kingdom |
| 13. Cameroon | 33. Iceland | 53. Mexico | 73. Senegal | 92. United States |
| 14. Canada | 34. India | 54. Moldova | 74. Seychelles | 93. Uruguay |
| 15. Chile | 35. Indonesia | 55. Monaco | 75. Singapore | 94. Vietnam |
| 16. China | 36. Ireland | 56. Morocco | 76. Slovakia | 95. Zambia |
| 17. Colombia | 37. Israel | 57. Nepal | 77. Slovenia | 96. Zimbabwe |
| 18. Congo | 38. Italy | 58. Netherlands | 78. South Africa | |
| 19. Cote Divoire | 39. Japan | 59. New Zealand | 79. South Korea | |
| 20. Cyprus | 40. Jordan | 60. Nigeria | | |

We have established correspondent relationships in 96 countries

GRI CONTENT INDEX

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 | ✓ | 10 |
| ORGANIZATION PROFILE | | | | |
| G4-3 | Name of the Organization | Business Model | ✓ | 20 |
| G4-4 | Primary Brands, Products and/or Services | Customer Capital | ✓ | 75-77 |
| G4-5 | Location of Organization's Headquarters | Corporate Information | ✓ | 428 |
| 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, 82 |
| 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 | ✓ | 88-89 |
| G4-11 | Report the percentage of total employees covered by collective bargaining agreements | Employee Capital | ✓ | 92 |
| G4-12 | Organization's supply chain | Institutional Capital | ✓ | 69 |
| G4-13 | Significant changes during the reporting period regarding size, structure or ownership | About this Report | ✓ | 5 |
| G4-14 | Report whether and how the precautionary approach or principle is addressed by the organization | About this Report | ✓ | 5 |
| 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 | ✓ | 5, 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 | ✓ | 5 |
| 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 | ✓ | 35 |
| G4-21 | Aspect Boundary for identified Material Aspects outside the organization | About this Report | ✓ | 35 |
| G4-22 | Report the effect of any restatements of information provided in previous reports and the reasons for such restatements | About this Report | ✓ | 5 |
| G4-23 | Report significant changes from previous reporting periods in the Scope and Aspect Boundaries | About this Report | ✓ | 5 |
| STAKEHOLDER ENGAGEMENT | | | | |
| G4-24 | List of stakeholder groups engaged by the Organization | Business Model | ✓ | 28-33 |
| G4-25 | Basis for identification and selection of stakeholders with whom to engage | Business Model | ✓ | 27 |
| G4-26 | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group | Business Model | ✓ | 28-33 |
| G4-27 | Key topics and concerns raised through stakeholders engagement and how the Organization responded to them | Business Model | ✓ | 28-33 |

