

Since inception, NDB Bank has always helped **build financial security- for people, for businesses and for the nation.** Our portfolio of **SME financing, project financing, corporate and retail banking products** together with our **insurance and capital market services,** sustain many business ventures and individual customers across the island. We are proud to join the effort to grow Sri Lanka at every level.

Grow Sri Lanka

Universal Banking from NDB Bank meets everyone's need. That is why we are proud to say: whoever you are, we're here, **Growing Sri Lanka.**

SME FINANCING

CAPITAL MARKETS

RETAIL BANKING

CORPORATE BANKING

PROJECT FINANCE

INSURANCE

Changing lives everyday

Annual Report 2010

OUR VISION

To be a World-Class Sri Lankan Bank

OUR MISSION

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

OUR VALUES

Integrity, Care, Passion, Teamwork and Service guides us as we pursue our ultimate goal to Grow Sri Lanka while we grow ourselves

Grow Sri Lanka

Universal Banking from NDB Bank

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“AA (lka) Fitch Rating”

Registered Name: National Development Bank PLC

Trade Name:  **NDB bank**

Company Registration No: PQ 27

Financial Highlights

	2010	BANK 2009	% Change	2010	GROUP 2009	% Change
(Rs mn)						
Total Income	11,824	13,821	(14.45)	12,738	14,167	(10.09)
Net Interest Income	3,896	3,715	4.87	4,267	4,233	0.80
Net Other Income	2,066	2,588	(20.17)	2,785	2,560	8.79
Net Income	5,962	6,303	(5.41)	7,052	6,793	3.81
Profit Before Tax	3,458	3,493	(1.00)	4,455	4,276	4.19
Profit After Tax	1,576	1,682	(6.30)	2,223	2,121	4.81
Profit attributable to equity shareholders	1,576	1,682	(6.30)	2,150	2,085	3.12
Shareholders' Funds	11,693	11,095	5.39	15,367	14,197	8.24
Deposits from customers	59,364	49,948	18.85	59,364	49,948	18.85
Borrowings	16,938	20,237	(16.30)	16,061	18,760	(14.39)
Total Assets	104,919	96,847	8.33	108,712	99,286	9.49
Loans and Advances	73,003	57,692	26.54	74,027	57,716	28.26
Non performing loans	1,355	1,448	(6.42)	1,355	1,448	(6.42)
Gross Dividend paid	983	553	77.76	983	553	77.76
(%)						
Return on Average Equity	13.83	15.98	(13.45)	14.54	15.52	(6.33)
Return on Average Assets	1.56	1.88	(17.02)	2.07	2.28	(9.21)
Non performing loans ratio	1.90	2.58	(26.36)	1.90	2.58	(26.36)
Cost to income ratio	44.88	38.66	16.08	43.43	39.30	10.51
Effective overall tax rate	54.41	51.83	4.97	50.11	50.39	(0.55)
Capital Adequacy Tier 1 (minimum requirement - 5%)	12.79	14.33	(10.75)	17.84	20.25	(11.90)
Tier 1 & 2 (minimum requirement - 10%)	14.82	16.69	(11.20)	20.33	23.44	(13.27)
Liquidity ratio DBU (minimum requirement - 20%)	26.18	40.98	(36.12)	26.18	40.98	(36.12)
FCBU (minimum requirement - 20%)	26.31	29.38	(10.45)	26.31	29.38	(10.45)
(Rs)						
Earnings (Basic)	NA	NA	-	26.22	25.47	2.95
Earnings (Diluted)	NA	NA	-	26.20	25.47	2.86
Book Value	142.42	135.54	5.07	187.17	173.44	7.92
Dividends	12.00	6.75	77.78	12.00	6.75	77.78
Market Value (31 December)	349.50	206.00	69.66	349.50	206.00	69.66
(Times)						
Debt/Equity	7.57	7.30	3.69	5.70	5.60	1.79
Total leverage	8.97	8.73	2.75	7.07	6.99	1.16
Interest Cover	1.66	1.49	11.40	1.75	1.57	11.46

Grow Sri Lanka

Universal Banking from NDB Bank

Management Information

“..building financial security..”



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Chairman's Message

The global economy

In 2010 there were welcome signs of recovery from the deepest downturn of the global economy since the 1930s. Global GDP growth is estimated at around 5% for the year, and trade and investments have increased from their recent lows in response to internationally co-ordinated fiscal and monetary stimuli.

While the prospects for the advanced economies have improved, they are based on still fragile foundations. However, the outlook for emerging markets is more robust, with growth in developing Asia exceeding 9% last year. Encouragingly, according to the World Bank, domestic demand in emerging economies made up almost half the global growth in 2010. The Asian growth story looks set to continue. However, emerging market economies do face risks, particularly of rising inflation, which may need to be curbed at the cost of growth and job creation. Of particular concern are escalating food prices caused both by supply constraints and higher demand from increasingly affluent populations. Given the relative weights of developed and developing countries in the world economy, the likelihood of sustained decoupling of one from the other is low. The prospects for our interconnected global economy will ultimately depend on the health of all its component parts.

The Sri Lankan economy

The end of thirty years of conflict has presented Sri Lanka with a unique opportunity to create high and sustained economic growth and prosperity for its citizens. The relatively low GDP growth of 3.5% in 2009 was caused both by the global downturn and a slower than expected local response to the economic opportunities of peace. However, growth accelerated strongly to over 7 to 8% in 2010. The challenge now is to ensure high, sustainable and transformational growth in Sri Lanka, over the next decade and more, despite headwinds in the international economy.

The tasks ahead include the rebuilding of long neglected physical infrastructure, particularly highways, power, ports and restoring war damaged destruction. Numerous such projects are now underway, and on completion, will contribute significantly to economic transformation. These projects also leverage the country's competitive advantages, including its unique geographic

location for shipping, port services, tourism and regional trade and an educated work force. Important preconditions for growth, including peace, a stable macroeconomic framework and low interest rates, are in place. However, the sustainability of high growth will involve structural changes in sectors such as education, agriculture and labour policies, which are needed to increase economic productivity. Additionally, persistent fiscal deficits have in the past contributed to inflation, crowded out private investment and have resulted in high levels of debt, the servicing of which involves diversion of scarce resources from the development task. The need for budgetary reforms to increase tax revenues and reduce spending is, therefore, widely accepted, but not easy to achieve. Inflation may come under pressure on the supply side, from rising international commodity prices and natural disasters. It is, therefore, of particular importance that demand side pressure should be stabilized through continuing prudent fiscal and monetary management.

One of the more complex developmental challenges relate to savings and investment. It is uncontroversial that investment and the productivity of its use are primary drivers of GDP growth. The trend level of investment in Sri Lanka of around 26% of GDP (around USD 10 bn), has been sufficient to sustain growth at 5% p a during decades of conflict. In order to drive the economy at over 8% p a at the present level of productivity, it is estimated that investment will need to grow at a higher rate annually. How could this be achieved? It is accepted that domestic savings are the principal funding source for investments and their rapid growth and, therefore, should be encouraged, for example, by maintaining real interest rates and widening and deepening capital markets. However, until the required level of domestic savings is achieved, foreign capital has to fill the gap, and given present debt levels, this should ideally take the form of equity, rather than debt. Sri Lanka will need to compete for capital internationally, based on its comparative advantages as an investment destination.

The financial and bank markets in Sri Lanka

The banking industry in Sri Lanka, under close supervision of the Central Bank, has performed well through the last few difficult decades, and through regional and global systemic stresses. It now faces the welcome challenges that peace has brought to the

country. Burgeoning development opportunities have created new expectations of banks and capital markets. The financial model of the last few decades, where banks were the dominant and relatively high cost providers of capital, will need reform if the peace dividend is to be reaped. Equity and commercial debt markets will need to play a much more significant role, if the vast sums of long term capital required for development are to be raised. The expectations for the banking industry have similarly changed. For example, in addition to encouraging increased banking inclusiveness, it has been reported that the Central Bank has recently articulated two objectives to support development goals, namely that the Balance Sheets of banks should double within a given period, and that intermediation costs should be reduced. These are laudable goals. However, fundamental reforms will be needed if they are to become a reality. On a simplistic basis, if the assets of banks double, their capital will also have to double and more, in order to meet prudential regulatory norms. Retained profits will meet part of the requirement, especially after the recent and welcome reduction in taxation of banks. However, this is unlikely to suffice to meet increasingly stringent prudential levels. Significant amounts of new capital will need to be infused. In a capital short economy, banks will continually need to raise standards of performance, governance and transparency to best regional standards, in order to compete for capital. Bank ownership rules may also need review in new circumstances.

The proposed reduction in margins is desirable and timely from an economic perspective. The country urgently needs to increase savings, while also making borrowing more affordable, if development goals are to be realized. Intermediation costs presently compensate for a level of administrative and bad debt costs both of which are higher than regional norms. However, if interest margins are cut without reduction of these costs, profits and returns will necessarily plunge, making the task of attracting needed new capital more difficult. High expenses flow largely from the lack of scale. A plethora of private banks compete with the dominant state banks for market share, resulting in the wasteful duplication of resources. Modern banking requires costly investment in systems, branch and ATM distribution, branding, marketing, staffing and training. Pooling of these costs, in an appropriate manner, will help in reducing interest margins without reducing shareholder returns. While the present



Chairman's Message

banking model provides stability in turbulent times, incremental change alone thereto may not suffice to meet the expectations of a resurgent Sri Lanka. According to recent media reports, the Central Bank in a very progressive move, will look favourably at appropriate bank mergers, with these benefits in mind. If bank consolidation is to be made a reality, the banks may be encouraged to embark on it by effecting legislative changes that would facilitate merger procedures.

NDB Bank – Group Strategy and Performance

The Group is repositioning itself to take advantage of the exciting opportunities and new expectations which peace and stability have provided. We also have to prepare to operate in a new era of low interest rates, increased competition and falling margins, while providing adequate risk adjusted returns on shareholder funds.

The NDB proposes a competitive suite of banking products, distribution and skills to serve better its corporate, SME and retail customers. Comparative advantage will flow from combining these products with our specialist services. The latter include long term project lending, products from our capital markets cluster, including investment banking, asset management and stock broking as well as insurance services. It is this combination which provides us with our competitive edge. We, therefore, seek to offer an integrated product range to our customers, through our branch and non-branch distribution channels. We also seek to build the scale of operations that is necessary to drive down costs in an increasingly commoditised market, while managing prudently the new risks that these new opportunities will bring. Finally, we must continue to build the relevant skills and motivate our employees within a performance based culture, for it is they who will transform vision to reality.

In striving to achieve our goals, we will work alone where necessary or together with others where it is in the best interests of our stakeholders to do so. In all circumstances, our commitment to maintain the highest ethical standards is paramount. The Directors of the NDB Bank and its senior management reviewed the strategic direction of the Bank in the context of the new opportunities arising in a country at peace, and decided to accelerate the growth of the Bank. With this end in view the Bank proposes to substantially expand its

branch network in 2011 to facilitate the marketing of the Bank's products and to make it easier for customers to access the Bank. Concurrently with the establishment of the branches the bank will improve its capabilities in information technology and also recruit staff to provide a better and more efficient service to customers. Thus in 2011 the Bank would make substantial investments, and the rewards of these investments are expected to be reaped mostly in future years. While growing organically, the strategy does not exclude inorganic growth, and we may look at acquisitions/mergers if they would be advantageous to the Bank and its shareholders.

The performance of the NDB in 2010 is reviewed elsewhere in this report. I would, however, summarise some highlights. The key financial indicators not only improved, but were considerably better than the industry average. The NDB Group's profit attributable to shareholders grew by 28% to 2.2 billion, if the exceptional capital gains that accrued to the Bank last year are excluded. Even if these capital gains are included, there has been a growth of 3%. Again excluding the exceptional capital gains last year, the profits of the Bank alone increased by 34% over the profits in the previous year.

The loans and advances of the Bank increased significantly by 27% in 2010 and compares favourably with the industry average of 23%. The Bank's non performing loans (NPLs) as a percentage of total loans and advances improved from 2.6% to 1.9%, substantially better than the industry average of 5.3%. Also specific provisions in respect of NPLs were maintained at 75%, which is nearly double the industry average. This reflects the emphasis the Bank places on prudent risk management processes.

From the foregoing it would be clearly evident that the NDB Bank is well capitalized, prudently managed and consistently profitable, with increasingly significant contributions being made from non-bank activities as well, which include income from insurance and the capital markets cluster. Thus, the Group is well positioned to participate in the future growth of Sri Lanka.

In my message to the Annual Report for 2008, I referred to the high Financial Services VAT (FSVAT) applicable to banks which resulted in the tax rate on banking profits being raised to a very high level which adversely affects the capacity of banks to attract

capital, ensure systemic stability and loan growth. This was a common concern articulated by most banks. I am happy to say that the Government Budget for 2011 of the Hon. Minister of Finance and Planning provided relief to the banks by the reduction of income tax from 35% to 28% and the FSVAT from 20% to 12%. The Budget also provided for simplification of tax administration by the removal of the debits tax and the SRL on income tax. We are much obliged to the Government for these changes which would be a boon to the banks and to their shareholders and customers.

I wish to take this opportunity to thank and convey my gratitude to my colleagues on the Board of Directors for their dedication, co-operation and guidance. I wish to express our gratitude, in particular to Mr. R B Thambiyah, Dr. G C B Wijeyesinghe, Mr. Lal de Mel, Mr. Nihal Welikala, Dr. Sena Yaddehige and Mr. A R Gunasekara, who relinquished duties as directors in 2010, for the valuable contributions they have made to the Bank for several years. I am also thankful to Mr. Eran Wickramaratne, the former Chief Executive Officer (CEO) and Executive Director of the Bank, who resigned in March 2010 to pursue another vocation, for the valuable services he rendered to the Bank first as Deputy CEO and later as CEO. We were fortunate to have in the Bank Mr. Russell de Mel, a very senior banker, who succeeded Mr. Wickramaratne. I thank him, the management and the employees for their excellent service, which has contributed substantially to the performance of the Bank. We are also much obliged to the shareholders for their co-operation, and to the Bank's customers for the trust and confidence they placed in the Bank. We also owe a debt of gratitude to the regulators for their guidance and advice.



P M Nagahawatte
Chairman

15 February 2011



Chief Executive's Review

Introduction

On the 26th of March, I assumed my new role at the helm of NDB Bank, the organization I had worked for 30 long years, along with my service with the National Development Bank of Sri Lanka, I also witnessed and was a part of the many changes this institution went through and the milestones it achieved.

At the very outset of my report to you, I need to acknowledge the Vision and the Leadership of the Chief Executive Officers of NDB from the very inception, namely, Mr V.K. Wickremesinghe, Mr Ranjit Fernando, Mr Nihal Welikala and Mr Eran Wickramaratne, which amply bear testimony to what this diversified business conglomerate is today.

As I took over the reins to lead this organization, I resolved on five key action plans on which I would build my strategy. They were

- a) To optimize the synergies within the NDB Group, positioning it as a unique knowledge hub, dominant in Banking, Capital Markets and Insurance
- b) To expand the NDB Brand from niche to mass market
- c) To build scale in terms of Assets, Liabilities and Reach
- d) Greater focus on SME's and Branch Banking
- e) To motivate my Team to look beyond the boundaries that had hitherto restrained business momentum for several decades, by inculcating in them a sense of pride in being part of the NDB Team, to perform with commitment and conviction

The Growth Economy

Emerging Asia is fast becoming a dominant force in world economics. Economic activity in the region has been sustained by continued buoyancy in exports, private domestic demand and infrastructure development. Sri Lanka is repositioning itself to be part of this economic revival and gearing for the leap forward. As the country laid the foundation for long term sustainable growth with renewed energy and a revived focus, so did we at NDB.

While building capacity for the future, we realigned our strategic focus this year, to be in line with the demands of the economy and opportunities for future growth. The many facets of NDB Group give

us the added benefit of having a presence in every sphere of financial intermediation and being a universal solutions provider from end to end. This is our differentiator, the unique proposition where we add value as a “Financial Services Group”.

Over the next five years, per capita GDP of the country is expected to double, backed by new wealth creation and improved standards of living. The demand for consumption credit and investment based products will thus create new markets. Traditional banking products will then have to evolve to suit these changing consumer needs and lifestyles. NDB Group will partner you along the way, providing financial solutions for your personal banking and business needs of tomorrow, enhancing your financial security, growing your wealth, and in turn, Growing Sri Lanka every step of the way.

Financial Performance

The Gross lending portfolio of NDB Bank grew by Rs 15 bn, during the year 2010, an unprecedented growth of 27% (in comparison with the industry growth of approximately 22.6%), which is the highest portfolio growth recorded since its inception. Growth in lending has been broad based with all core banking segments reflecting significant momentum. In an intensely competitive market, our deposit base increased by 19% (against an industry growth of 15.6%) supported by the retail deposit drive and corporate cash management. Building the current and savings base remains to be a key challenge for the Bank as we address the funding structure of our Balance Sheet.

Sustainable profits

The main responsibility of a Bank's key management is to maximize returns to all its shareholders. In pursuit of these objectives, opportunities do emerge now and then to benefit from exceptional gains. While these need to be seized, the core business of a Bank should not depend on such non core exceptional gains. Focus need to be on sustainable earnings and returns.

As NDB positions itself as an emerging Financial Services Group, its Sustainable Profit After Tax improved by 34% to Rs 1.52 bn, during the year under review, compared against the PAT of Rs 1.13 bn. (excluding exceptional gains, of last year). Sustainable core banking

revenues, excluding exceptions, recorded a 11% increase over last year, due to the expansion in the loans and advances portfolio, despite falling spreads and re-pricing of liquid investments at much lower yields. The improved growth in the gross lending portfolio enabled NDB Bank's fee and forex income to increase by 29% over the past year. Effective cost management has helped us absorb costs of new investments in technology and branch expansion with minimal impact on NDB Bank's cost income ratio which compares well with the rest of the industry.

