

# 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
<b>Directors' fees and emoluments</b>		
- 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
<b>Profit for the year</b>		
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
<b>Other Comprehensive Income (OCI)</b>		
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)
<b>Total comprehensive income for the year</b>	<b>3,598,459</b>	<b>3,295,226</b>
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
<b>Appropriations</b>		
Transfer to statutory reserve fund	(231,987)	(52,258)
Transfer to investment fund account	-	1,706,751
<b>Dividends</b>		
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)	-
<b>Unappropriated balance carried forward</b>	<b>13,638,678</b>	<b>12,819,737</b>

## 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
<b>Total</b>	<b>22,700,858</b>	<b>22,238,192</b>	<b>28,382,204</b>	<b>27,875,773</b>

## 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:

<b>N G Wickremeratne</b>	Holcim Lanka Ltd. Finlays Colombo PLC	<b>T L F Jayasekera</b>	Brandix Lanka Ltd. John Keells Hotels PLC
<b>A K Pathirage</b>	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.	<b>Mrs. K Fernando</b>	LB Finance PLC Vallible One PLC Delmege Ltd.
<b>R Theagarajah</b>	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	<b>D S P Wikramanayake</b>	NDB Capital Holdings Ltd. NDB Wealth Management Ltd. NDB Investment Bank Ltd Orient Finance PLC Power World Gyms Ltd. NDB Capital Ltd. (Bangladesh)
		<b>Mrs. D M A Harasgama</b>	NIL
		<b>Mrs. W A I Sugathadasa</b>	Kalubovitiyana Tea Factory Ltd.
		<b>D M R Phillips - Presidents' Counsel</b>	Gestetner of Ceylon PLC Vauxhall Beira Properties (Private) Ltd.
		<b>K D W Ratnayaka</b>	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