| GRI Indicator | Description | Reported in | Externally Assured | Page No./ Explanations |
|---|--|---------------------------------|--------------------|------------------------|
| REPORT PROFILE | | | | |
| G4-28 | Reporting period | About this Report | ✓ | 5 |
| G4-29 | Date of most recent previous report | About this Report | ✓ | 5 |
| G4-30 | Reporting cycle | About this Report | ✓ | 5 |
| G4-31 | Contact point for questions regarding the Report or its Contents | About this Report | ✓ | 5 |
| G4-32 | Compliance with GRI G4 guidelines, GRI Content index and the External Assurance Report | About this Report | ✓ | 5, 428-431 |
| G4-33 | Policy and current practice with regard to seeking External Assurance for the Report | Sustainability Assurance Report | ✓ | 102-103 |
| 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 | ✓ | 131 |
| ETHICS AND INTEGRITY | | | | |
| G4-56 | The values, principles, standards and norms of behaviour | Institutional Capital | ✓ | 67-68 |
| SPECIFIC STANDARD DISCLOSURES | | | | |
| G4 - DMA Aspect and Materiality fulfilled | | Business Model | | 38 |
| CATEGORY: ECONOMIC | | | | |
| Aspect | Economic Performance | | | |
| G4-EC1 | Direct economic value generated, distributed and retained | Financial Capital | ✓ | 51-52 |
| G4-EC3 | Coverage of the Organization's defined benefit plan obligations | Employee Capital | ✓ | 90, 354 |
| Aspect | Market Presence | | | |
| G4-EC6 | Proportion of senior management hired from the local community at locations of significant locations of operation | Social & Environmental Capital | ✓ | 96 |
| Aspect | Indirect Economic Impact | | | |
| G4-EC7 | Development and impact of infrastructure investments and services supported | Social & Environmental Capital | ✓ | 99-101 |
| Aspect | Procurement Practices | | | |
| G4-EC9 | Proportion of spending on local suppliers at significant locations of operations | Institutional Capital | ✓ | 69 |
| CATEGORY: ENVIRONMENT | | | | |
| Aspect | Materials | | | |
| G4-EN2 | Percentage of materials used that are recycled input materials | Social & Environmental Capital | ✓ | 99 |
| Aspect | Energy | | | |
| G4-EN3 | Energy consumption within the organization | Social & Environmental Capital | ✓ | 98 |
| Aspect | Emission | | | |
| G4-EN15 | Direct greenhouse gas emissions (scope 1) | Social & Environmental Capital | ✓ | 98-99 |
| G4-EN16 | Energy indirect greenhouse gas emissions (scope 2) | Social & Environmental Capital | ✓ | 98-99 |
| G4-EN17 | Other indirect greenhouse gas emissions (scope 3) | Social & Environmental Capital | ✓ | 98-99 |

| GRI Indicator | Description | Reported in | Externally Assured | Page No./ Explanations |
|---|--|------------------|--------------------|------------------------|
| CATEGORY: SOCIAL | | | | |
| Labour Practices and Decent Work | | | | |
| Aspect | Employment | | | |
| G4-LA1 | Total number and rate of new employee hires and employee turnover by age group, gender and region | Employee Capital | ✓ | 89 |
| 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 | ✓ | 90 |
| G4-LA3 | Return to work and retention rates after parental leave, by gender. | Employee Capital | ✓ | 90 |
| Aspect | Labour/Management Relations | | | |
| G4-LA4 | Minimum notice periods regarding operational changes including whether these are specified in collective agreements | Employee Capital | ✓ | 92 |
| 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 | ✓ | 92 |
| Aspect | Training and Education | | | |
| G4-LA9 | Average hours of training per year per employee by gender and by employee category | Employee Capital | ✓ | 90-91 |
| 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 | ✓ | 91 |
| G4-LA11 | Percentage of employees receiving regular performance and career development reviews by gender and employee category | Employee Capital | ✓ | 92 |
| 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 | ✓ | 91-92 |
| 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 | ✓ | 92 |
| Aspect | Labour Practices Grievance Mechanisms | | | |
| G4-LA16 | Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms | Employee Capital | ✓ | 93 |
| Human Rights | | | | |
| Aspect | Non-Discrimination | | | |
| G4-HR3 | Total number of incidents of discrimination and corrective action taken | Employee Capital | ✓ | 92 |
| 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 | ✓ | 92 |
| Aspect | Child Labour | | | |
| G4-HR5 | Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour | Employee Capital | ✓ | 92 |
| Aspect | Forced or Compulsory Labour | | | |
| G4-HR6 | Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour | Employee Capital | ✓ | 92 |