Despite the loan growth, prudent credit policies and risk management helped contain the Non-Performing Loan ratio at 1.9% as at year end, which is amongst the best in the industry. The Balance Sheet is backed by a strong capital position, with a Tier 1 & 2 Capital Adequacy Ratio of 15%, setting the foundation for future growth.

Increased level of activities in the capital markets provided greater opportunities for the Investment Banking Cluster, during the year under review, while the insurance business also gathered pace. These factors contributed to the improved performance of the NDB Group, recording a Group Profit Attributable to Shareholders of Rs 2.15 bn, with a Return on Equity of 14.5%.

Growing Business

The Corporate loan book made a significant contribution towards the growth in core banking earnings this year, backed by the improvements in external trade, providing a well balanced risk return trade off. We are now seeking to expand this business penetrating into new segments of the market. Our specialized skills in project and infrastructure finance are being further leveraged to create synergies in other business segments as post conflict reconstruction and investment gather pace. The skills in the knowledge hub we nurtured over the past years will now be put to test. Our cutting edge in project financing and cash flow based lending is the way forward in facilitating sustained economic growth and development.

SME banking was repositioned during the year, realigning with the Retail business, with a renewed focus. New lending concepts such as 'Jeevana', 'Divi Aruna' were introduced to suit the changing needs of the newly liberated territories, where we help restore livelihoods,

Chief Executive's Review

rebuild communities and develop rural economies. Jeevana Livelihood training/Loan scheme is a pioneering effort by NDB Bank where we have entered into partnerships with industry leaders in sectors such as hotel management and hospitality, motor mechanism and healthcare to develop entrepreneurial skills and livelihood opportunities amongst talented youth of the North East regions. 'Divi Aruna' is yet another loan scheme introduced this year targeting small scale industries, building social networks amongst groups of borrowers and encouraging the un-banked to migrate to the banking fold, with trust and confidence. We believe that the SME sector will be a focal point in developing the domestic economy, diversifying export earnings and promoting the, "made in Sri Lanka" story. We endeavour to be part of this growth story.

Remittances will continue to play an important role in the country's balance of payments and financial sector intermediation. During the year we established partnerships in Italy and Middle East opening new avenues for remittances. We continue to extend our reach through both traditional and non-traditional sources using technology and channel innovation as a means of accessing new markets and using cash management services as a differentiator in penetrating the transaction banking business.

On the Retail front, we continued to make a meaningful contribution towards the changing consumer needs and lifestyles in a newly emerging middle market economy. The National Savings Drive was a campaign that was designed to extend the 'thought of savings' beyond traditional monetary measures. This concept highlighted the potential benefits of curtailing unnecessary waste that takes place in one's day to day life, ultimately resulting in the conservation of national resources. The response we received was overwhelming.

Operational Nexus

Several structural changes were introduced this year together with the re-alignment of businesses with a view to refining our focus, and being better able to meet the evolving needs of our valued customers. The branch network was thus re-positioned, with a broad based offering in order to achieve an optimal mix of sales and service channels across product and customer segments. We made significant investments in technology during this year. The planned

systems integration would consolidate all core banking applications onto a common platform with added functionality and speed of service. Prudent risk management continues to be one of our key competitive advantages, delivering on our philosophy of lending with care and responsibility. We continued to offer a differentiated service proposition across our network to the individuals, entrepreneurs and the large corporate clientele, catering to their unique requirements, providing differentiated solutions.

At all times we carried out our business with a strong sense of corporate stewardship and continuous employee engagement. Human resource initiatives were aimed at delivering on our philosophy of building and sustaining a team of people who are ready to act on today's opportunities in order to see the light of a better tomorrow. While sustainability is at the heart of our business strategy, being a responsible corporate citizen includes not only reaching out to our community, but also how we manage the wider social and environmental impacts of our business. We take pride in being a leader in the banking industry, in setting up a structured process to identify and mitigate the environmental and social risks of projects evaluated, creating awareness within the community, contributing towards a greener planet.

Strength in Diversity

To provide for the new investment requirements in this growth economy and meet the new demands for capital, the domestic debt and equity markets will need to be substantially developed within the next few years. We have already witnessed the soaring business confidence in the stock market. On this front, NDB is in a unique position, with a fully diversified Group engaged in investment banking, stock brokering and fund management, with a clearly defined competitive advantage.

Our Wealth management arm is the largest private sector asset management company in the country, delivering novel solutions to suit the varied risk appetites of the sophisticated investors. Given the prospects of new listings in the Colombo Stock Exchange in the coming year, NDB Investment Bank would seek to benefit from these new opportunities and maintain its lead position in the market. Capital Development Investment Company (CDIC), is repositioned

as the strategic investment arm of NDB to explore new value propositions. Our Insurance business, which is a collaboration with an internationally reputed brand, Aviva, is continuing its growth momentum building on the strengths of global expertise with a local focus. NDB's strategy over the next few years is to integrate and synergize the unique advantages of the Group, with a formidable growth in its contributions to the overall earnings.

Towards the Future

NDB has been an integral element of Sri Lankan business for three decades. Together with the Group companies, we have now positioned ourselves as a well integrated financial solutions provider that can cater to all your financial needs from end to end. We see great potential for Knowledge based Banking in the years ahead, especially in an era of high growth and development. The development goals for the country gives focus on establishing Sri Lanka as a five fold regional hub (Port, Aviation, Commercial, Energy and Knowledge hub) benefiting from the high growth expectations of the emerging market economies. We plan to be part of this growth story.

The path ahead is focused on further leveraging the Group dynamics and building on our core competencies and specialized skills in project, infrastructure and SME financing. We will continue to play a significant role in providing financial intermediation for the small scale enterprises, with a view to extending our focus to the micro segment. We will take a differentiated approach to Retail Banking, with channel innovation. And above all, we will seek to be a formidable force and a significant contributor to the Growth of our Economy, Growth of the Country...

Appreciations

In conclusion, I take this opportunity to thank the Chairman and Board of Directors for their valuable contribution and direction, officials of the Central Bank of Sri Lanka for their support and regulatory guidance, our loyal customers for their continued patronage and my valued colleagues for their dedicated service and commitment through yet another challenging year.



Russell de Mel
Chief Executive Officer

15 February 2011

Board of Directors



1. Mr. Manik Nagahawatte - *Chairman*
2. Mr. Russell de Mel - *Director/Chief Executive Officer*
3. Mr. Hemaka Amarasuriya - *Director*
4. Mr. Ranjit Gunasekara - *Director*
(resigned with effect from 01.12.2010)
5. Dr. Richard Vokes - *Director*
6. Dr. Sena Yaddhige - *Director*
(resigned with effect from 23.11.2010)
7. Mr. Trevine Jayasekara - *Director*
(appointed with effect from 10.02.2010)
8. Mr. Anura Siriwardena - *Director*
(appointed with effect from 04.06.2010)

9. Mrs. Kimarli Fernando - *Director*
(appointed with effect from 04.06.2010)
10. Mr. Sarath Wikramanayake - *Director*
(appointed with effect from 04.06.2010)
11. Ms. Chandra Ekanayake - *Director*
(appointed with effect from 07.02.2011)
12. Mr. Asoka Pathirage - *Director*
(appointed with effect from 18.02.2011)
13. Mr. Sujeewa Rajapakse - *Director*
(appointed with effect from 23.02.2011)

Mr. Manik Nagahawatte

Chairman

Mr. Nagahawatte holds a Bachelor of Laws (Hons.) Degree and a Master of Laws Degree. He has been an Examiner and a Visiting Lecturer in Law in the Faculty of Law of the University of Colombo. Immediately before accepting appointment as Chairman of the National Development Bank PLC in January 2008, he was the Senior Legal and Banking Advisor of the Ministry of Finance and Planning.

Mr. Nagahawatte is a former Deputy Governor of the Central Bank of Sri Lanka and functioned at various times as Chief Executive Officer and as Chairman of the Monetary Board of the Central Bank in the absence of the Governor. He has held several senior positions, including those of Controller of Exchange and Executive Director during a nearly 38-year career with the Central Bank.

Mr. Nagahawatte had been the Chairman of Bank Supervisors in the SEANZA Group of Countries, comprising banking regulators from countries in South and East Asia, Australia and New Zealand. He had also been associated with the establishment of the South East Asian Central Banks' Research and Training Centre in Malaysia as a Legal Entity, and with the preparation of the Constitution and By Laws of the Asia-Pacific Rural and Agricultural Credit Association in Thailand.

Mr. Nagahawatte had been the Chairman of the Bank of Ceylon and of the Credit Information Bureau of Sri Lanka, a Commissioner of the Securities and Exchange Commission of Sri Lanka, a Member of the Insurance Board of Sri Lanka and a Director of the National Development Bank of Sri Lanka. He has also been Chairman/Director of several companies.

Mr. Russell de Mel

Director/Chief Executive Officer

Mr Russell de Mel has been with NDB Bank for over 30 years, largely in the field of Corporate Banking. Prior to his appointment as CEO he served as Vice President – Head of the Corporate Banking Group and as Vice President – Head of Group Risk Management.

During the initial phase of his career at NDB Bank he has held many key positions in the field of Project and Infrastructure Finance. Over the last two decades he has been actively associated with some of the key commercial projects NDB Bank partnered with both local and foreign investors. He also played a leading role in the privatization of the plantation sector. As Head of Group Risk Management he was instrumental in realigning the risk management function within the NDB Group. Currently he sits on several Boards of the NDB Group companies.

Mr Russell de Mel is a Fellow of the Chartered Institute of Management Accountants UK.

Mr. Hemaka Amarasuriya

Director

Mr Amarasuriya brings to NDB Bank an impressive range of management, industrial, marketing and business skills from his tenure as Chairman of the industrial and retailing conglomerate Singer Group,

and his experience on the Boards of such companies as Regnis Lanka and Bata Shoe Company of Ceylon. He also brings with him substantial experience in international management as a former Senior Vice President of Singer Asia Limited and Retail Holdings Limited USA.

Mr. Ranjit Gunasekara

Director (resigned with effect from 01.12.2010)

Mr Gunasekara is a Fellow of the Institute of Chartered Accountants of Sri Lanka. His career includes a spell of 17 years overseas where he worked for seven years with Coopers & Lybrand in Zambia and Botswana before leaving as an Audit Senior Manager. He then joined the Lloyds Insurance Broking Group, Minets, as Financial Controller of its Botswana operation before transferring to Minet's Head Office in London where he served as Financial Controller of Minet International Holdings which controlled the group's broking operations in Africa, Australasia and the Far East. On returning to Sri Lanka in 1994, he joined NDB Bank, and retired as its Chief Financial Officer in 2004. He is also a Director of Trans Asia Hotels PLC and Asia Hotels and Properties PLC.

Dr Richard Vokes

Director

Richard Vokes is an economist by training with over 30 years experience working on development in Asia. He joined the Asian Development Bank in 1991 and was Senior Economist in the Office of the Vice- President - East between 1995-1997. Since 1997 he has worked as the Senior Economist and Senior Desk Officer for India, Country Director for Nepal and Director of Operations Coordination for South Asia. He has been the Country Director for ADB's Sri Lanka Resident mission since 2006. Prior to joining ADB, Dr. Vokes held teaching positions at the University of Kent in the United Kingdom and at the Asian Institute of Technology in Bangkok. He has also worked as an Adviser in the Ministry of Agriculture and Cooperatives, Zambia. Dr. Vokes has a PhD in Economics from the University of Hull (awarded in 1978) and a Joint BA (Hons) Degree in Economics and South-East Asian Studies, also from the University of Hull (awarded in 1972).

Dr. Sena Yaddehige

Director (resigned with effect from 23.11.2010)

Dr. Sena Yaddehige is a Sri Lankan born British Scientist/Engineer and a UK based industrialist. He is the Managing Director of a European Company, which is part of a group involved in the development of high technology, automated manufacturing, and export of automotive components and systems to Europe, China and the United States. He holds a large number of worldwide patents on radiation processing, contactless sensors and drive by wire systems along with a SriLankan patent for slow release fertilizer. In addition Dr. Yaddehige is the Chairman of five public listed companies namely, Richard Pieris & Company PLC., Richard Pieris Exports Ltd., Maskeliya Plantation Ltd., Kegalle Plantation, Namunukula Plantation Ltd., and head of over 40 companies wholly or majority owned by Richard Pieris and Company. Until recently he was a director of a Swiss pharmaceutical company as well as being appointed to the Board of National Development Bank in December 2007.

Board of Directors

Mr. Trevine Jayasekara

Director (appointed with effect from 10.02.2010)

Mr. Jayasekara is the Group Finance Director of Brandix Lanka Limited and is responsible for the overall finance function of the group, as well as related support functions. He is the former Group Finance Director of Aitken Spence & Co. Mr. Jayasekara brings with him a wealth of experience in international banking, having worked at Arab Bank Limited in Bahrain and subsequently holding the post of General Manager with Deutsche Bank in Colombo. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and an Associate Member of the Chartered Institute of Management Accountants, UK. He is a non-Executive Director of Hayleys Ltd and Lanka Ventures Ltd.

Mr. Anura Siriwardena

Director (appointed with effect from 04.06.2010)

Mr. Siriwardena holds a BSc in Biological Sciences from University of Kelaniya, and MBA from the University of Sri Jayawardenapura. He is a Member of numerous bodies, including the Sri Lanka Institute of Marketing, the Sri Lanka Institute of Biology and the Sri Lanka Association for the Advancement of Sciences. Mr. Siriwardena was the past Chairman and Chief Executive Officer of the Independent Television Network Limited and the Secretary to the Ministry of Cooperatives and Internal Trade. In addition to his current position as a Director of National Development Bank PLC, Mr. Siriwardena functions as the Secretary to the Ministry of Coconut Development and Janatha Estate Development.

Mrs. Kimarli Fernando

Director (appointed with effect from 04.06.2010)

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

Counting over 21 years of experience in the Banking Industry in Sri Lanka and Germany, Mrs. Fernando was seconded to Deutsche Bank, Frankfurt and thereafter worked at Standard Chartered Bank. She joined Pan Asia Bank as a Director in March 2008 and functioned as the Chief Executive Officer of the Bank until 2009 when she was also Director of Lanka Clear (Pvt) Ltd, Director and Management Committee Member of Waters Edge and Member, Sri Lanka Bankers' Association. Currently, whilst, serving as a Director of National Development Bank PLC, she also serves as a Director of L B Finance PLC and Vallibel One.

Mr. Sarath Wikramanayake

Director (appointed with effect from 04.06.2010)

Mr. Wikramanayake is a Chartered Accountant. He has worked with the Bank of Butterfield, a Bermuda-based international bank for 19 years, where he reached the position of Executive Vice-President. Since returning to Sri Lanka he has been the Chief Executive Officer of Union Assurance Limited and the President of the Insurance Association of Sri Lanka in 2002. He is currently engaged in providing

consultancy services to the Financial Services and ICT Industries. In addition to his role as a Director of National Development Bank PLC, Mr. Wikramanayake is also a Director of several other companies including Aviva NDB Insurance PLC, PC House PLC and NDB Aviva Wealth Management Limited.

Ms. Chandra Ekanayake

Director (appointed with effect from 07.02.2011)

Ms. Chandra Ekanayake has been nominated to the Board of Directors of National Development Bank PLC as the nominee of the Minister of Finance & Planning. She has been a member of the Sri Lanka Administrative Service since 1984. Presently, she is the Director General of the Department of National Budget of the Ministry of Finance & Planning. Previously, she has held senior positions in the Treasury of Director - Economic Affairs, Controller of Insurance, Additional Director General - Department of External Resources & Director General - Department of Trade, Tariff & Investment Policy over a span of approximately 24 years service. Ms. Ekanayake holds a Science Special Degree from the University of Kelaniya, a MBA from the Post Graduate Institute of Management, Sri Lanka and Diploma in the fields of Development Planning Techniques, International Relations and Economic Development.

Mr. Asoka Pathirage

Director (appointed with effect from 18.02.2011)

Mr. Pathirage co-founded Softlogic in 1991 and has served the Softlogic Group as the Managing Director from its inception. He was appointed as the Chairman of the Group in 2000 and is also the Chairman of Uniwalkers and Softlogic Finance PLC formally known as Capital Reach Leasing PLC. He also functions as the Chairman/ Managing Director of the Asiri Group of Hospitals and other subsidiaries of the Asiri Group.

Having begun his career at a leading Blue Chip Company in Sri Lanka, Mr. Pathirage has over 25 years of experience at Senior Managerial capacity in the Information Technology industry and in the business world.

Mr. Sujeeva Rajapakse

Director (appointed with effect from 23.02.2011)

Mr. Rajapakse is the Managing Partner of BDO Partners, a firm of Chartered Accountants and counts over 27 years of experience with the firm. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka and holds a Masters in Business Administration from the Postgraduate Institute of Management of the University of Sri Jayawardenapura.

Today, Mr. Rajapakse serves as the Vice President of the Institute of Chartered Accounts of Sri Lanka and is a Board member of the South Asian Federation of Accountants. Additionally, he functions as the Treasurer of both Sri Lanka Cricket and the Cricket World Cup 2011 (appointed by the ICC). He has held numerous honorary positions over the years and has functioned as a Board Member of First Capital Group and the Sri Lanka Accounting and Auditing Standards Monitoring Board.

Achievements



Business Today Top 20
Placed at No. 11

The 2009 - 2010 Business Today Top 20 recognised the top corporate performers in Sri Lanka during challenging times. These highly acclaimed corporate awards are carried out strictly based on published financial information and other indicators of companies listed on the Colombo Stock Exchange for the year 2009/2010.

National Business Excellence Awards
Silver Award for 'Excellence in Business and Financial Performance'

Merit Award for 'Business Excellence - Banking & Financial Sector'

The National Business Excellence Awards are presented by the National Chamber of Commerce of Sri Lanka with a view to recognizing the business enterprises, which have demonstrated excellence in business whilst contributing to the social and economic progress of the country.