| GRI Indicator | Description | Reported in | Externally Assured | Page No./ Explanations |
|-------------------------------|---|--------------------------------|--------------------|------------------------|
| Aspect | Human Rights Grievance Mechanisms | | | |
| G4-HR12 | Number of grievances about Human Rights impacts filed, addressed and resolved through formal grievance mechanisms | Employee Capital | ✓ | 93 |
| Society | | | | |
| Aspect | Local Communities | | | |
| G4-SO1 | Percentage of operations with implemented local community engagement, impact assessments and development programmes | Social & Environmental Capital | ✓ | 99-101 |
| Aspect | Anti-Corruption | | | |
| G4-SO3 | Total number and percentage of operations assessed for risks related to corruption and the significant risks identified | Risk Management | ✓ | 246-255 |
| Aspect | Compliance | | | |
| G4-SO8 | Monitory value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations | Institutional Capital | ✓ | 70 |
| Aspect | Anti-competitive Behaviour | | | |
| G4-SO7 | Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes | Institutional Capital | ✓ | 70 |
| Aspect | Supplier Assessment for Impact on Society | | | |
| G4-SO9 | Percentage of new suppliers that was screened using criteria for impacts on society | Institutional Capital | ✓ | 69 |
| Aspect | Grievance Mechanisms for Impacts on Society | | | |
| G4-SO11 | Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms | Institutional Capital | ✓ | 32 |
| Product Responsibility | | | | |
| Aspect | Product and Service Labelling | | | |
| G4-PR3 | Type of product and 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 | ✓ | 85 |
| G4-PR5 | Results of surveys measuring customer satisfaction | Customer Capital | ✓ | 29 |
| 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 | ✓ | 85 |
| Aspect | Customer Privacy | | | |
| G4-PR8 | Total number of substantial compliance regarding breaches of customer privacy and losses of customer data | Customer Capital | ✓ | 85 |
| 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 | ✓ | 70 |

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 | 92 |
| | Principle 2 | |
| | Businesses should make sure that they are not complicit in human rights abuses | 92 |
| Labour | Principle 3 | |
| | Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining | 92 |
| | Principle 4 | |
| | Businesses should uphold the elimination of all forms of forced and compulsory labour | 92 - 93 |
| | Principle 5 | |
| | Businesses should uphold the effective abolition of child labour | 92 |
| Environment | Principle 6 | |
| | Businesses should uphold the elimination of discrimination in respect of employment and occupation | 91 - 92 |
| | Principle 7 | |
| | Businesses should support a precautionary approach to environmental challenges | 68, 84-85,97-99 |
| | Principle 8 | |
| | Businesses should undertake initiatives to promote greater environmental responsibility | 68, 84-85,97-99 |
| Anti-Corruption | Principle 9 | |
| | Businesses should encourage the development and diffusion of environmentally friendly technologies | 68, 84-85,97-99 |
| | Principle 10 | |
| | Businesses should work against corruption in all its forms, including extortion and bribery | 67, 70, 92, 129, 141 |

GLOSSARY OF FINANCIAL AND BANKING TERMS

A

Acceptances

A 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.

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

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.

Amounts Due to Customers

Money deposited by account holders. Such funds are recorded as liabilities.

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 Financial Assets

A debt or equity security that is purchased with the intent of selling before it reaches maturity, or selling prior to a lengthy time period in the event the security does not have a maturity.

B

Basel II

The capital adequacy framework issued by the Basel Committee on Banking Supervision in the form of the 'international convergence of capital measurements and capital standards'.

Basel III

The Basel Committee on Banking Supervision's details of strengthened global regulatory standards on Bank capital adequacy and liquidity.

Basis Point (BP)

One hundredth of a percentage point, i.e., 100bp equals 1%, used in quoting movements in interest rates, security yields, etc.

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 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 organization 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 utilized 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.

Control

Control is the power over an investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its powers over the investee to affect the amount of the investor's returns.

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.

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.

Cost to Income Ratio

Operating expenses excluding impairment for loans and receivables and other losses as a percentage of total operating income.

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.

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.

Currency Swaps

The simultaneous purchase of an amount of currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

Customers Deposits

Money deposited by account holders. Such funds are recorded as liabilities.

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.

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'.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition

Removal of a previously recognized financial asset or financial liability from an entity's Statement of Financial Position.

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).

Dividend Cover

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by current year's distributable profits.

Dividend Yield

Dividend earned per share as a percentage of its market value.

Documentary Credits

Commercial letters of credit provided for payment by a bank to the named beneficiary usually the seller of merchandise, against delivery of documents specified in the credit.

E**Earnings per Ordinary Share (EPS)**

Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.

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.

Effective Tax Rate

Provision for taxation including deferred tax divided by the profit before taxation.

Employee Share Ownership Plan (ESOP)

A method of giving employees shares in the business for which they work.

Equity Method

This is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Equity Risk

The risk arising from positions, either long or short, in equities or equity-based instruments, which create exposure to a change in the market price of the equities or equity instruments.

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).

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.

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 Instruments

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 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.

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**Gain/Loss**

Gain or loss arising from the difference between estimates and actual experience in a company's pension plans and gratuity funds.

Gross Dividend

The portion of profits distributed to the shareholders including the tax withheld.

Group

A Group is a parent and all its subsidiaries and associates.

Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

H**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.).

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).

Held-to-Maturity

Investments and debt securities that a company has the ability and intent to hold until maturity.

Historical Cost

Historical cost is the original nominal value of an economic item.

I

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

This occurs when recoverable amount of an asset is less than its carrying amount.

Impairment Allowances

Management's best estimate of losses incurred in the loan portfolios at the Reporting date.

Impairment Charges for Loan Losses

Amounts set aside against possible losses on loans, receivables and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

Intangible Asset

An intangible asset is an identifiable non-monetary asset without physical substance.

Integrated Reporting

A methodology of reporting an organization'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.

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.

Investment Banking

A specific division of banking related to the creation of capital for other companies. Investment banks underwrite new debt and equity securities for all types of corporations. Investment banks also provide guidance to issuers regarding the issue and placement of stock.

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.

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

LCR Definition

With the introduction of Basel III rules on Liquidity Risk Management LCR has been identified as a key policy measure to further strengthen the liquidity risk management to promote a more resilient banking sector.

LCR is expected to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus, reducing the risk of spillover from the financial sector to the real economy.

LCR represents the Ratio of Stock of high quality liquid assets available to Total net cash outflows over next 30 calendar days.

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 Coverage Ratio

Ratio of Stock of high quality liquid assets available to Total net cash outflows over next 30 calendar days. LCR is expected to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus, reducing the risk of spillover from the financial sector to the real economy.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loan-to-Value Ratio

The Loan-to-Value (LTV) ratio is a financial term used by lenders to express the ratio of a loan to the value of an asset purchased. The term is commonly used to represent the ratio of the first mortgage lien as a percentage of the total appraised value of real property.

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 amounts 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.

Net Stable Funding Ratio (NSFR)

The ratio of available stable funding to required stable funding over a one year time horizon, assuming a stressed scenario. Available stable funding would include items such as equity capital, preferred stock with a maturity of over one year and liabilities with an assessed maturity of over one year. The Basel III rules require this ratio to be over 100% with effect from 2018. The NSFR is still subject to an observation period and review to address any unintended consequences.

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.

Non-Performing Loans (NPLs)

A loan or an receivables placed on cash basis (i.e., Interest income is only recognized when cash is received) because, in the opinion of management, there is reasonable doubt regarding the 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).

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.

Probability of Default (PD)

The probability that an obligor will default on an obligation within a given period of time.

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.

Remittances

A remittance is a transfer of money by a foreign worker to an individual in his or her home country.

Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

Retained Earnings

Reserves that are set aside for future distribution and investments.

Return on Average Assets (ROA)

Profit after tax divided by the average assets.

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.

Revaluation Reserve

Part of the shareholders' equity that arises from changes in the current value of property, plant and equipment.

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.

Risk-Weighted Assets

On-Balance Sheet assets and the credit equivalent of Off-Balance Sheet assets multiplied by the relevant risk weighting factors.

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.