A+ Rating
Awarded by Brand Finance Lanka



Corporate Accountability Rating
Gold Award
Conducted by Sting Consultants together with LMD. The ranking is carried out for Sri Lanka's top 50 listed companies in Sri Lanka.



Effie Awards
Bronze Award in the Financial Services category
Presented to NDB Savings Star, in recognition of its advertising campaigns creativity, execution and ability to exceed the sales and marketing goals.



MACO Awards
Golden MACO Award
Presented by the Mass Communicators Association of Sri Lanka, at the Annual MACO Awards 2010

In recognition of the Bank's commitment and dedication as a local bank that has encouraged and empowered Sri Lankan Entrepreneurs over the last 30 years.

Leadership Team



Seated Left to Right: Nirmala Rayen, Russell de Mel, Ishani Senaweera Navaratnebandara, Niran Mahawatte

Standing Left to Right: Sujeewa Dissanayake, Buwanekabahu Perera, Chrishanthi Jayawardena, Dhanan Senathirajah, Nilam Jayasinghe, Kumar Weerasuriya, Ruwani De Silva, Indrajit Wickramasinghe, Raj Aboobucker

Russell de Mel - *Director / Chief Executive Officer*
(Appointed w.e.f 26 March 2010)

Mr Russell de Mel has been with NDB Bank for over 30 years, largely in the field of Corporate Banking. Prior to his appointment as CEO he served as Vice President – Head of the Corporate Banking Group and as Vice President – Head of Group Risk Management.

During the initial phase of his career at NDB he has held many key positions in the field of Project and Infrastructure Finance. Over the last two decades he has been actively associated with some of the key commercial projects NDB partnered with both local and foreign investors. He also played a leading role in the privatization of plantation sector. As Head of Group Risk Management he was instrumental in realigning the risk management function within the NDB Group. Currently he sits on several Boards of the NDB Group companies.

Mr Russell de Mel is a Fellow of the Chartered Institute of Management Accountants UK.

Chrishanthi Jayawardena - *Chief Operating Officer (Services)*
She is an Attorney-at-Law who counts over 30 years experience at the NDB Bank.

Mrs Jayawardena was employed at Messrs F J & G De Saram, Attorneys-at-Law before joining the Bank.

Indrajit Wickramasinghe - *Chief Operating Officer (Business)*
He holds a Master's Degree in Business Administration from the University of Sri Jaywardenepura, a Postgraduate Diploma from the Chartered Institute of Marketing, UK and is a Fellow of the Chartered Institute of Marketing, UK. Before joining NDB Bank Ten years ago, he held the position of Head of Marketing at Reckitt & Colman of Ceylon Ltd. Mr Wickramasinghe has over 21 years of experience in the Fast-Moving Consumer Goods and Financial Service Sectors.

Raj Aboobucker - Vice-President
(Head - Retail & SME Banking)

Mr Aboobucker is currently Vice-President in charge of Retail Banking & SME. He was also instrumental in successfully setting up the bank's Specialised Commercial Markets division. He counts 30 years of local and foreign banking experience. Prior to joining NDB Bank in 2005, he was Vice-President and Head of Commercial Banking Group at Citibank in Colombo.

Sujeewa Dissanayake - Vice-President
(Head - Information Technology)

Before joining the NDB Bank, Mr Dissanayake worked at Pan-Asia Bank and the Union Bank of Colombo as Head of IT. He came to banking from the IBM World Trade Corporation, where he was IT specialist for the finance industry. He has over 26 years experience in IT, 21 of which were acquired in the banking sector.

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 a past Chairman of British Computer Society Sri Lanka Section.

Nilam Jayasinghe - Vice-President
(Finance, Planning & Treasury)

Mr Jayasinghe joined NDB Bank fourteen years ago and is currently Vice President responsible for Finance, Planning and Treasury. He is a Fellow of The Chartered Institute of Management Accountants (CIMA), UK, having obtained his training at KPMG Ford Rhodes Thornton & Co. He worked at Aitken Spence & Co. as its Group Treasurer and Director, Aitken Spence Corporate Finance Ltd and was Finance and Commercial Manager of Lanka Tiles Limited.

Mr Jayasinghe is the current Vice Chairman of the Industrial Association of Sri Lanka. He is a member of Council of CIMA Global, representing South Asia. He is also a member of the Sri Lanka Board and a Past President of CIMA (Sri Lanka Division) having being awarded the Institute's Bronze Medal. He has served as a member of the Sri Lanka Accounting and Auditing Standards Monitoring Board and the Company Law Reforms Commission and counts over twenty five years experience in the areas of Finance, Treasury, Audit and Compliance.

Niran Mahawatte - Vice-President
(Head - Treasury)

Mr Mahawatte holds a B.Sc. from the University of Colombo and is an Associate Member of The Chartered Institute of Management Accountants, UK. He joined the NDB Group Treasury in 2001, prior to which he worked at Deutsche Bank and Commercial Bank of Ceylon. He has to his credit over 19 years banking experience.

Buwanekabahu Perera - Vice-President
(Head - Corporate Banking)

Mr Perera holds a Bachelor's Degree in Financial Services from the University of Manchester and a Postgraduate Diploma in Bank Financial Management from the University of Sri Jayawardenepura. He is an Associate Member of the Chartered Institute of Bankers, UK. His 31 years of experience in banking covers corporate banking, project finance and international trade. Before joining NDB Bank in 1998, he worked at Banque Indosuez, Sampath Bank and Deutsche Bank. Mr Perera is a past President of the Association of Professional Bankers, Sri Lanka.[APB]

Dhanan Senathirajah - Vice-President
(Head - Finance & Planning)

Mr Senathirajah is an Attorney-at-Law and a Fellow of The Chartered Institute of Management Accountants, UK. Before joining NDB Bank in 1998, he worked at the Maharaja Organization and Reckitt and Colman of Ceylon. He counts 26 years experience in finance and accounting.

Ishani Senaweera Navaratnebandara - Vice-President
(Head - Human Resources)

Having joined the organization in 1995, Ms NavaratneBandara counts 15 years of experience in all areas of HR management and development. She holds a B.Sc. in Economics and Management from the University of London.

Kumar Weerasuriya - Vice-President
(Head - Operations)

Prior to joining NDB Bank, Mr Weerasuriya has worked at several Sri Lankan and international banks and counts over 35 years of banking experience. He has held senior positions in all areas of banking and IT.

Ruwani De Silva - Assistant Vice-President
(Head - Group Audit)

Ms. Ruwani de Silva is an Associate Member of the Institute of Chartered Accountants of Sri Lanka and an Associate Member of the Chartered Institute of Management Accountants (CIMA), UK. Prior to joining NDB Bank, she worked at ABN AMRO Bank N.V. She counts 15 years of banking experience in the areas of Audit, Compliance and Finance. Prior to joining ABN AMRO Bank N.V., she worked at M/S Ernst & Young Chartered Accountants for a period 5 years in the areas of audit and tax section.

Nirmala Rayen - Assistant Vice-President
(Head - Group Risk Management, Compliance and Special Projects)

Ms Rayen is an Associate Member of the Institute of Bankers, Sri Lanka and counts over 29 years of banking experience. Prior to joining NDB Bank, she worked at ABN AMRO Bank N.V., ABN Bank N.V. and Citibank N.A.

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Universal Banking from NDB Bank

Operational Information

“...sustaining many business ventures
and individual customers...”

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Management Discussion & Analysis

Corporate Banking Group

The Corporate Banking Group of NDB Bank now consists of three integrated business divisions, namely Project and Infrastructure Financing Division, Commercial Banking Division and Specialized Commercial Markets, which are designed to provide both customer focus and product specialization.

Project and Infrastructure Finance

As a closely linked business unit with the Commercial Banking Unit, under the Corporate Banking Group umbrella of the NDB Bank, the Project and Infrastructure Finance as a business unit specializes in offering tailor made cash flow linked long – term project loans to its corporate clientele, leveraging on their experience, technical capabilities and industry knowledge acquired over a period of 30 years of specialized industry expertise, which is a distinctive advantage over its peer competitors.

Today, NDB Bank continues to retain and enhance these core competencies, with a track record of funding projects in all significant economic sectors including telecommunications, power, plantation, services, textile and garments, food and beverages, metal, chemicals and engineering.

NDB Bank's long term loans are structured to finance any type of projects including start ups, expansions, relocations, management buyouts and balance sheet restructuring.

The economic revival of the North and East following the cessation of hostilities is having a spill-over effect into the entire country. The optimism created by the restoration of peace complemented by the global economic recovery, positions the Sri Lankan economy to grow at a fast pace, with all key sectors reaping the benefits of growth, thus building a strong foundation for private sector led growth in to the future.

These developments provide unprecedented opportunities for Project and Infrastructure financing within the country. This Division is ably supported by dedicated, highly trained, multidisciplinary professionals, and is geared to play a pivotal role in contributing to the resurgence of the new economy.

The Bank has successfully combined Project Finance know-how with Investment Banking and specialized legal skills to structure a number of landmark projects. Moreover, NDB Bank is uniquely positioned to bring to bear group synergies to provide clients with the most comprehensive and unique financial packages in the industry.

This Division has leveraged on these capabilities to grow the business substantially in the year under review.

Portfolio - The ongoing infrastructure development programs in the post-conflict era provided a diversified array of investment opportunities in sectors ranging from infrastructure, agriculture, tourism, transport, health, education, and industry and the services. Given the potential for post conflict boom in tourism in the paradise island, the leisure sector was identified as being one of the fastest growing industries to make a substantial contribution to the national economy. NDB Bank laid the foundation for building on the growth opportunities anticipated in this sector.

Power and energy is also identified as being an important component of the projected economic development. NDB Bank accommodated facilities aggregating to about Rs 1 bn. to the renewable energy sector. NDB Bank takes pride in being a key player in financing a landmark initiative, the first ever wind power project in Sri Lanka. Adding renewable energy to the national grid enables Sri Lanka to reduce its energy costs.

NDB Bank entered into a risk sharing agreement with IFC to support projects in the renewable energy sector. This risk sharing agreement benefits entrepreneurs in the renewable energy sector while insulating the Bank against possible risks which enables the Bank to expand its presence in the renewable energy sector. With mini hydro energy options becoming scarce in the face of growing opportunities in the wind power area, NDB Bank will secure projects with a different risk profile for funding. These, together with the low interest rates, created an environment conducive to long term lending.

NDB Bank extended substantial financial assistance to the Financial Services and Plantations sectors too during the year under review. Disbursements to all sectors totaled to approximately Rs 5.7 bn, resulting in a portfolio growth of 17%. It is noteworthy to mention that, despite the growth in portfolio, NDB Bank was successful in managing its loan delinquencies, which is reflected in its low NPL ratios.

Other Initiatives -The Bank is proud to be a stakeholder of the flagship project 'Uthutru Mithuru' Railway reconstruction, re-establishing connectivity between the North and South of Sri Lanka, and taking part in the rebuilding of social infrastructure in conflict affected regions.

NDB Bank has also played a leading role in recognizing the Environmental and Social aspects of project evaluation in a systematic manner by setting up a system to manage the Environmental and Social risks in the projects funded. While this system enables the Bank to minimize the Environmental and Social risks in its portfolio, it also encourages the customers to address such issues at an early stage of the project with benefits accruing to the stakeholders and the community at large.

Commercial Banking

As a business segment of the Corporate Banking Group, the Commercial Banking Division has functioned as the short term financing arm for NDB Banks corporate customer segment, leveraging on the transaction banking and trade services strategy of the Bank, by offering to its customers complete solutions to their trade and working capital requirements, whilst continuing to focus on the stability and quality of the revenue streams.

The economic recovery that began in the second half of 2009 gained momentum during the year under review, with strong growth achieved in almost all sectors. The favorable environment prevailing in the post war era offered a window of opportunity to build a strong foundation for private sector-led growth into the future.

The Banking sector showed signs of improvement in 2010, in the aftermath of the two year global economic slowdown and a turbulent 2009, characterised by the high cost of borrowing that prevailed during the first half of that year.

The Commercial Banking portfolio grew by a substantial 27% over the period under review. This was in line with the Bank's projections, despite pressure on margins and increased competition in the market.

This growth was predominantly in the middle market area, where NDB Bank acquired a larger number of new customers during the year. This was followed by growing the existing portfolio in which the risk appetite was good and the risk-rewards acceptable, where NDB Bank continued to maintain a comfortable relationship over a long period.

The Commercial Banking portfolio remained well diversified, catering predominantly to finance the Import –Export sectors of the economy. The unit followed a target market criteria in terms of industries and customers and in terms of risk. All clients are risk rated according to NDB Bank's internal rating model whilst both risks and rewards of the portfolio are distributed evenly.

The success of this unit has been its prudent and professional approach to credit and to post- disbursement monitoring. The systems followed in the NDB Bank's Corporate Banking unit are probably the best in the market and parallel to any system used by foreign banks. The credit process is very structured, with reasonable delegated lending authority given to senior department personnel to expedite the credit approving process and also meet client requirements.

There are three areas that NDB Bank's relationship management addresses and apportions time to, according to priorities, viz.- managing the portfolio on a daily basis; and managing the non performing loans (NPL) portfolio . Due to the fact that this unit's non performing loan portfolio is low and probably the best in comparison with the business units of local competitors- the time that would have been spent in monitoring this function is diverted to marketing and managing the existing portfolio, which has had positive results on establishing the relationship. This effective relationship management strategy has been one of the reasons for the unit's strong growth.

The business unit has a team of well trained relationship managers, who adopts a professional rather than a transactional approach to relationship management. Substantial investment is also made in providing staff with on- the- job training as well as in enhancing their soft skills, with local as well as foreign training.

Today, the Commercial Banking unit functions more as a solutions provider rather than merely as a provider of products, and has been making a conscious effort to maximize on existing relationships and has been instrumental in cross – selling NDB Bank's products to other product specific business units to harness their expertise. In this aspect, with NDB's unique position as a financial conglomerate in the local financial industry, the Corporate Banking Unit has integrated well in cross selling valuable business opportunities to its Investment Banking Group subsidiary, in providing a total financial solution for its valuable clientele and brick – walling its customer relationships.

To supplement as well as give value additions to enhance existing relationships, the unit operates on an advance electronic banking platform, which enables NDB Bank to closely compete with foreign banks whilst acting as a differentiator from its peer local banks. This "Electronic Banking" unit is a home grown product that is being continuously developed and customized according to market needs, which facilitates clients to establish Letters of Credits from their own domains , whilst enabling customers to effectively manage Cash and Treasury Management activities

Management Discussion & Analysis

in a secure and a convenient environment. Now over 55% of Commercial Banking customers operate under this electronic banking platform to transact and manage accounts with NDB Bank. This platform is been constantly being reviewed and upgraded with customized service offerings to its clientele adding value to its relationships.

Specialized Commercial Markets

The Specialized Commercial Markets Unit was set up to meet the growing demand of corporate clients for structured financial solutions, where a variety of structured short term working capital products were offered across selected industries and functioning as a segment of the Corporate Banking Group.

It was a challenging year for the unit, which predominantly finances the Apparel and Travel industries. The portfolio was resilient to the global economic downturn, where the markets of the Apparel industry specially experienced a turbulent environment, resulting in Buyers going through large restructuring programs to manage businesses profitably.

The uncertainty in retaining the GSP+ scheme for exports to the EU that prevailed from the beginning of the year which finally resulted in losing of the scheme, created further instability on placement of orders throughout the year. The Exports to the EU account for approximately 50% of total Apparel Exports.

The above challenges were well managed by the Unit, which continues to support these industries which are turning around with the revival of the local and global economies. The Portfolio which contracted during the year 2009 recorded a growth of 26% in the year 2010.

The unit which is currently functioning under Commercial Banking will explore opportunities in other sectors in line with the overall economic growth potential.

Small and Medium Enterprise Development

Small and Medium Enterprises are now coming into their own, having gained prominence the world over with governments taking the view that SMEs will form the nucleus for the economic growth of the future. The emphasis is much greater in our local context, given the important role played by SMEs in resurrecting the post war economy. In line with this, NDB Bank has also refined its focus on this business segment, leveraging on three decades of experience in development oriented lending. The renaming of this business unit as the 'Small and Medium Enterprises' unit from its earlier branding of 'Emerging Corporate' is the first step in this direction.

SME development, as a proposition, is critical for both the Bank as well as the country as SMEs play a pivotal role in creating employment, income and value addition, providing the seedbed for developing and testing entrepreneurial talent. Facilitating financial intermediation to this sector is the starting point in improving access to finance within rural communities and bridging the divide between the urban and rural economies. Accordingly, policy decisions have been taken and plans have been formulated to accelerate and broad base the Bank's SME offerings and the Unit's contribution in the coming years. SME products, hitherto offered within a limited geographical spread will soon be made available island wide.

We are currently working towards a strategic integration between the SME and the Retail banking streams so as to expand the boundaries, increase the growth potential, and provide total solutions to our clients' business and personal banking needs. This integration will result in a large pool of resources focusing on the SME businesses as they gather momentum to become a dominant force within this growth economy.

Already the signs are encouraging. The direct approvals for the year on the SME lending portfolio stood at Rs 6.4 bn and over 450 projects, resulting in a year on year portfolio growth of 63%, which is a highly commendable performance. Although historically NDB's SME focus was largely directed at investment oriented long term lending, as reported last year, NDB Bank has now successfully expanded its offerings to also include short term working capital financing and related product bundles. This segment has made a significant contribution towards the portfolio growth during the year under review, given the greater expansion in the working capital needs of small businesses while new investments and capacity expansion gather pace for the economic upturn.

In addition to the traditional lending forms NDB Bank also intermediates in facilitating industry verticals linking the small time producers with the large scale distributors and vice versa, providing value added services and entrepreneurial assistance. NDB Bank has also taken the far sighted initiative of moving more towards a more customer centric cash flow based lending approach as opposed to the traditional collateral based lending. The success of this is reiterated by the substantial portfolio growth recorded this year whilst maintaining delinquencies at a low level. The Bank will continue to follow this strategy in the coming year as well, with a view to multiplying the SME portfolio over the next three to five years.