Significant Influence

If an entity holds, directly or indirectly (e.g., through subsidiaries), 20% or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated otherwise.

Single Borrower Limit (SBL)

33% of the regulatory capital base.

Specific Impairment Provisions

Impairment is measured individually for loans that are individually significant to the Bank.

Statutory Reserve Fund

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Subsidiary

An entity, including an unincorporated entity such as a partnership, which is controlled by another entity (known as the Parent).

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.

Swaps

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

T**Tier I Capital**

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II Capital

Supplementary capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Total Capital

Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

Transfer Pricing Arrangement

Transfer pricing involves the terms and prices at which related parties sell (or should sell) goods or services to each other. When the parties are located in different taxing jurisdictions, opportunities exist for the movement of income to a lower-taxing jurisdiction. A transfer pricing arrangement is developed to combat potential losses of income tax revenue.

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.

Value-at-Risk ('VaR')

A measure of the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g., rates, prices, volatilities) over a specified time horizon and to a given level of confidence.

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 OF MEETING

Notice is hereby given that the Eleventh (11th) 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 Wednesday the Thirtieth (30) day of March, Two Thousand and Sixteen (2016) 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 2015.
2. To re-elect D S P Wikramanayake, as a Director in terms of Article 42 of the Articles of Association of the Bank.
3. To reappoint N G Wickremeratne in terms of Article 44 (2) of the Articles of Association of the Bank.
4. To reappoint D M R Phillips in terms of Article 44 (2) of the Articles of Association of the Bank.
5. To reappoint K D W Ratnayaka in terms of Article 44 (2) of the Articles of Association of the Bank.
6. To reappoint Messrs Ernst & Young, Chartered Accountants, as Auditors of the Bank as set out in Section 154 of the Companies Act No. 07 of 2007 and Section 39 of the Banking Act No. 30 of 1988 (as amended) and to fix the fees and expenses of such Auditors.
7. To determine the aggregate remuneration payable to Non-Executive Directors including the Chairman in terms of Article 58 of the Articles of Association of the Bank and to authorize the Board of Directors to approve other remuneration and benefits to the Directors (including the remuneration of the Executive Director/s) in terms of Section 216 of the Companies Act No. 07 of 2007.
8. To authorize the Board of Directors to determine donations for the financial year 2016 under the Companies Donations Act No. 26 of 1951.

By Order of the Board,



Shehani Ranasinghe
Company Secretary

12 February 2016
Colombo

Notes:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy holder to attend and vote in his/her stead.
2. A proxy holder need not be a shareholder of 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.

CORPORATE INFORMATION

NAME

National Development Bank PLC

REGISTRATION NO.

PQ 27

REGISTERED LOGO:



LEGAL FORM

Established under the National Development Bank of Sri Lanka Act No. 02 of 1979 and incorporated as a Company under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007 and also licensed as a Licensed Commercial Bank in terms of the Banking Act No. 30 of 1988 as amended from time to time.

STOCK EXCHANGE LISTING

The shares of the Bank are listed on the Colombo Stock Exchange.

HEAD OFFICE/REGISTERED OFFICE

No. 40, Navam Mawatha, Colombo 02
Tel: +94 11 2448448
Fax: +94 11 2341044
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: Long-term National Rating: AA-(Ika)/ Stable Outlook
Fitch Ratings Lanka Limited
International Issuer Rating: b+
Standard & Poor's Rating Services

BOARD OF DIRECTORS AS AT 31 DECEMBER 2015

N G Wickremeratne – Chairman – Independent
A K Pathirage – Deputy Chairman – Non-Independent
R Theagarajah – Chief Executive Officer – Non-Independent
T L F Jayasekera – Independent
Mrs. K Fernando – Independent
D S P Wikramanayake – Non-Independent
Mrs. W A I Sugathadasa – Independent
Mrs. D M A Harasgama – Non-Independent
D M R Phillips, PC – Independent
K D W Ratnayaka – Independent
Mrs. Shehani Ranasinghe – Company Secretary: (Attorney-at-Law)

BOARD SUB COMMITTEES AS AT 31 DECEMBER 2015

Integrated Risk Management Committee
D S P Wikramanayake – Chairman
K D W Ratnayaka
Mrs. D M A Harasgama
D M R Phillips
R Theagarajah
Mrs. N Rayen – Vice-President - Group Risk Management
F Ozman – Group Chief Financial Officer
Mrs. S Gnanapragasam – Vice-President – Credit
P Gamage – Assistant Vice-President - Operational Risk
Ms. C Chandrapala – Senior Manager - Market Risk

Strategic Issues Committee

N G Wickremeratne – Chairman
A K Pathirage
T L F Jayasekera
Mrs. K Fernando
D S P Wikramanayake

Audit Committee

T L F Jayasekera – Chairman
D S P Wikramanayake
Mrs. D M A Harasgama
Mrs. K Fernando
Mrs. W A I Sugathadasa
K D W Ratnayaka

Human Resources and Remuneration Committee

Mrs W A I Sugathadasa – Chairperson
A K Pathirage
Mrs. K Fernando
T L F Jayasekera

Nominations Committee

N G Wickremeratne – Chairman
A K Pathirage
T L F Jayasekera
Mrs. K Fernando

Corporate Governance and Legal Affairs Committee

Ms K Fernando – Chairperson
D M R Phillips
R Theagarajah
Mrs. W A I Sugathadasa

Related Party Transactions Review Committee

N G Wickremeratne – Chairman
T L F Jayasekera
D S P Wikramanayake
Mrs. D M A Harasgama
Mrs. K Fernando
Mrs. W A I Sugathadasa
K D W Ratnayaka

SUBSIDIARIES AND ASSOCIATE COMPANIES

Subsidiary Companies as at 31 December 2015

NDB Capital Holdings Ltd. – 99.8% Directors
A K Pathirage – Chairman,
D S P Wikramanayake, R Theagarajah,
B A I Rajakarier, W M D F Arsakularatne,
C V Kulatilaka, F Ozman

NDB Wealth Management Ltd. – 99.8% Directors
D S P Wikramanayake – Chairman,
R Theagarajah, C V Kulatilaka,
R M D J Ratnayake

NDB Investment Bank Ltd. – 99.8% Directors
D S P Wikramanayake – Chairman,
R Theagarajah, C V Kulatilaka,
D G Perera, P E A B Perera

NDB Securities (Private) Ltd. – 99.8% Directors

R Theagarajah – Chairman, C V Kulatilaka,
B A I Rajakarier, F Ozman

NDB Capital Ltd. (Bangladesh) – 77.8% Directors

D S P Wikramanayake – Chairman,
R Theagarajah, A M Khan,
C M Alam, C V Kulatilaka, Mrs. Z Chowdhury,
H F Choudhury, K K Saha, D G Perera

Development Holdings (Private) Ltd. – 58.61% Directors

R Theagarajah – Chairman,
Mrs. I Malwatte, J R P M Paiva, Dr. Y K Maraikkar,
Mrs. P K Sumithrarachchi, Mrs. D T Wijayaratne,
C S Guniyangoda

NDB Zephyr Partners Ltd. (Mauritius) – 60% Directors

T C Barry, R Theagarajah, C V Kulatilaka, M Gulati,
Ms. D Rajabalee, Ms. R B Mandary, F Ozman

NDB Zephyr Partners Lanka (Private) Ltd. – 60% Directors

R Theagarajah - Chairman, T C Barry, M Gulati,
F Ozman, C V Kulatilaka

Associate companies as at 31 December 2015

NDB Venture Investments (Private) Ltd. – 50% (Under liquidation)
Ayojana Fund (Private) Ltd. – 50% (Under liquidation)