While SMEs have always been an important segment of NDB's portfolio, it now takes on an even more important dimension with the establishment of our footprint in the North and the East, and the potential prospects of restoring livelihoods within these regions. The Government has initiated several programmes for rehabilitation and reconstruction of physical and social infrastructure of the newly liberated territories and Banks are taking an active role in providing financial inclusiveness and facilitating equitable growth opportunities within these territories. This in effect snowballs into a larger population, with the immediate families also indirectly benefiting from the new business ventures thus created.

One such lending initiative by NDB Bank is a revolutionary new loan scheme titled Divi Aruna 'life awakening' commenced in June 2010, which is aimed at developing livelihoods for prospective entrepreneurs not within the mainstream of banking. The philosophy for introducing this scheme underlies the thinking that, in the economic resurgence that will generate many growth opportunities, with industries like fisheries, agriculture and infrastructure development poised to take off, the impoverished and marginalised individuals in the rural sector would miss out, if not given a helping hand at inception.

Although started in the North and East, the scheme now extends to the South as well. It has the significance of a microfinance project geared to livelihood development. It is a scaled product in that it does not deal with individuals but with groups. The primary feature of this lending is that no security is taken. Loan approval is based on the Bank's understanding of the applicants' vocations and its confidence in the success of their enterprise.

The loan scheme also aims to promote a savings culture, and to bring the marginalised and forgotten, into the banking stream. Many of them live from day to day, usually spending more than they earn. The scheme gives them the option of saving a specific sum monthly, and has also uplifted them, given them the confidence to walk into a bank, possess an ATM card, and instilled in them a sense of belonging to the community. To date, NDB Bank has financed a gamut of industries in projects that range from purchasing boats, equipment, nets, to providing



Financing facilities were given in Chilaw for Dairy Industry

working capital for women engaged in making maldive fish, financing tractors for farmers, material and equipment for pottery makers, livestock for the dairy industry as well as granting financial assistance for infrastructural improvements.



Handing over financing facilities for the maldive-fish industry in Trincomallee



Beneficiaries of the facilities given to fishermen in Chilaw

Management Discussion & Analysis

In conclusion, NDB Bank will continue to build on the momentum created in its SME segment going forward by allocating larger share focus resource pools and channels along with efficient, diverse and improved product propositions, which we hope will further strengthen NDB's foot print in this client segment.

NDB as a pioneer in lending to Small and Medium Enterprises since its inception, having over the years, supported over 45,000, ventures employing more than 650,000 people across the country is committed to continue its support to this segment in years to come.

Performance by sector - Corporate Banking Group and SME

The corporate banking portfolio grew by 26% over the previous review period, reaching a value of Rs 51,689 Mn. This was inline with the Bank's projections despite pressure on margins and increased competition in the market.



A beneficiary of the Mataru Project demonstrating the use of a electrical "potters wheel" funded by NDb Bank

The corporate banking portfolio remains well diversified avoiding any excessive exposure to a particular sector. The accompanying chart presents a breakdown of the portfolio by sector.

In line with the sector contribution of the country's national output, the services sector accounted for the largest share with 29% of the total portfolio. The services sector consists of well-diversified sub sectors such as financial services, telecommunications, energy, transport, shipping, construction and warehousing. This diversity mitigates the risk of high sectoral

concentration. Financial services is the largest sub sector within the services sector, accounting for 39% of this sector portfolio. With the global recession at an end, the Bank is looking strongly at this sector as an engine of growth. The balance 61% of the sub sector is represented by commercial services, telecommunications, energy, transport, shipping, construction and warehousing, which are also burgeoning industries in the new economic order, the growth potential of where NDB Bank is well positioned to support.

Sector Classification of Corporate Banking Portfolio



- Food and Beverages (5%)
- Agriculture, Agribusiness and Fisheries (20%)
- Textiles and Garments (15%)
- Wood and Paper Products (1%)
- Rubber and Leather Products (12%)
- Metals, Chemicals and Engineering (13%)
- Hotel & Tourism (1%)
- Services (29%)
- Miscellaneous (4%)

Agriculture, Agribusiness and fisheries sector accounted for 20% of the portfolio. Agribusiness sub-sector encompass desiccated coconut, cinnamon and other spices. This sector also includes facilities extended to the plantation sector, which has more than doubled during the period under review. Agriculture has been Sri Lanka's main livelihood from ancient times especially in North, Eastern and North Central Provinces, which are pre-dominantly agro-based economies. However, the growth in this sector has been sluggish. This sector has been a targeted to be developed with the liberation of North & East.

The textiles and garments sector accounted for 15% of the Corporate Banking portfolio, posting an exceptional growth, with

substantial growth in our niche segment of high- end garment manufacturers. Continuity of this growth will depend largely on the effect of the withdrawal of the GSP plus scheme on the garment industry.

NDB Bank also went a level below the high- end niche players in garment and textiles, but on a structured basis, where it researched the buyers, their experience and the type of garment manufactured, and rated the clients accordingly. This initiative is being closely monitored on an order- by- order basis which is on a product programme.

Metals, chemicals and Engineering sector increased to 13% of the portfolio from 12% in the previous year. A greater demand for products such as cement, paint, steel etc is expected with ongoing reconstruction projects in the north & East.

Rubber & leather products sector is an important and accounted for 12% of the portfolio. This sector will continue to provide good business prospects especially in the provision of working capital finance.

The food & beverage sector more than doubled during the period under review, largely supported by a marked increase in trade facilities. This sector will be an active and growing one, with the development of the North and East.

In terms of import industries, concentration was on chemicals, pharmaceuticals, agro chemicals, medical equipment etc. Consequently, the metals, chemicals and engineering sector increased to 12% of the portfolio, a growth from 10% in the previous year. NDB Bank also looked carefully at the construction industry in terms of steel related products. A greater demand for products such as cement, paint, steel etc under this sector is expected with the ongoing reconstruction projects in the North and East.

Sri Lanka's hotel & leisure industry is set for a buoyant with the increased tourists influx into the country following the end of the three decade old armed conflict that made two thirds of the coastal belt inaccessible. The need to add new properties remain high .The Government has identified Hambantota, Kalpitiya and Arugambay as major Tourists zones, which would provide opportunities for NDB Bank in this sector.

Refinance Operations

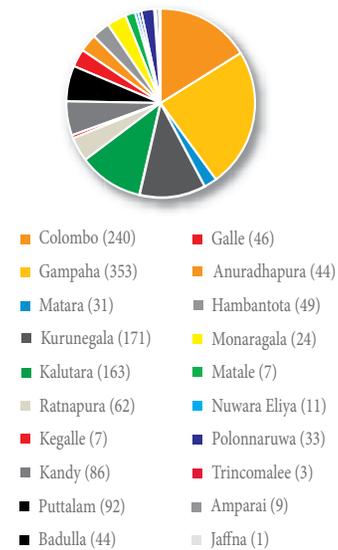
Refinancing operations play a pivotal role in the value creation process of medium to long term projects in the SME sector by facilitating funding on soft terms through a range of financial service offerings.

2010 was another successful financial year for the Unit as NDB Bank continued to extend its financial services through multiple credit schemes, strengthening assistance to the SME sector and providing the much needed seed capital with the aim of encouraging entrepreneurs to realise their true potential in post conflict Sri Lanka.

Since the inception of its history in 1979, in the establishment of the National Development Bank of Sri Lanka, NDB Bank has been a pioneering financial institution to extend financial assistance to a large number of SME projects. To date NDB Bank functions as an APEX institution for Government-negotiated credit channels from international donor agencies as well as funding schemes directly negotiated by NDB Bank.

NDB Bank operated four APEX credit lines during the period under review as discussed below.

District wise Cumulative Approvals under SMILE II Rev Scheme - Rs. Mn.



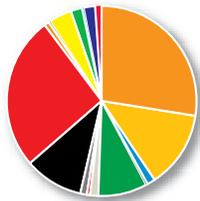
Management Discussion & Analysis

Credit Line	Funding Agency	Main Focus	Operational Status as at Dec 2010
Small and Micro Industries Leader and Entrepreneur Promotion Project II (SMILE II) Revolving Scheme	JBIC*	Promotion of Small and Micro Scale Industries in the Manufacturing, Industrial and Services Sectors, by providing concessionary term loans.	Operational. Continue to receive applications in 2011
Southern Province Regional Economic Advancement Project (SPREAP)	ADB**	Promoting the development of Micro Small and Medium Scale Industries in the entire Southern Province by providing concessionary term loans, with a focus on sectors such as Commercial Crops, Food Processing, Fruit Crops and Agro Industries.	Operational. Continue to receive applications in 2011
E Friends I Revolving Scheme	JBIC*	Extends credit facilities to those engaged in finding solutions for environmental issues such as industrial pollution, energy inefficiencies and compliance with the statutory requirements of the Central Environmental Authority	Operational. Continue to receive applications in 2011
Aquatic Resources Development and Quality Improvement Project (ARDQP)	ADB**	Improve food security and reduce poverty especially in rural areas by promoting market driven and sustainable management of inland fisheries and aqua culture through resource development and quality improvement.	Closed

*JBIC - Japan Bank for International Cooperation

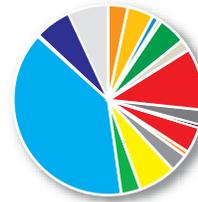
**ADB - Asian Development Bank

Sector wise Cumulative Approvals under SMERDP Creditline - Rs. Mn.



■ Agro Industries (253)	■ Leather and Allied Products (90)
■ Animal Husbandary / Horticulture / Aquarium (120)	■ Metal Products (239)
■ Chemical and Chemical Products (11)	■ Miscellaneous (7)
■ Commercial Crops (3)	■ Plastic Products (3)
■ Construction Material (78)	■ Printing and Paper Products (35)
■ Fisheries (11)	■ Rubber Products (19)
■ Food Processing, Beverage and Tobacco (5)	■ Services (3)
■ Garments (12)	■ Transport Storage and Communication (16)
	■ Wood and Wood Products (10)

Sector wise Cumulative Approvals under SMILE II Rev Scheme - Rs. Mn.



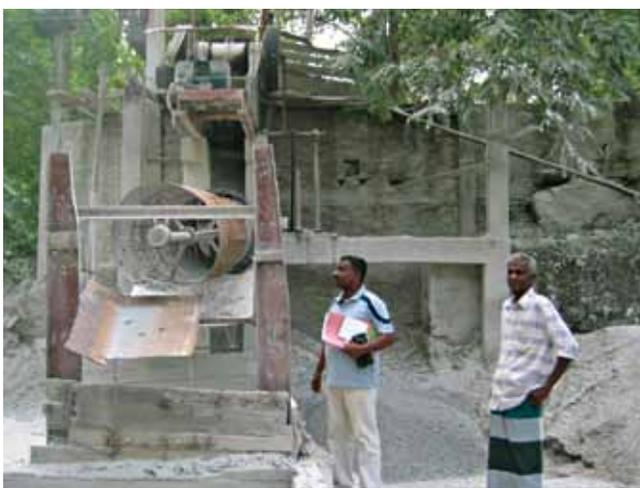
■ Agro Industries (51)	■ Metal Products (62)
■ Animal Husbandary / Horticulture / Aquarium (66)	■ Miscellaneous (16)
■ Chemical and Chemical Products (15)	■ Plastic Products (43)
■ Construction Contracting (6)	■ Printing and Paper Products (95)
■ Construction Material (72)	■ Rubber Products (49)
■ Fisheries (26)	■ Services (572)
■ Food Processing, Beverage and Tobacco (157)	■ Textile (6)
■ Garments (37)	■ Transport Storage and Communication (90)
■ Leather and Allied Products (9)	■ Wood and Wood Products (100)

	Approvals 2010		Disbursements 2010		Cumulative Commitments to date		Total Employment Generation upto 2010
	No of Projects	Amount (Rs Mn)	No of Projects	Amount (Rs Mn)	No of Projects	Amount (Rs Mn)	
NDB as Apex Institution							
SMILE II Revolving	34	80	95	171	591	1,475	2,072
SPREAP Revolving	847	336	469	192	1,494	555	2,536
E Friends I Revolving	45	349	30	194	50	382	12
NDB as a PFI							
SMERDP	148	544	118	427	217	896	902

Highlight: SPREAP Revolving Credit Scheme

The objective of the SPREAP scheme is to support the Government of Sri Lanka's efforts to promote the region's development, accelerate economic growth and create income and employment opportunities in the Southern Province through greater participation and involvement of the private sector.

The SPREAP Credit Component was fully committed by end March 2007 after extending Rs 1 Bn for the benefit of 4,226 Micro, Small & Medium Enterprise (MSME) Projects. Subsequently NDB



Expansion of metal quarry at Mulkirigala under SPREAP



Purchase of equipment and raw material to upgrade the business of the production of musical instrument at Matara under SPREAP

Bank revolved a total sum of Rs 0.75 Bn which consisted of capital already collected in the Revolving Fund and future recoveries/ collections.

The Revolving Fund continues to play a pivotal role in establishing and upgrading the MSMEs in the region whilst creating new job opportunities for the local population. It is envisaged that long term benefits will flow to new and potential entrepreneurs through the availability of competent sources of technical, managerial and financial advice and also financing agencies that have the capacity to process and supervise term loans.

As an Apex institution engaged in the distribution of wholesale funding, the Bank also conducted many awareness campaigns and training workshops during the year for both the PFIs and



Purchase of Machinery for the manufactures coir and coir twine/cords at Galle under SPREAP

Management Discussion & Analysis

the end borrowers providing technical assistance and operational guidance under each of the related credit schemes.

Role as a Participating Financial Institution

NDB Bank was also involved in granting of loan facilities as a Participating Financial Institution (PFI) through the following funding schemes.

- 1) Small and Medium Enterprise Regional Development Project (SMERDP), funded by ADB
- 2) 'Awakening North' Special Loan Credit Scheme, implemented by the Central Bank of Sri Lanka
- 3) Resumption of Economic Activities in the Eastern Province Special Loan Scheme, implemented by the Central Bank of Sri Lanka
- 4) Prosperity (Saubhagya) Credit Scheme, implemented by Central Bank of Sri Lanka
- 5) KFW Credit Line for SMEs in the North & East

Highlight: SMERDP Credit Scheme

NDB Bank was one of the four Participating Financial Institutions that actively participated in the SMERDP loan scheme during the year.

A cross analysis of projects financed under SMERDP reflects a substantial quantity of loans approved for both industrial and service sectors such as food processing, tourism and fisheries, which are growth sectors with leading contribution towards the country's national output.

Maintaining environmental standards plays a pivotal role in this credit line, which encourages PFIs to set up a standard process through establishing an environmental policy code that is built into the Credit Facility Appraisal Systems.

NDB Bank has also granted credit facilities based on the cluster financing concept under this scheme.

Retail Banking

Introduction

NDB Bank is rapidly developing a competitive advantage in the Retail Banking arena, by building on its product and customer service differentiators, moving from a niche to mass focus in order to offer a range of value added liability products, focused asset products and differentiated card products through its multiple

distribution channels in order to enrich, empower and equip its customers to meet the challenges of the new economic order and help Grow Sri Lanka every step of the way.

The year under review was a tremendously challenging one for Retail Banking, given the declining interest rates prevailing during the period. NDB Bank initiated a rigorous deposit drive with greater emphasis placed on mobilizing deposits in the first half of the year while focusing on growing the lending portfolio in the second half.

With its focus on expansion, the retail customer base was further increased by 24% during the year under review.

Deposit Drive

The Bank has been aggressively building its deposit base, accelerating growth and focusing on savings, despite the slow growth of the market. Savings were largely driven through product innovations, value additions and consumer promotions. As a direct result of these focused efforts, the retail deposit portfolio grew by a healthy 25%.

The National Savings Drive campaign 'Lets Save Prosper and Build the Nation' was launched to coincide with World Thrift Day in October. Taking the concept of traditional monetary savings into promoting a culture of saving in other areas of life as well, NDB Bank's National Savings Drive highlighted the potential benefits of cutting down on unnecessary wastage that takes place daily; from reducing wastage of national resources such as electricity, water and telephones, to saving the environment and better time management, the ultimate outcome of which would be monetary savings.

Developing a savings culture with NDB Bank was reinforced with a communications campaign that encouraged those who would like to save, but felt that it was impossible to do so due to day to day expenses. This awareness was built through the press and electronic media. The Bank also launched 'Ithuru Karana Maga', a booklet that gives numerous practical methods of saving in daily life.

Deposit mobilization reached further heights during the period, also supported by the Bank's lead savings product, 'NDB Savings Star' and the advertising and promotional campaigns that created public awareness. Additionally, activities initiated at branch level took the message of saving to diverse stakeholders including schools, townships etc.



Handing over of the 1st copy of the 'Ithuru Karana Maga' book to the Governor of the Central Bank



School children who were educated on the 'Ithuru Karana Maga' initiative

To coincide with the National Savings Drive, a consumer promotion campaign was also launched during the latter part of the year, titled 'NDB Bill Settle'. This offered NDB Savings Star customers the opportunity of having their electricity bill paid for by NDB Bank for a three month period. Should they succeed in saving at least 10% on the value of their electricity bill, a further 3 months was paid.

Loans and Advances

In the first half of the year, banks were conservative in their approach to lending and customers were also hesitant in borrowing. However, this trend changed in the latter half. With consumerism and credit appetite picking up, retail loans and advances as at the end of December 2010 grew by 35%, compared with the corresponding period in 2009. While a prudent credit policy was administered to ensure asset quality, emphasis was placed on personal loans, pawning, housing and mortgaged-backed lending, which increased in demand due to improved customer confidence in the post conflict economy.

In order to streamline the process, ensure smooth functionality and improve efficiencies across the board, NDB Bank centralised its retail credit approval and processing under one credit centre in the second half of the year.