OTHER INFORMATION

Compliance Officer

Mrs. Manique Kiriella Bandara

Auditors

Ernst & Young, 201, De Saram Place, Colombo 10

Registrar to the rated unsecured subordinated redeemable debentures of the Bank

S S P Corporate Services (Pvt) Ltd.
No. 101, Inner Flower Road, Colombo 03

Trustees to the rated unsecured subordinated redeemable debentures of the Bank

Bank of Ceylon, Investment Banking Division,
23rd Floor, Head Office, 'BOC Square',
No. 1, Bank of Ceylon Mawatha, Colombo 01

QUERIES

On the 2015 NDB Annual Report

Dhanan Senathirajah
Vice-President – Finance & Planning
National Development Bank PLC
No. 40, Navam Mawatha, Colombo 02
Email: dhanan.senathirajah@ndbbank.com
Tel.: + 94 (0)11 2347917

On Investor Relations

Company Secretarial Unit
Mrs. Shehani Ranasinghe
Company Secretary/Assistant Vice-President
National Development Bank PLC
No. 40, Navam Mawatha, Colombo 02
Email: shehani.ranasinghe@ndbbank.com
Tel.: +94 (0)11 2448448 Extn: 33000

Investor Relations Team

Mrs. Suvendrini Muthukumarana
Assistant Vice-President – Finance & Planning
National Development Bank PLC
No. 40, Navam Mawatha, Colombo 02
Email: suvendrini.muthukumarana@ndbbank.com
Tel.: +94(0)112448448 Extn: 3817

FORM OF PROXY

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. N G Wickremeratne (Chairman of the Bank) of Colombo or failing him,
A K Pathirage (Deputy Chairman of the Bank) of Colombo or failing him,
T L F Jayasekera of Colombo or failing him,
D S P Wikramanayake of Colombo or failing him,
Mrs. K Fernando of Colombo or failing her,
Mrs. W A I Sugathadasa of Colombo or failing her,
Mrs. D M A Harasgama of Colombo or failing her,
D M R Phillips of Colombo or failing him,
K D W Ratnayaka of Colombo or failing him,
R 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 Eleventh Annual General Meeting of the Bank to be held on Wednesday the thirtieth (30) day of March 2016 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 D S P Wikramanayake, as a Director in terms of Article 42 of the Articles of Association of the Bank. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To reappoint N G Wickremeratne, as a Director in terms of Article 44 (2) of the Articles of Association of the Bank. | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To reappoint D M R Phillips, as a Director in terms of Article 44 (2) of the Articles of Association of the Bank. | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To reappoint K D W Ratnayaka, as a Director in terms of Article 44 (2) of the Articles of Association of the Bank. | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To reappoint Messrs Ernst & Young, Chartered Accountants, as Auditors of the Bank as set out in Section 154 of the Companies Act No. 07 of 2007 and Section 39 of the Banking Act No. 30 of 1988 (as amended) and to fix the fees and expenses of such Auditors. | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. 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"/> |
| 7. To authorize the Board of Directors to determine donations for the financial year 2016 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 Sixteen (2016).

.....
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 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.

INVESTOR FEEDBACK FORM

To request information or submit a comment/query to the Bank, please provide the following details and return this page to:

Company Secretary
National Development Bank PLC
No. 40, Nawam 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? | <input type="checkbox"/> | <input type="checkbox"/> |
| Would you like to receive news and press releases of the Bank via e-mail? | <input type="checkbox"/> | <input type="checkbox"/> |
| Would you like to receive any updates on our products/services? | <input type="checkbox"/> | <input type="checkbox"/> |
| Would you like the Bank to directly deposit/transfer any future dividends to a bank account designated by you? | <input type="checkbox"/> | <input type="checkbox"/> |

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 Company Secretary.



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.



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www.carbonfund.org





NATIONAL DEVELOPMENT BANK PLC

40, NAVAM MAWATHA, COLOMBO 2, SRI LANKA.

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