Product Variants	Portfolio Growth
Personal Loans - Mortgage backed personal loans secured with property or vehicle mortgage covers, which provide a higher loan value at a lower interest rate - Special loan scheme for professionals including unsecured loans - Mortgage Backed Educational Loans for students to support them in their educational aspirations - NDB Jeevana Livelihood Training/Loan Scheme	63%
Pawning	145%
Home Loans - NDB Home Loans - 'Viyana' Home Loan - Exclusively for ETF Members - Corporate Staff Loans - Loans for the Self Employed	17%
Leasing	29%

Personal Loans

NDB Jeevana Loan Scheme

In a bid to empower youth and stimulate further economic revival in post-conflict Sri Lanka, NDB Bank introduced the 'NDB Jeevana Livelihood Training/Loan Scheme' under its personal loan portfolio. This pioneering scheme is an industry first, and is geared for youth aged between 18 and 35 years in the North and East of the country, who wish to pursue careers in selected vocations.

The Bank partners with relevant industry leaders to provide the required vocational training as well as facilitate practical placements to eligible applicants for a period of 6 months. As at the end of 2010, NDB Bank had signed agreements and commenced programmes with the International Hotel School of Mt. Lavinia Hotel and the Diesel and Motor Engineering Company Ltd. (DIMO) to conduct hospitality and automotive

Management Discussion & Analysis

training respectively in the districts of Trincomalee, Jaffna and Ampara.



The students of the first 'Jeevana' project on their visit to NDB Bank, together with the CEO of NDB Bank and the Principal of the International Hotel School



Exchanging of the MOU with DIMO to begin the 'Jeevana' project in motor mechanism

Education and other Personal Loans

For the third consecutive year NDB Bank partnered Sri Lanka's largest Higher Education and Career Guidance Fair, EDEX, as the official bank, thereby creating awareness of the Bank's education loan products.

Numerous other focused initiatives were conducted at work-sites to promote personal loans. Further, a special loan scheme with unique features was offered to professionals.

Pawning

NDB Ran Naya, was introduced two years ago and re-launched during the year under review. A consumer promotion with an interest waiver in the 1st month was launched to incentivize customers to conduct pawning transactions with NDB Bank and to increase product awareness.

Home Loans

The Bank tied up with Nivasie Developers and Edirisinghe Trust Investments (ETI), during the year under review to promote its Home Loans product. The partnership with Nivasie enabled customers to purchase Victoria Range Bungalows in Digana, Kandy at concessionary rates, while the partnership with ETI enabled customers to build their dream home on their own property. NDB Bank offered special rates to customers who wished to benefit from these partnerships.

Leasing

The leasing market has been declining over the past two years, primarily due to declining vehicle imports. However, the year under review saw a turnaround, which was driven by two factors: the reduction in import duty and the decline in interest rates, both of which helped accelerate the growth of the leasing market. The resurgence of economic activity in the North and East also contributed to the leasing business picking up in the second half of the year. These market developments have seen the Bank actively pursuing the introduction of numerous differentiators, both to grow the business as well as to reinforce the market position.



Partnership with Toyota Lanka to promote NDB Leasing

These differentiators included facilitating a customer centric process as well as providing value additions through partnerships with merchants and dealers. These partnerships of NDB Bank (e.g. with Sathosa Motors to promote Isuzu lorries and with Toyota Lanka to promote Toyota Yaris and Corolla cars, Hilux Single Cabs and Hino lorries) have proven to add value to both the Bank and the vehicle dealer with the customer as the ultimate beneficiary. The promotions contributed significantly to raising awareness of NDB Leasing and thereby helping to grow the Bank's leasing portfolio.

Remittances

Foreseeing an increase in remittances to the country by Sri Lankans working overseas, for consumption as well as investment purposes, in the post conflict scenario, NDB Bank strengthened its presence through partnerships with other banks and exchange houses overseas. The Bank tied up with the UAE Exchange Company in UAE and the National Exchange Company in Italy and appointed the Bank's own representative in Italy. These partnerships have already proven to be a success and provided increased contributions to the fee income of the Bank.



Medical Clinic organized in Lebanon together with the Sri Lankan embassy in Lebanon

To further popularise the Bank's remittance service in Italy, NDB Bank also carried out a seasonal promotion in the latter part of the year, offering those overseas, the chance to give loved ones living in Sri Lanka a valuable Christmas gift, courtesy of NDB Bank.

NDB Bank is one of the primary agents for Western Union in Sri Lanka. The large Sri Lankan diaspora makes a captive target market for this service. A strong growth was seen here as well,

as a result of the increased remittances to Sri Lanka. NDB Bank initiated several ground level activations and promotions to create awareness and interest regarding Western Union among its target audiences through the Bank's branch network and subagents; Singer Sri Lanka and the Regional Development Bank branch networks. In the latter part of the year, Western Union's Sri Lanka operations initiated a promotional activity with NDB Bank as a principal agent partnering this novel concept to promote Western Union money transfer services in the Northern province as well as among the Tamil diaspora outside Sri Lanka.

Bancassurance

Synergic interaction amongst the members of the NDB Group has helped to extend the range and reach of the Group's financial services offering. Bancassurance is NDB's pioneering product with AVIVA NDB Insurance which has hence been continuously refined and customised to suit the evolving needs of the consumer. The Investment Plans offered this year consisted of four unit linked investment fund options with the flexibility of selecting the risk return mix that best suits the individual's investment proposition and risk appetite. Bancassurance continues to be a significant fee based revenue source for the Bank with great potential for future growth.

VISA Debit and Credit Cards

The year under review witnessed the launch of NDB Bank's VISA Credit Card in the later part of the year, thus completing a product gap in the Banks' retail product offering. Available in Gold and Silver variants, the card was introduced with 'Chip technology', the best security currently available for credit cards; thereby enabling NDB Bank customers to carry out secure credit card payments.

The issuance of NDB Bank's Visa Debit Card showed a growth of 31% while overall usage increased by 30%. This Growth was also supported by a 3 month promotion for Debit Card users by Visa International in conjunction with the Cargills Food City supermarket chain.

Privilege Banking

The year 2010 saw strong growth in the Privilege Banking unit, which posted a deposit portfolio growth of 23%. The Bank is confident that this area will continue to show strong growth in the next year as well. The positive outlook of the post war Sri Lankan economy and low global interest rates also contributed towards attracting clients outside Sri Lanka to SFIDA and NRFC deposit products.

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Further, the Privilege Banking unit leveraged on the Groups synergies of investment banking, wealth management, stock broking and insurance, in order to grow the product offering to its clientele. As such, NDB Bank used its position of a strong financial conglomerate, with an extensive portfolio of product offerings under each company, to attract high net-worth customers who wished to access all these services under one roof through a single relationship manager.

However, the year under review was a challenging one for the Privilege Banking unit, with clients opting for alternate non-banking investments, due to low interest rates in local currency deposits. This will continue to be a challenge in time to come.

Marketing

The Marketing Division initiated several brand building campaigns and public relations activities throughout the year in order to increase brand equity and awareness of NDB Bank among its stakeholders.

NDB Bank launched its corporate campaign during the year, to strengthen the image of the NDB Group as a whole and establish the Group as one of Sri Lanka's largest financial conglomerates. Further, a focussed campaign was launched to create awareness of the wide range of products and services available through retail banking, SME financing, project financing and commercial banking, while familiarizing the public with the Bank's unparalleled customer service and conveniences.

In a bid to take NDB Bank as a brand to the wider target market and foster the Bank's aim to promote Sri Lankan youth and young talent, the Bank partnered the musical reality show, Sirasa Super Star Season 3. The winner of Sirasa Super Star Season 3 walked away with a grand prize of a brand new vehicle, sponsored by NDB Bank. This initiative contributed significantly towards growing the awareness of NDB Bank and increasing its acceptance among the wider target market.

Over 160 branch-centric door-to-door activities and 'Tikiri Peya' programmes were also conducted at schools to increase brand awareness and promote savings. NDB Bank was also one of the main sponsors for the World Children's Day celebration, 'Lama Lokaya' conducted by the Independent Television Network (ITN) at the Leisure World Water Park. It was a fun filled day for the children with games, competitions and educational sessions that helped increase brand awareness and promote savings.

In the latter part of 2010, NDB Bank partnered the 'Ranaviru REAL Star' Reality TV show on Sri Lanka Rupavahini. Ranaviru REAL Star is a tribute to the heroic efforts of the armed forces

personnel; as they embark on their new journeys. The programme will serve as a platform to highlight their musical talents on a national stage. It will showcase the talents of the Army, Navy and Air Force personnel, both male and female on one stage. As a Bank that believes in empowering Sri Lankan youth and nurturing talent to create world-class Sri Lankans, this was seen as an ideal opportunity as a corporate entity to support and promote our country's talented youth.

These focussed marketing strategies and operational initiatives carried out during the year resulted in the NDB Bank brand being awarded an A+ rating by Brand Finance Lanka in 2010, and it became one of the top 20 leading brands in the country in a very short time period.

24 Hour Customer Service Centre and Tele Marketing

In keeping with its aim of providing unparalleled customer service, NDB Bank's Call Centre continued its role as a 24-hour one-stop information centre for all banking products and services.

The Bank's Tele-Marketing team also continued its efforts in promoting the Bank's products and services to existing and potential customers.

Channel Reach and Accessibility

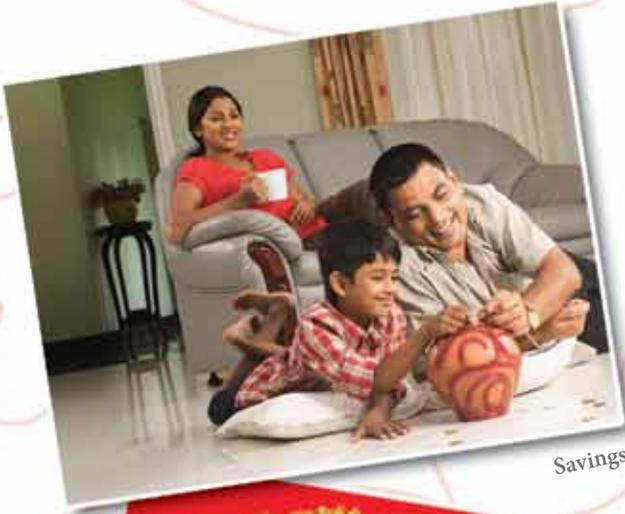
The results of the Bank's expansion to the North East last year was seen this year, with very positive results from this region.

During the period under review, the Bank expanded its operations to Vavuniya, Narahenpita and Kuliyapitiya, while existing branches in Kandy, Kegalle and Galle were relocated to more spacious and convenient locations.

Together with the expansion of the branch network, the Bank also integrated its Retail Banking and SME business at branch level, thereby enabling customers to access the full range of banking services from NDB Bank through one contact point. This change will further increase the efficiency at the branches while also providing added convenience to the customer.

The Bank also took steps to enhance its accessibility by adding more touch-points to its existing network by signing an ATM network sharing agreement with Sampath Bank. With this tie-up NDB Bank customers will be able to access over 300 ATMs that will form the joint network of NDB and Sampath Bank across the country.

The sales teams were also increased to improve reach supplementing the increasing branch network which is proving to be a great success.



Savings



Privilege Banking



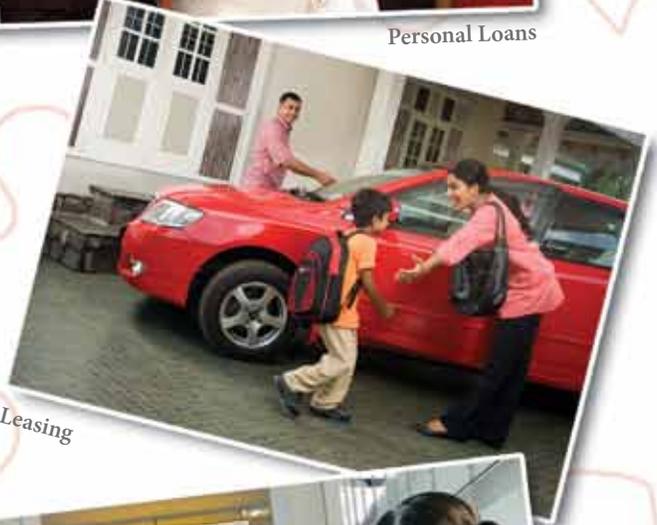
Ran Naya



Personal Loans



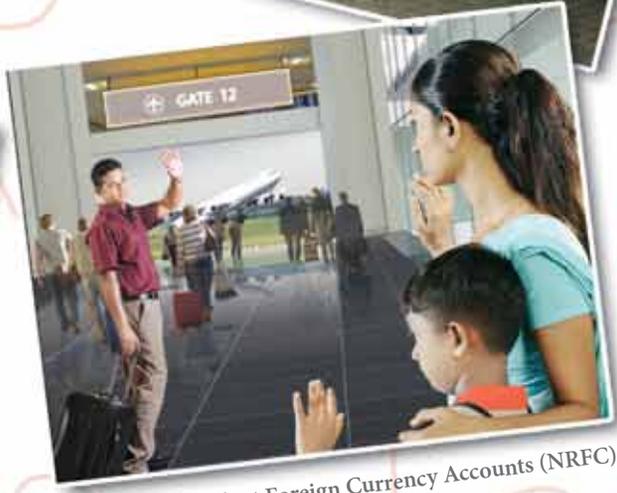
Education Loans



Leasing



Home Loans



Non-Resident Foreign Currency Accounts (NRFC)

Management Discussion & Analysis

Operational Improvements

Systematic improvements were carried out to improve the customer service quality standards and on building efficiencies in branch operations during the year under review.

The frontline staff at NDB Bank are being continuously monitored and trained to ensure improved customer satisfaction at all customer touch points of the Bank. NDB Bank conducted its annual Service Quality Survey together with Lanka Market Research Bureau (LMRB). The results show a customer satisfaction score of 75.43, for 2010.

The Bank also continued to maintain its online Complaint and Tracking System which logs and tracks all customer complaints.

While aggressive expansion of business took place, the recoveries and collections unit continued its excellent efforts to minimize the Bank's Retail Banking non-performing loan portfolio, and helped achieve a Gross NPL ratio of 1.6% as at 31st December 2010, a significant improvement from the 2009 figure of 2.7%. These figures are well below the industry NPL figures.

Equity Investments

Quoted Equity Investments

The Colombo Stock Exchange has been ranked the second best performing market in two consecutive years and the market created history in 2010 by establishing new records in many aspects i.e. market turnover, trading, indices and market capitalization.

Strong demand for equity investments was also supported by falling interest rates and positive investor sentiments on the backdrop of a favorable economic/political climate and future growth prospects. Capitalizing on this market performance, NDB Bank appointed NDB Aviva Wealth Management Ltd to invest and manage a quoted equity portfolio of Rs 500mn (at cost).

Non Quoted Equity Investments

NDB Bank continued with its divestment strategy on investments in non quoted companies in line with the directive by the Central

Bank of Sri Lanka that NDB Bank should exit from all equity investments made in non quoted companies, with the exception of those where special approval had been granted. These investments were carryovers from past, acquired as part of project financing business activity.

Treasury

The Treasury had to perform under extremely challenging circumstances, particularly with the stability of market conditions similar to those of more developed markets, where improved returns, largely depended on increased volumes.

Treasury's performance during the previous year was highlighted by significant capital gains made from trading in Treasury Bills and Bonds which were largely influenced by falling interest rates. With stabilizing of interest rates, this was possible to a far lesser degree during the year under review. However, despite market constraints, foreign exchange income and debt trading, continued to show satisfactory contributions to NDB Bank's revenue and profitability.

Though there was lesser volatility in both foreign exchange and interest rates, positive market movements were observed during certain parts of the year. Post war influences, and those resulting from inflows arising from foreign employment and international aid, which, apart from the general growth in business, assisted the rupee to appreciate against the USD marginally over 3%. However, The rupee appreciation was managed to some extent by The Central Bank of Sri Lanka, through intervention, thus avoiding a steep appreciation of the local currency, which may have had many economic and social, ramifications. This gave rise to the country's reserves improving to over 6 months of imports (USD 6 billion)

Treasury bill rates saw a decline, though to a lesser degree than in 2009, while the bond yields remained stable. Policy rates stabilized towards the latter part of the year prior to which the Monetary Board introduced two interest rate cuts to stimulate credit growth in the economy. This resulted in rates declining by approximately 2% during the year and improved credit to the private sector, particularly during the second half of the year. Additionally,

the strong liquidity levels that prevailed in the banking system enabled the market rates to be maintained at lower levels during the entire year.

Resurgence of business in the North and East coupled with a moderate recovery of the global economy from the recession, also resulted in rapid recovery of export volumes and imports, which grew by 12% and 31% respectively in the year of review. Based on positive trade volumes, the Treasury further strengthened NDB Bank's position as a market maker in USD/rupee currency in both spot and forward markets. This enabled pricing advantages to be utilized to acquire customer positions by providing competitive rates to both importers and exporters, which resulted in drawing significant improved business volumes.

During the year under review, the Treasury played an influential role in acquiring customers, particularly corporate customers, who accounted for almost 50% of business volume. Also, in retail banking, it was possible to acquire new customers who are particularly, high net worth individuals belonging to Privilege Banking business.

Funding requirements eased during the year as the available liquid funds supported the aggressive asset growth witnessed during the year. Liquid funding was further supplemented by, moderate deposit growth that was pressured by declining returns on savings and deposits. The Treasury was continuously challenged during the year of review to generate improved returns on its investments, in a liquid market where market rates were offering marginal returns.

Selective strategies were also employed to optimize results on rupee yield curve movements. Additionally, duration based risk management techniques were used to manage interest rate risks. Currency positions were also successfully managed to minimise market risks with internal expertise that enabled to meet targets, despite operating in a very competitive environment. Internal expertise was also used to its advantage by, reading the market, gaining market entry in timely manner and making use of arbitrage opportunities that have all enabled to improve revenues.

While the Treasury used a range of tools not only to manage risks but also to generate revenue for NDB Bank, it offered a range of interest rate and currency products to its customers.

The Treasury front office is supported by Treasury Operations, responsible for transaction settlement and control, while the independent middle office, monitors and reports markets risks on an ongoing basis. The Asset and Liability Management (ALM) function, supports the Assets and Liability Management Committee (ALCO) which is a key committee of the Bank. Under authority delegated from the Integrated Risk Management Committee (IRMC), of the Board, ALCO is charged with the overall asset and liability management function of NDB Bank. This committee was set up to recommend, prudent asset/liability management policies and procedures. Additionally, ALCO enables NDB Bank to achieve its goals while operating in full compliance with applicable laws and regulations. It is also vested with the responsibility for monitoring market risk and providing strategic direction to the ALM function while optimizing profitability based on the structure of NDB Banks Balance Sheet. ALCO possesses wide authority and responsibilities including, approving and reviewing investments, funding strategies, hedging and trading activities, setting pricing policies and formulating internal investment policies.

An overseas consultancy was commissioned to comprehensively review market risks and make suitable recommendations to improve profitability, while managing market risks based on the Banks appetite for risk. Based on this assignment, NDB Bank has formalized all key procedures and processes in this regard. While an independent unit has been set up to monitor market risk (Middle Office) on an ongoing basis, all market risks are reported periodically to the IRMC.

Operations

Transaction Management & Support Services

NDB Bank, expanded its area of operations by bringing Branch Development, Remittances, Cards and Alternate delivery channels under one umbrella.

Management Discussion & Analysis

During the year under review, NDB Bank, launched its own credit card, fulfilling a much needed requirement of the retail customer. To reduce customers' cost of accessing accounts through ATMs, an ATM sharing agreement was signed with Sampath Bank, which increased NDB Bank's ATM network to 300 plus, which will be available to customers at a preferential price.

Inward Remittance is to be an important revenue generator, and NDB Bank is, accordingly, evaluating the option of implementing a new system to capture increased business volumes from the Middle East and certain European countries.

The Trade Finance Department continues to be a dominant player in the market, capitalising on its service quality supported by ISO 9001 2008 certification.

The Centralised Processing unit was further expanded by bringing project loans, housing loans and leasing operations within its purview.

Information Technology

With respect to Information Technology, year 2010 has been a year of consolidation, during which NDB Bank has taken initiatives to further strengthen its ICT infrastructure.

NDB Bank is currently in the process of replacing its' core banking systems with a state-of-the art software solution. Steady progress has been made on the project to upgrade the core banking system. The system migration is scheduled to take place during the second quarter of 2011. As at December 2010, the User Acceptance Test was in progress to test the customisations to the system.

As a value addition to the account holders, NDB Bank introduced on-line crediting of foreign inward remittances to their account.

During the latter part of the year, NDB Bank tied up with Sampath bank to share each other's ATM network. The project is expected to be completed in January 2011. This will facilitate NDB customers to have ATM accessibility beyond the NDB branch network at a nominal fee.

NDB Bank also strengthened its infrastructure by upgrading the network hardware and software to its latest version, thereby enabling greater flexibility and enhanced security.

Group Companies

Capital Development and Investment Company PLC

The Capital Development and Investment Company PLC (CDIC) is the strategic investment arm of NDB Bank, which holds 99.66% of CDIC, while the balance shares are held by the public. CDIC's principal business is to identify and manage the investments of NDB Bank and realize high returns in the long term.

CDIC's largest strategic investment is in Aviva NDB Finance Lanka Ltd, through which the Company holds a 36.27% stake in Aviva NDB Insurance PLC. CDIC also holds a 51% stake in the Ordinary Share Capital of NDB Aviva Wealth Management Ltd. (formerly known as Eagle NDB Fund Management Company Ltd.), the largest fund management company in Sri Lanka.

During the year, CDIC invested a total sum of Rs 750 mn in portfolio of quoted equity investments, to be part of the promising growth in the stock market. This investment portfolio was managed by NDB Aviva Wealth Management Ltd. Additionally, the Company also invested in the Eagle Gilt Edged Fund, selected securitizations, debentures and Initial Public Offerings and a trading equity portfolio with NDB Stock Brokers (Private) Limited.

The market capitalization of CDIC as 31st December 2010 was Rs. 5,749 Mn, which yielded earnings per share of Rs. 10.26 for the year under review.

Plans for the future are to further leverage the Company to obtain high long term returns for the NDB Group.

Investment Banking Cluster

The investment banking cluster was structured in the preceding year, to capitalize on the growth opportunities that heralded the cessation of hostilities in the country and global economic recovery. The strategy was to provide a comprehensive range of investment banking, wealth management and stock broking

services under one roof. The strategy also encompasses a holistic approach to wealth management. Eagle NDB Fund Management Company Ltd. was acquired by NDB Group's strategic investment arm, Capital Development and Investment Company PLC (CDIC) in June 2009 now named as NDB Aviva Wealth Management Limited. In July 2009, NDB established NDB Capital Ltd. in Bangladesh, through the acquisition of 77.8% of a merchant bank, Capital Market Services Ltd. These two acquisitions complemented NDB Investment Bank and NDB Stockbrokers, the other two companies within the investment banking cluster, which were integrated with mainstream banking operations.

NDB Bank's vision for the future is to further strengthen the investment banking cluster and integrate it to NDB Bank's strong and well capitalized banking operations. NDB Bank is confident that this will give it the competitive advantage that will position the Bank as the market leader in banking and capital market functions.

NDB Investment Bank (NDBIB)

The financial year saw an environment conducive to investment, with the prevailing low interest rates. The capital market was rejuvenated, with domestic financial markets becoming more liquid and stable in the aftermath of the war, inflationary pressure declining, the easing of monetary policy and resumption of capital inflows due to improved investor confidence. These positive market trends enabled NDBIB to record a successful year, raising about Rs 22 bn both in debt and equity which was a laudable achievement.

During the year, NDBIB concentrated on those areas of products in which it is the market leader, and strove to maintain its market share and its position as the most preferred investment bank in Sri Lanka. The main source of business came from securitizations, syndications and IPOs. NDBIB raised substantial funds for the rapidly expanding leasing industry, as well as for other companies that had not hitherto expanded operations in the civil war scenario. NDBIB hopes to continue this performance into the future.

Debt Unit

The Debt Unit achieved commendable performance by raising funds through a diversified range of debt instruments. As the pioneer and market leader in securitizations, NDBIB raised approximately Rs 11 bn from securitizations while the remaining funds were raised via debentures, structured loans and commercial papers.

NDBIB's strong position in securitization was brought to the fore with the investment bank functioning as the structuring and placement agent for the largest securitization transactions to take place in Sri Lanka in the lease and hire purchase sector amounting to Rs 1.055 bn carried out on behalf of People's Leasing Co. Ltd.

Corporate Advisory Unit

The Corporate Advisory Unit experienced a remarkable year concluding two Initial Public Offerings (IPOs) of PC House Limited and Singer Finance (Lanka) Limited, with the latter recording the highest ever oversubscription in an IPO in the Colombo Bourse. The unit was responsible for the successful execution of many transactions including Private Placements and Business Valuations amongst other advisory assignments. The Corporate Advisory unit is confident of achieving greater heights in the Sri Lankan Capital Market through a range of exciting transactions in the pipeline for 2011.

NDB Aviva Wealth Management

Within a short span of 1 ½ years since the acquisition, NDB Aviva Wealth Management sharply increased its assets under management from Rs 27 bn to reaching over Rs 42 bn as at end 2010. Until very recent, the Company concentrated on managing institutional monies including provident fund and pension funds and other large corporate funds. NDB Aviva Wealth Management plans to strengthen its existing products and create new products in the retail wealth planning segment, both to add value to NDB Bank as well as provide the Sri Lankan market with innovative financial solutions.

In sync with the vision of the Sri Lanka Government, NDB Aviva Wealth Management plans to open capital market operations

Management Discussion & Analysis

to the masses, with the launch of mutual funds products in the near future. This will be yet another 'first' for the Group, as small investors in Sri Lanka have had no access to such value added services, nor harnessed the benefits of capital markets through mutual funds to date.

The NDB owned joint venture wealth management company fully supports the recent Government policies that give foreign investors access to mutual funds and other wealth management products in Sri Lanka. NDB Wealth Management plans to be at the cutting edge of these initiatives too, once implemented.

One of the many strengths of NDB is its ownership by a group of many shareholders and its independent management, which assures its clientele safety and security of their investments. As a Group company, NDB Wealth Management is also well geared to manage risk and, within its short span of existence, is, arguably, the largest private sector fund management company in Sri Lanka.

NDB Stockbrokers (NDBS)

Renewed levels of activity in the stock market saw the All Share Price Index (ASPI) and the Milanka Price Index (MPI) which stood at 3,481.64 and 3,961.75 respectively at the beginning of the year, gaining steady momentum throughout. This upward trend continued, with ASPI growing by 96 % and Milanka growing by 83% in 2010.

NDB Stockbrokers' strategies to meet the demands of a growing market following the economic turnaround, proved successful, with the company posting an excellent performance recording substantial profits.

NDBS also achieved a substantial increase of its customer base of high net worth individuals as well as successfully capitalized on institutional purchases. Internet trading and retail also recorded very satisfactory performances.

NDBS will continue to work with the Group companies to maximize on group synergies in the next year, by marketing specific products like mutual funds, structured by NDIB and NDB Aviva Wealth Management to provide the Group with a much

wider product portfolio. The Company is on its way to be the top stock broker with the highest ethical standards.

NDB Capital

NDB Capital, Bangladesh, is well positioned to capitalize on Bangladesh's initiatives to accelerate economic growth by increasing capital investment in the country. Commencing operations in July 2009, the Company has geared itself on the investment banking model followed successfully in Sri Lanka, to provide a range of investment banking services to discerning Bangladeshi and regional clientele. NDB Capital is confident that the implementation of its plan will see fruition in the next year, resulting in a turnaround that will establish the Company as a quality provider of capital market services.

AVIVA NDB Insurance

2010 heralded the Company's transformation into the dynamic and robust - AVIVA NDB Insurance. The year also marks the revolutionary transformation of the Company's direct agency sales force into AVIVA NDB Wealth Planners. The benefits of these historical milestones are clearly evident in the solid set of business results posted by the Company.

AVIVA NDB Insurance PLC reported LKR 10.6 Bn in consolidated Gross Written Premium and LKR 15.2 Bn in group revenue, reaching a significant milestone by crossing the LKR 10 Bn and LKR 15 Bn industry benchmarks of scale and success.

The Company recorded consolidated revenue of LKR 15.2 Bn which reflects a growth of 57% over 2009. Profit after tax stood at an impressive LKR 602 Mn despite an LKR 324 Mn one-off brand change spend in 2010. The new AVIVA NDB brand has been readily accepted by all stakeholders.

Life business in particular recorded a very strong performance. Life Gross Written Premium stood at LKR 7.8 Bn, a remarkable growth of 68% over 2009. The direct sales force and bancassurance channel contributed in great measure towards this achievement, with the former accounting for 72% of the volume and the latter 26%, whilst corporate group Life and group gratuity business

made up the remaining 2%. Bancassurance made a noteworthy contribution of LKR 2.0 Bn in Gross Written Premium during the year which is 4.5 times its achievement for 2009.

General insurance business reported a healthy top line performance in 2010 with Gross Written Premium of LKR 2.8 Bn, recording a 14% increase over 2009. The growth was achieved despite the quality focused underwriting policy adopted by the management team, especially in the medical class of business. The impact was partially offset by the growth in the Motor class of business which reported LKR 1.6 Bn in Gross Written Premium, recording 53% growth over 2009.

Maintaining profitability in General insurance remains a challenge given the soft market rates prevalent across all classes of General insurance business. General insurance reported an underwriting loss primarily due to the adverse loss experience of Medical and Motor classes of business as well as adverse weather. The two floods in May and November that affected the Western province impacted the financial performance of General insurance business. Despite this underwriting loss, General insurance business reported a noteworthy bottom-line profit of LKR 274 Mn for 2010 supported by strong investment income flow.

The Company continues to remain strong and stable in the midst of the current growth phase with Life business solvency ratio at 1.5x, GI business solvency ratio at 4.09x and net assets of LKR 2.9 Bn. Net assets have grown by 13% during the year and provide a strong platform to maintain and sustain the current growth momentum.

The Company's results stand testimony to the brave spirit with which AVIVA NDB faced the challenge of change within the Company, whilst leveraging the positive environment that prevailed in the country in 2010².

Financial Review

Overview

The NDB Group's Net Income (Net interest income, fee income and equity income) for the year grew by 4% over the previous year. The Group Profit Before Tax and the profit After Tax also improved by 4% and 5% respectively over the last year. The Group Profit Attributable to Shareholders showed a growth of 3% over the previous year. The results of NDB Investment Bank Limited, NDB Stockbrokers (Pvt) Limited, Capital Development & Investment Company PLC, Development Holdings (Pvt) Limited, NDB Capital Limited (Bangladesh) and NDB Aviva Wealth Management Limited, representing the spectrum of Group businesses, along with Maldives Finance Leasing Company (Pvt) Limited, our associate company in Maldives, have been consolidated.

The NDB Group differentiates itself from its peers, as its customers have access to a full range of banking and financial services, including Project and Infrastructure Finance, SME Lending, Retail banking and Corporate banking through NDB Bank; while it also offers a wide spectrum of products and services in the areas of Investment Banking, Stock Broking and Wealth Management through the Investment Banking Cluster, and Insurance solutions through AVIVA NDB Insurance.

Thus today, the NDB Group is one of the most highly diversified commercial banking groups in the country with regional operations in Maldives and Bangladesh. With the cessation of hostilities in 2009, as expected, there is improved activity in the capital markets that has brought new opportunities in the area of investment banking and stock broking with the renewed level of activity in the stock market. Thus the performance of NDB's Investment Banking cluster showed significant improvement over the previous year. The group companies are currently gearing themselves up by strengthening their internal processes, with technological improvements and in the area of Human Resources to enable themselves to meet the demands of the expanding customer base.

NDB Bank's core banking profits for the year also showed an increase of 5%. However, the core banking profits of NDB Bank excluding the exceptional gains on the sale of government securities and shares increased by 34% over the last year. On the same basis the Profit before Tax and the Profit After Tax of NDB Bank grew by 37% and 34% respectively as follows.

Rs Mn	As is			Excluding exceptions		
	2010	2009	Vari- ance %	2010	2009	Vari- ance %
NII	3,896	3,715	5	3,896	3,715	5
Banking Revenue	5,537	5,613	(1)	5,394	4,880	11
Core banking profits	3,033	2,890	5	2,890	2,157	34
Profit Before Tax	3,458	3,493	(1)	3,314	2,424	37
Profit after Tax	1,576	1,682	(6)	1,519	1,133	34
*Gains from government securities and equity income						

Net Interest Income (NII)

The NII for the year recorded a 5% increase over the previous year. The declining yields resulting from the fall in interest rates and intense competition have increasingly pressured the NDB Bank's interest spreads during the current year. It is noteworthy to comment that the Bank's CASA ratio, has improved to 29% as at 31 December 2010 from 23% as at 31 December 2009. However the Bank needs to improve on the CASA ratio further to be in line with other mature commercial banks that have CASA ratios in excess of 40%, to enable NDB Bank to be more competitive in pricing loans and advances.

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

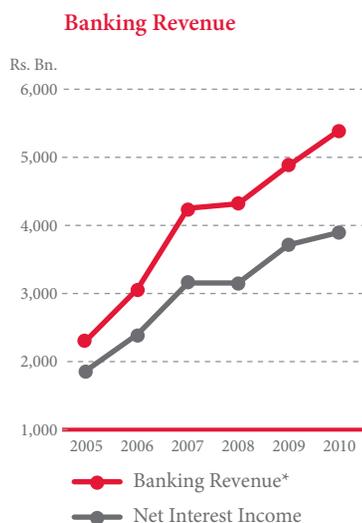
Other Income

Other Income of NDB Bank, including equity income for the year, was Rs 2,066 mn as compared with Rs 2,588 mn for the comparative year (a decline of 20%). This was mainly due to the exceptional gains on the sale of government securities of Rs 733 mn on account of the decline in interest rates throughout 2009 and equity gains of Rs 336 mn earned by NDB Bank during the last year. Other income of NDB Bank excluding these exceptional gains increased by 27% over the year 2009. There was also a steady increase in commercial banking fees and commission and forex income over the previous year (an increase of 29%) due to increased level of business activity during the year.

Equity income (dividends and capital gains) for the year was Rs 424 mn as compared with Rs 689 mn for the previous year. With a view of taking timely advantage of the active stock market, NDB Bank invested Rs 500 Mn in listed equities in March 2010, which is being managed by NDB Aviva Wealth Management Ltd. Accordingly NDB Bank earned capital gains of Rs 203 mn from

this investment during the year. This quoted share portfolio is marked to market and the unrealized income for the year ended 31 December 2010 was Rs 23 mn. NDB Bank earned exceptional equity capital gains of Rs 336 mn during the previous year. The Bank also made a provision for the investments in two non-quoted companies amounting to Rs 124 mn during the last year, which was subsequently written off during the first quarter of 2010.

At the NDB Group level, Other Income, excluding provisions for equity losses, increased by 9% during the year, mainly contributed by increased fee based income from NDB Investment Bank, NDB Stockbrokers and NDB Aviva Wealth Management, in line with improved activity levels in the capital markets and the Stock Market as a result of the growth in the economy during the current year.



*Excluding exceptional Income

Operating Expenses Excluding Provisioning

Overheads of NDB Bank increased by 10% over the previous year. NDB Bank's staff strength also increased from 991 as at 31 December 2009 to 1,126 as at 31 December 2010 due to the expansion of the retail distribution network. The Bank expanded its retail network mainly in the Northern and Eastern provinces of the country by opening 4 branches during the last quarter of 2009 and 3 branches during 2010.

NDB Bank's cost to income ratio for the year was 45% as compared to 39% for the previous year. NDB Bank's cost income ratio for the year excluding the exceptional gains on sale of government securities and equity income was 46% as compared

with 47% for 2009 and compares with an industry ratio of 47% for 2010.

At the Group level, operating expenses, excluding provisioning, increased by 15% for the year when compared with the previous year. This was mainly due to the increased activity level in the capital markets and stock markets as a result of the growth in the economy during the current year, which is also supported by increased fee income for the year 2010.

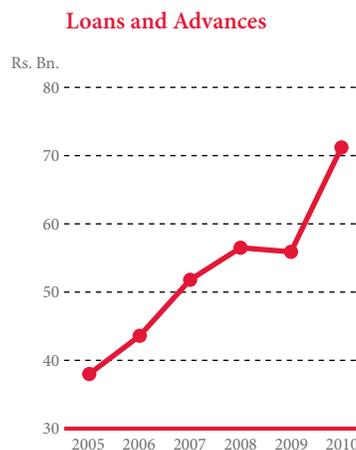
Taxation

The effective overall tax rate inclusive of the Financial Services VAT was at 54% for the year as compared with 52% for the previous year. The reduction in the overall tax rates in comparison with the overall industry tax rate on banking profits of 60% was due to equity income, which is exempt from income tax. This also explains the almost flat Profit Before Tax of NDB Bank in comparison to 2009, reflecting a drop of 6% in Profit After Tax for 2010.

The overall tax rate of the group inclusive of the VAT charge was 50% for both the current year as well as the previous year.

Loans and advances

NDB Bank's lending portfolio as at 31 December 2010 also grew significantly by 27% over 31 December 2009 and exceeds the industry growth of 23% for 2010. The increase in the loans and advances portfolio was mainly due to the increase in the Trade Finance, Term Loans, SME and the Consumer Loan portfolios. NDB Bank's loans to total assets ratio increased to 68% as compared with 58% as at the last year end which makes it evident that new loans have been created with the use of liquid funds that would reap higher returns than alternative investments.



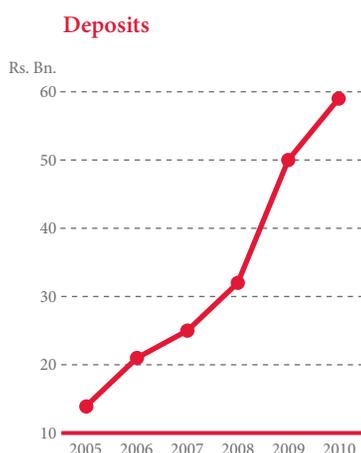
Financial Review

Deposits

NDB Bank's customer deposits grew by 19% from Rs 49.9 bn as at 31 December 2009 to Rs 59.4 bn as at 31 December 2010. The banking industry deposit growth over the last year was 16% as at 31 December 2010. It is noteworthy to comment that NDB Bank's CASA ratio improved throughout the year and was 29% as at 31 December 2010 as compared to 23% as at 31 December 2009.

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

NDB Bank continued to adopt stringent policies to maintain the quality of its loan book throughout the year. The NPLs to the gross lending portfolio was 1.90% as at 31 December 2010 as



compared with 2.58% as at 31 December 2009. The Bank's ratio of 1.90% compares well with the industry NPL ratio of 5.30% as at 31 December 2010. The NPL cover as at 31 December 2010 was on par with the ratio of 75% as at 31 December 2009 and an industry ratio of 41%. The open loan exposure for the Bank was 2.86% as at 31 December 2010, which shows an insignificant amount of stress on the Bank's equity resulting from NPLs.

The Central Bank mandated specific provisions for credit losses at the year-end amounted to Rs 934 mn compared with Rs 737 mn as at the previous year-end. Total specific provisions including the judgmental provisions made over and above the minimum Central Bank mandated provisions at the year-end amounted to Rs 1,297 mn compared with Rs 1,542 mn as at the previous year-end. Total specific and general provisions together amounted to Rs 1,870 mn at the year-end compared with Rs 2,034 mn at the previous year-end.

NDB Bank is fully compliant with the requirement of the Central Bank of Sri Lanka on the ruling to provide 1% general provision on the performing portfolio. As per the recent Banking Act direction No. 3 of 2010 issued by the Central Bank of Sri Lanka, the 1% rate has been revised to 0.5% with effect from 1 October 2010. Accordingly banks are given the opportunity to reverse the existing additional provision of 0.5% by 0.1% each quarter over five quarters commencing 1 October 2010. The impact on the Bank's results for the year was Rs 63 mn (on the Profit Before Tax). Accordingly the Bank's General Provision as at 31 December 2010 was Rs 573 mn.

There was a release in the loan loss provision of Rs 172 mn as compared with a provision of Rs 287 mn for the previous year.

Rs mn

	2010	2009
Specific Provision	302	791
Recoveries / releases	(556)	(520)
General provisions / (release)	82	16
	(172)	287

Provision releases occurred due to settlements made by borrowers, due to improved performance of the respective borrowers, and also resulting from transfers from extra performing / non performing provisions to Central Bank mandated provisions based on an age analysis of arrears.

Capital Adequacy

The Tier 1 and 2 ratios of the Bank was 14.82% as compared with 16.69% for the previous year. The same ratio for the NDB Group was 20.33% as compared with 23.44% for the previous year.

NPL Ratio



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

Regulatory Developments

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

Key performance Indicators

NDB Bank's earnings per share for the year, was Rs 19.20 as compared with Rs 20.55 for the previous year. The Bank's return on equity for the year 13.83% compared with 15.98% in 2009.

The Group earnings per share for the year, was Rs 26.22 as compared with Rs 25.47 for the previous year. The Group's return on equity for the year was 14.54% as compared with 15.52% in 2009.

Share Price

The share price of NDB Bank closed at Rs 349.50 at the year end, as compared with Rs 206.00 at the end of 2009 (an increase of 70%). The gradual increase in the share price is in line with the banking sector index increase of 141% and ASPI increase of 96% over the last year.

The price/book value (PBV) at the year-end was 1.87 compared with 1.19 at the previous year-end. The PE ratio for the year 2010 was 13.34 times as compared with 8.09 times for the previous year.

Post Balance Sheet Events

On 11 February 2011, NDB Bank resolved to increase the number of existing ordinary shares amounting to 82,100,951 by subdividing the said existing ordinary shares in the proportion of one share for every ordinary share in issue so that the number of ordinary shares representing the Stated Capital of NDB Bank shall be increased to 164,201,902 subject to shareholder approval at the Annual General Meeting. There have been no other events subsequent to the end of the reporting period that require disclosure.

Realising Operational Synergies

Several cross functional teams were appointed from within the Group this year with the objective of identifying strategic initiatives, creating value through product innovations and synergising the Group in building the NDB Brand. These teams will play an active role in the coming year in operationalising the overall Group strategy through the implementation of key initiatives across customer segments products and channels, leveraging our competitive strengths and market dynamics.

Group Strategy



Seated Left to Right: Nilam Jayasinghe, Chrisanthi Jayawardena, Russell de Mel, Raj Aboobucker, Indrajit Wickramasinghe
Standing Left to Right: Buwaneka Perera, Kumar Weerasuriya, Vajira Kulatilleke, Yasas Hewage

Deposit Mobilization and New Product Ideas



Seated Left to Right: Camy Somasunderam, Russell de Mel, Kaushini Laksumanage, Yasas Hewage, Indika Ranaweera, Romesh de Silva, Prabodha Samarasinghe, Murray Fernandez
Standing Left to Right: Sunil Karunaratne, Gihan Cooray, Shazly Hasseen, Chathura Lakindu

Group Marketing Initiatives and Consumer Promotions



Seated Left to Right : Russell de Mel, Delerene Seneviratne, Chrishanthi Jayawardena, Indika Tennakoon

Standing Left to Right : Ishani Palliyaguru, Mahendra Illangasinghe, Kamaljith Thambawita, Lanka Averiwatte, Lionel Wickramasinghe, Indunil Liyanage

Seven Stars Team



Left to Right: Mahesha Amarasuriya, Sumith Pathirana, Delrene Seneviratne, Russell de Mel, Thungasiri Gamage, Indika Kudagamage, Deveshta Ratnanayagam, Jeevan Arulampalam (Absent)

At the helm of the NDB Group

“With Banking, Capital Markets and Insurance NDB Group is uniquely positioned today as a Knowledge Hub that has constantly attracted and harmonized competent, dedicated and trained human resources, our most valuable asset.”



Russell de Mel
National Development Bank PLC

“My vision for the Group is to take it beyond the shores of Sri Lanka, on to an International Platform, leveraging on our Core Competencies in the Knowledge Hub”



Vajira Kulatilaka
NDB Investment Banking Cluster

“To become the most sought after Integrated Investment Banking Solution Provider of the country and the region”



Darshan Perera
NDB Investment Bank Limited

“To be the Leading Investment Bank of choice, offering a wide range of unique and innovative solutions to clients”



Prabodha Samarasekera
NDB Aviva Wealth Management Limited

“To be the most admired Creator and Protector of Wealth in the markets we operate in”



Prasansani Mendis
NDB Stockbrokers (Private) Limited

“To set the Benchmark in Investment Advisory Services”



Kusal Jayawardana
NDB Capital Limited

“To be the most Innovative and Reputed Investment Bank in Bangladesh”



D. Soosaipillai
Maldives Finance Leasing
Company (Private) Limited

“To be an Inspiration to Corporate Maldives in the way we do business with our stakeholders”



Shah Rouf
AVIVA NDB Insurance PLC

“To become the provider of choice for Sri Lankans seeking insurance and long-term savings”

Russell de Mel

Chief Executive Officer
NDB Bank

Mr Russell de Mel has been with NDB Bank for over 30 years, largely in the field of Corporate Banking. Prior to his appointment as CEO he served as Vice President – Head of the Corporate Banking Group and as Vice President – Head of Group Risk Management.

During the initial phase of his career at NDB he has held many key positions in the field of Project and Infrastructure Finance. Over the last two decades he has been actively associated with some of the key commercial projects NDB partnered with both local and foreign investors. He also played a leading role in the privatization of plantation sector. As Head of Group Risk Management he was instrumental in realigning the risk management function within the NDB Group. Currently he sits on several Boards of the NDB Group companies.

Mr Russell de Mel is a Fellow of the Chartered Institute of Management Accountants UK.

Vajira Kulatilaka

Chief Executive Officer
NDB Investment Banking Cluster

Mr. Vajira Kulatilaka holds a B.Sc. in Civil Engineering with a First Class Honours from the University of Moratuwa and a M.Sc. in Industrial Engineering and Management, from the Asian Institute of Technology, Thailand. He is a Chartered Financial Analyst (CFA) and is a Fellow Member of The Chartered Institute of Management Accountants, UK. He is at present, a Director of the Colombo Stock Exchange and counts for over 26 years of experience in Banking and Finance and Capital Market operations in Sri Lanka. Prior to joining NDB Group, he worked at Sampath Bank, USAID and CKN Fund Management (Pvt.) Limited. He has been instrumental in introducing number of innovative financial products to the country.

Darshan Perera

Chief Executive Officer
NDB Investment Bank Limited

Mr. Darshan Perera holds a B.Sc. and a MBA from the University of Colombo and is an Associate Member of the Chartered Institute of Marketing, UK. He is also an Associate Member of the Institute of Bankers, Sri Lanka and a Passed Finalist of The Chartered Institute of Management Accountants, UK. He counts over 18 years of experience in the areas of investment banking, marketing and commercial banking. Prior to joining NDB Investment Bank in 2001, he worked at Vanik Incorporation Ltd, Informatics (Pvt) Ltd and Commercial Bank of Ceylon Ltd.

Prabodha Samarasekera

Chief Executive Officer
NDB Aviva Wealth Management Limited

Mr. Prabodha Samarasekera is a graduate of University of Southern California, Los Angeles, U.S.A. He holds a MBA in International Finance and a BSc in Management Information Systems. His professional experience is in Capital Markets and Retail Banking and he specializes in Fund Management. He has worked and trained in Sri

Lanka, U.S.A, Hong Kong, and Singapore with several multinational organizations.

Prasansani Mendis

Chief Executive Officer
NDB Stockbrokers (Private) Limited

Ms. Prasansani 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 Stock brokers Pvt Limited.

Kusal Jayawardana

Managing Director/CEO
NDB Capital Limited

Mr. Kusal Jayawardana is a Chartered Financial Analyst and Associate Member of The Chartered Institute of Management Accountants, UK. He also had obtained the Associate membership of The Association of Chartered Certified Accountants in UK and holds a Master of Business Administration from Open University of Colombo in collaboration with Commonwealth of Learning, Canada. Mr. Jayawardana counts over 13 years experience in investment banking. He was involved in developing and introducing several new capital market products to the Sri Lankan market. He was seconded to NDB Capital from NDB Investment Bank. Previously he worked at Vanik Incorporation Limited and KPMG, Colombo.

D. Soosaipillai

Managing Director / CEO
Maldives Finance Leasing Company (Private) Limited

Mr. Soosaipillai has been with the company since August 2004. He is a Chartered Accountant and Certified Management Accountant by profession with over 25 years in the leasing industry in Sri Lanka and 5 years of overseas experience in senior management. Previously CEO of Ceylease Financial Services Ltd., a leasing company in Sri Lanka and a subsidiary of the Bank of Ceylon.

Shah Rouf

Managing Director
AVIVA NDB Insurance PLC

Mr. Shah Rouf was appointed to the Board of AVIVA NDB Insurance PLC on 22 January 2010. Serving as Managing Director of the Company effective March 2010. He counts over 18 years experience with Aviva, having held senior management positions in both Life and General insurance in the UK, Middle East, India and continental Europe. Prior to his appointment to the Board of Directors of the Company, he was CEO of Aviva Romania and Chief Distribution Officer Central and Eastern Europe for Aviva. He concluded his academic studies at the London School of Economics and has BA (Hons) and M.Sc. degree in Economics. He is an Associate of the Chartered Insurance Institute, UK.

NDB Group of Companies

Aviva NDB Finance Lanka (Pvt) Ltd.

No. 75, Kumaran Ratnam Road, Colombo 2
Tel: +94 11 2310000
(Holding Company of Aviva NDB Insurance PLC.)

NDB Group's Investment.....Rs. 741mn
Profit after Tax (Group).....Rs. 625 mn
Net Assets (Group)..... Rs. 2,893 mn

Directors
S Machell - Chairman
R J Donaghy
T R Ramachandran
N I R De Mel
N S Welikala

NDB Bank's indirect holding - 41.40%



■ Aviva International Holdings (58.44%)
■ Capital Development and Investment Company PLC (41.56%)

Aviva NDB Insurance PLC

No. 75, Kumaran Ratnam Road, Colombo 2
Tel: +94 11 2310000
(Insurance)

NDB Group's Investment.....Rs. 741 mn
Profit after Tax (Group).....Rs. 606 mn
Net Assets (Group)..... Rs. 2,910 mn

Directors
T R Ramachandran - Chairman
S Rouf - Managing Director
D Sooriyaarachchi
D Hope
N Majmudar
N I R De Mel
D S P Wikramanayake
L de Mel
I A Wickramasinghe

NDB Bank's direct and indirect holding - 41.14%



■ Aviva NDB Finance Lanka (Pvt) Ltd (87.27%)
■ Others (12.73%)

Capital Development and Investment Company PLC

40, NavamMawatha, Colombo 2
Tel: +94 11 2448448
(Venture Capital)

NDB Group's Investment..... Rs. 2,331 mn
Profit after Tax (Group).....Rs. 638 mn
Net Assets (Group)..... Rs. 5,114 mn

Directors
N S Welikala
N I R de Mel - (Appointed w.e.f 03.02.2010)
I A Wickramasinghe (Appointed w.e.f. 27.04.2010)
N Wadugodapitiya (Appointed w.e.f. 27.04.2010)
Aruni Rajakarier (Appointed w.e.f. 27.04.2010)
A Wickremeratne - (Resigned w.e.f.02.02.2010)
E Wickramaratne (Resigned w.e.f.26.03.2010)
L de Mel (Resigned w.e.f 23.12.2010)



■ NDB Bank (99.6%)
■ Others (0.4%)

NDB Investment Bank Ltd.

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

NDB Group's Investment.....Rs. 54 mn
Profit after Tax.....Rs. 60 mn
Net AssetsRs. 148 mn

Directors
L de Mel - Chairman
N S Welikala
N I R de Mel (appointed w.e.f.02.02.2010)
C V Kulatilaka
S Peiris (appointed w.e.f.22.04.2010)
D G Perera (CEO)
A Wickremeratne (resigned w.e.f.02.02.2010)
E Wickramaratne (Resigned w.e.f. 26.03.2010)



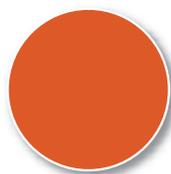
■ NDB Bank (100%)

NDB Stockbrokers (Pvt) Ltd.

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

NDB Group's Investment.....Rs. 27 mn
Profit after Tax.....Rs. 76 mn
Net AssetsRs. 238 mn

Directors
S R de Silva - Chairman
N S Welikala
S N Jayasinghe
C V Kulatilaka
I A Wickramasinghe



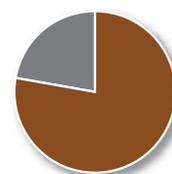
■ NDB Bank (100%)

NDB Capital Limited

Bilquis Tower, 5th Floor, Plot 6 (New), Gulshan 2, Dhaka 1212, Bangladesh
Tel: +88 02 9888626, +88 02 988979
(Investment Banking)

NDB Group's Investment.....Rs. 131 mn
Profit after Tax.....Rs. (23) mn
Net AssetsRs. 121 mn

Directors
N S Welikala - Chairman
A Wickremeratne (Alternate N S Welikala)
C V Kulatilaka
H D S Amarasuriya
K Jayawardana (CEO)
(Mrs) Z Chowdhury
M A M Khan - Vice Chairman
H F Chowdhury
C M Alam - Vice Chairman



■ NDB Bank (77.8%)
■ Others (22.2%)

NDB Aviva Wealth Management Limited

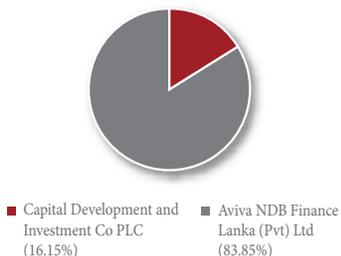
No. 42, NavamMawatha, Colombo 2.
Tel: +94 11 2303232
(Wealth Management)

NDB Group's Investment.....Rs. 24 mn
Profit after Tax.....Rs. 71 mn
Net AssetsRs. 194 mn

Directors

N S Welikala - Chairman
D S P Wikramanayake
C V Kulatilaka
Deepal Sooriyaraachchi
T R Ramachandran
(Appointed w.e.f. 04.11.2010)
William Lisle (Resigned w.e.f. 04.11.2010)

NDB Bank's indirect holding ; 51%

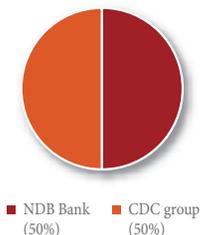


Ayojana Fund (Pvt) Ltd.

1st Floor, Parkway Building
48 1/1, Park Street, Colombo 2
Tel: +94 11 4510505
(Venture Capital)

NDB Group's Investment.....Rs. 0.1 mn
Profit after Tax.....Rs. (0.8) mn
Net AssetsRs. 29 mn

The company is under liquidation and Mr. Thomas Prins of CAS Corporate Services (Pte.) Ltd. has been appointed as liquidator from 24 July 2010.



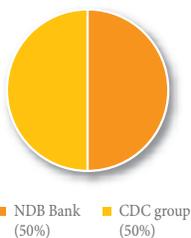
NDB Venture Investments (Pvt) Ltd.

1st Floor, Parkway Building
48 1/1, Park Street, Colombo 2.
Tel: +94 11 2307230
(Venture Capital)

NDB Group's Investment.....Rs. 19 mn
Profit after Tax.....Rs. 2 mn
Net AssetsRs. 58 mn

Directors

(Ms) R L Nanayakkara - Chairperson
G C B Wijeyesinghe
A Shrivastava
D Senathirajah (appointed w.e.f 02.02.2010)
A Wickramaratne (resigned w.e.f 02.02.2010)



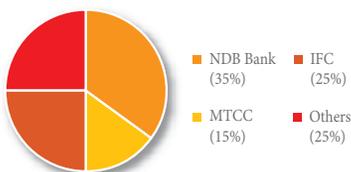
Maldives Finance Leasing Company (Pvt) Ltd.

12, BoduthakuruFaanu Magu, Male 20-094,
Republic of Maldives
Tel: +(960) 3315605/3315606
(Leasing)

NDB Group's Investment.....Rs. 165 mn
Profit after Tax.....Rs. (215) mn
Net AssetsRs. 415 mn

Directors

S Senanayake
M Shafeeq (Appointed w.e.f. 10.02.2010)
N I R De Mel (Appointed w.e.f. 26.03.2010)
E Wickramaratne (Resigned w.e.f. 26.03.2010)
M N Ibrahim (Resigned w.e.f 10.02.2010)
F Manike (Resigned w.e.f. 24.08.2010)
H Afeef
H Rasheed
M H Maniku
S D Soosaipillai
A Noordeen (Appointed w.e.f. 24.08.2010)



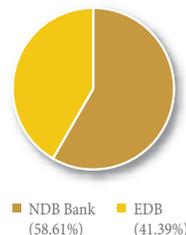
Development Holdings (Pvt) Ltd.

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

NDB Group's Investment.....Rs. 228 mn
Profit after Tax.....Rs. 96 mn
Net AssetsRs. 1,395 mn

Directors

L de Mel
S N Jayasinghe
E D K Weerasuriya
(Mrs) C.L Jayawardena
(Mrs) D Seneviratne
J Ratnayake
(Appointed w.e.f. 31.05.2010)
K W R B Wijeratne
(Appointed w.e.f. 27.04.2010 & resigned w.e.f. 10.12.2010)
A Koswatta (Resigned w.e.f. 31.05.2010)
(Ms) S Weerakoon
S Wijesinghe (Appointed w.e.f. 10.12.2010)
(Mrs) P K Sumithrarachchi
(Appointed w.e.f. 10.12.2010)
M K G Mendis
(Resigned w.e.f. 10.12.2010)
P A APanditharatne
(Resigned w.e.f. 27.04.2010)



Grow Sri Lanka

Universal Banking from NDB Bank

Sustainability Report

“...whoever you are, we’re here.”



INSURANCE •-----

Sustainability Report

NDB Bank is committed to sustainable development and the responsible stewardship of resources. This means developing solutions that link economic success with social responsibility, which requires balancing short and long term goals and interests and integrating economic, environmental and social considerations to business decisions across the board.



Environment

Internal Ethics - Energy Saving Measures

Environmentally responsible practices involve identifying, assessing and seeking to reduce the direct and indirect environmental impact of our services.

Mindful of its carbon footprint, NDB Bank has taken measures to neutralise and minimise its adverse impact on the environment. As a service-oriented organisation, reduction of energy consumption could be identified as being the most significant contribution towards reducing our Carbon Footprint. NDB Bank has taken several measures to minimise energy consumption. Consequent to carrying out a comprehensive Energy Audit, improvements were effected in the areas of lighting and air conditioning.

Waste Reduction & Recycling

With a view to being part of the solution rather than the problem, NDB Bank advocates the 3Rs of waste management – reduce,

re-use and recycle. NDB Bank promotes a paperless culture where employees are encouraged to use electronic communications, online approvals and other web-based applications, and to print documents only when required. Document workflows are automated, which minimizes paper usage.

NDB Bank also successfully carries out a waste reduction and recycling drive where the Bank's wastepaper is collected and recycled, which weighed to 13,725 Kgs in 2010, and saved:

233	Trees
436,180 Litres of	Water
54,900 Kwh's of	Electricity
24,087 Litres of	Oil
41 Cubic meters of	Land Fill

External Ethics - Sustainable Lending

Sustainability of the environment is central to NDB Bank, and its wider social and environmental impact is of concern.

NDB Bank goes beyond concerted efforts to minimise energy usage internally and dispose of waste responsibly, to also having in place lending policies that promote sustainable lending and ensure high environmental standards. NDB Bank's special loan schemes promote renewable energy solutions and ensure that the country's industries reduce dependency on fossil fuels by switching to more environmentally friendly renewable energy sources that support environmental sustainability.

Integrating environmental impact considerations into business decisions across the company

NDB Bank has established an environmental guideline, environmental management system and governance model that integrates environmental impact considerations into lending decisions across the company. NDB Bank's lending policies ensure that facilities are not extended to industries that engage in illegal activities, pollute the environment, have no proper pollution control methods, are involved in manufacturing and selling arms, as well as those engaged in activities that involve harmful or exploitative forms of forced labour or child labour.

NDB Bank has in place an Environmental and Social Management System (ESMS) where the Bank does a social and environmental risk analysis for borrowers and takes measures to avoid, mitigate and minimise the risks identified. Funding will proceed only if these identified risks are mitigated or minimised. The ESMS of NDB Bank identifies Environmental & Social (E & S) risks in the

projects / companies it finances and takes mitigatory action to minimize such risks at a very early stage of the credit evaluation.

Lending for Renewable Energy, Pollution Abatement and Control

NDB Bank promotes Renewable Energy Solutions under the Rural Economic Development Project (RERED) Loan Scheme that supports renewable energy to replace inefficient energy sources. Energy related costs - electricity and fuel - reflect a significant part of the production and operating costs of most businesses. Replacing inefficient energy with renewable energy sources contributes significantly to a sustainable environment.

Sustainable lending is also promoted through the E-Friends Loan Scheme which is specifically designed for pollution abatement and control. These loans are for purchasing equipment for 'end-of-pipe' treatment, equipment that will lead to reduced emissions or to a lower production of wastes by enterprises.

The end result is the saving of valuable resources whilst ensuring environmental protection and sustainability. NDB Bank was also one of the pioneering lenders to fund the country's first- ever commercial Wind Power project.

Employee Relations

NDB Bank believes that its people are the driving force behind its success and the main competitive advantage that positions it ahead of competition. NDB Bank is of the view that its future lies in a committed team with each member that is convinced of his/ her future at NDB Bank.

To this end, NDB Bank is committed to creating a healthy, safe and fulfilling work environment that supports personal growth, encourages individuality and instigates team spirit. The numerous training programs covering soft skills, negotiating skills to personality development conducted and the staff participation in the support of cause and the results are encouraging. Besides, NDB Bank did not retrench, reduce salaries or cut back on performance bonuses during the year despite the fact that industry and economy were not performing at optimum capacity following the economic crisis.

NDB Bank Walks the Talk. Strengthening the area of social development and integrating it into every area of business activity begins at home, with our own staff. NDB Bank's human resources philosophy and guidelines are directed towards the optimum utilization of human capital by providing them with the required

competencies to meet challenges and lead the organization to success.

Further information is available on Page 61.

Customer Relations

Customer Satisfaction

NDB Bank conducts annual Customer Satisfaction Surveys with an independent research agency. The customer satisfaction rating for 2010 were very encouraging. NDB Bank also has an online Complaint and Tracking System to log and track all customer complaints.

Sustainable Lending

NDB Bank promotes sustainable lending and renewable energy solutions, as itemised in the "Environment" section whilst advising customers on environmental sustainability.

Product Innovation

As the fastest- growing Commercial Bank in Sri Lanka, NDB Bank offers a broad range of innovative products and services in corporate and retail financing.

Further information is available on Page 35.

Corporate Governance

NDB Bank's goal is to carry out business with the highest integrity, responsibility and accountability by building on the trust earned and established over the years.

Corporate Governance

NDB Bank makes every effort to maintain strong due diligence procedures in all activities and ongoing transactions. As such, the Bank is committed to upholding the highest standards of corporate governance and complies with the regulations on Corporate Governance issued periodically by The Central Bank of Sri Lanka and the Colombo Stock Exchange (Listing Rules) and is guided by the Code of Best Practice on Corporate Governance, issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka, in 2008.

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

Sustainability Report

Compliance and Code of Conduct

NDB Bank's Compliance Policy and Code of Conduct clearly states the standards of responsibility and ethical conduct expected of NDB Bank employees in relation to the business of the Bank. Conformity with these provisions is integral to the Bank being a good corporate citizen.

Further information is available on Pages 66 to 77

Community Relations

The following socially responsible practices demonstrate NDB Bank's commitment to uplifting the lives of the impoverished in the community.

Strategic CSR

NDB Bank carried out several projects under its Strategic CSR categories of Education and Entrepreneurship.

Livelihood Development

A significant initiative under this category was the development of livelihoods under the Banks IDP Empowerment Trust which was established to assist those affected by the conflict in the North East. At the initial phase, the Bank partnered with the Vocational Training Authority of Sri Lanka (VTA) and incurred expenses of over Rs 5 million to donate the required tools and equipment to 250 participants who successfully completed the vocational training programmes conducted by the VTA. These comprehensive tool kits were especially customized to meet the recommendations of VTA and the requirements of the respective trades such as carpentry, masonry, house wiring, aluminium fabrication, dressmaking and tailoring to equip and enable the beneficiaries to build a livelihood on their own.

The circumstances of these recipients vary, but they have all experienced fear, anguish, and shared a common anxiety about their future once they left the camps. The skills they developed through the VTA training and the tools they received through NDB Bank's CSR initiative met this need. They were able to follow a vocation of their choice while contributing to the development of their communities and creating job opportunities for those around them. Thus donating a Tool Kit ensured the sustainable development of these individuals as well as their communities.

The majority of the beneficiaries were the sole bread winners of their families. Some like Kamala, are very young but yet have to shoulder the entire responsibility of supporting their families.



The beneficiaries of sewing machines



The beneficiaries of tool kits

Kamala was a recipient of one of the 128 sewing machines donated for dressmaking and tailoring. She is the sole breadwinner of a large family that includes an invalid father and a brother disabled from birth. The ravages of war had deprived this young girl of her livelihood and her poverty prevented her from returning to it. She was forced to live at the Kadiragama IDP Camp with her hopes of a bright future shattered, and the anxiety of knowing that she had to shoulder the responsibility of supporting her family but had no means to do so on leaving the camp. The VTA training enhanced her skills and the sewing machine donated by NDB Bank enabled her to make a fresh start in life and also to support her family. On leaving the camp, she resettled in Puliyankulam and is now an established seamstress, sewing clothes for the village residents including uniforms for the village school children. Kamala can now support her disabled brother and ailing father and also look into the needs of her other siblings. With a happy smile she voices the thought that kept her motivated, "It was my responsibility to look after my family..."



Kamala at work

Jayaruban, another beneficiary had a poignant tale to relate. “My elder brother was abducted by the LTTE. My elder sister is physically handicapped, which left me with the sole responsibility for my family of eight. Having moved to the Kadirgama camp I joined the VTA training programme and with the skill I acquired from it I was hopeful of a better future once I left the camp. However, I had no means of purchasing the necessary tools for my trade, carpentry. It was then that the NDB Bank came to the camp and donated tool kits. This helped me find work at a carpentry shop immediately after being resettled in Kilinochchi. I am now able to provide for my family and I have hope for the future”. Jayaruban hopes to start his own business in the near future.

** All names have been changed to protect the privacy of the beneficiaries*



Jayaruban making use of his talents



One of the beneficiaries, a mason at work



One of the beneficiaries, an electrician at work

“Jeewana” Livelihood Training/Loan Scheme

Working in socially responsible ways also involves uplifting those at the lowest end of the economic spectrum. The “Jeewana” Livelihood Training/Loan Scheme is one such unique initiative offered to impoverished youth at a very concessionary rate and couples a livelihood training scheme with a special personal loan with a grace period for payment. This Scheme sets the foundation to a career and is much more than a mere academic exercise. It takes a holistic approach to upliftment by meeting the cost of tuition in addition to providing a daily allowance for travelling, food and other ancillary expenses. A special feature is a CSR Initiative that provides the required tools and uniforms to participants free of charge.

Having identified specific skills of high demand both at present and in the future, NDB Bank pioneered and developed the livelihood development scheme for youth in the country, to pursue careers in sectors such as hospitality, motor mechanism,

Sustainability Report

construction and nursing, amongst others. The Bank partners with relevant industry leaders to provide the required academic training and to date the Bank has tied up with Mount Lavinia Hotel to provide training in the hospitality trade and with DIMO for training in motor mechanism.

This is part of NDB Bank's commitment to developing human capital and is aimed at empowering its youth and stimulating further economic regeneration in post-conflict Sri Lanka. It reiterates the Bank's focus on providing innovative products and services that enrich and add value to Sri Lankan lives whilst ensuring a sustainable future.

NDB Bank Professor of Entrepreneurship in Partnership with The University of Moratuwa

Aware of the need to bridge the gap between the Industry and Academia, NDB partnered with The University of Moratuwa (UOM) to enhance the capabilities in entrepreneurship education and research at the university. This synergy led to the establishment of an Endowed Professor/Senior Fellow in Entrepreneurship at the University of Moratuwa, a first in Sri Lanka.

Professor A. K. W. Jayawardane was appointed as the 'NDB Bank Endowed Professor in Entrepreneurship' on 1st September, 2010. The first of its kind; this initiative is in line with NDB Bank's vision of encouraging an entrepreneurial culture and empowering youth by bridging the gap between academia and industry in order to build a nation of 'Job Creators' against 'Job Seekers'.

Prior to his appointment as NDB Bank Endowed Professor in Entrepreneurship, Prof. Ananda Jayawardane was the Professor of Civil Engineering at the University of Moratuwa and has served as the first Head of Department of Management of Technology, Head, Department of Civil Engineering and as the Dean of the Faculty of Engineering of the same University. Prof. Ananda Jayawardane is also the President of the Institution of Engineers, Sri Lanka and has served in the Council of the Institution of Engineers, Sri Lanka for over 10 years.

Library Project in partnership with Asia Foundation

Literacy is key to economic prosperity and to building a strong future, and English serves as a link language that accesses the vast stores of information available from around the world.

As part of its initiative in uplifting the underprivileged, NDB Bank continues its partnership with Asia Foundation, donating English educational books to rural schools.

The project is carried out through NDB Bank's branch network. These books constitute high quality supplementary reading material on a variety of subjects and help readers improve their knowledge of the English language.



The donation of books to the Jaffna Library

Philanthropic CSR

NDB Bank Cancer Aid Trust Fund

NDB Bank continued to support cancer patients through the NDB Bank Cancer Aid Trust Fund with donations of over Rs 5.5 million for the purchase of essential surgical and therapeutic equipment such as surgical staplers, balloon dilators, Endobronchial Tubes and Hickmans Lines which is an indwelling IV Clanula used to administer Chemotherapy to Children suffering from Cancer.

The Prevention of Child Abuse Trust

Working closely with the "Department of Probation & Child Care" NDB Bank through its CSR Initiative - "The Prevention of Child Abuse Trust" is committed to help eradicate child abuse through awareness programmes. The Trust has conducted over 15 awareness programmes during 2010 in areas where a high incidence of child abuse has been reported with over 3,000 parents, teachers and principals attending. A special child rehabilitation programme was also conducted titled "Let's become butterflies" in partnership with a non governmental organisation, LEADS.

Operational CSR

Initiatives to uphold the principles of sustainable development in the workplace included Ethical Business, Waste Reduction/ Recycling and Employee Satisfaction.

NDB Bank in the Community - Employee Passion for Social Service

Department-wise CSR Initiative Programme

NDB Banks staff helped make a difference in the community by selflessly giving of their time, resources and efforts to uplift the community, and provide underprivileged youth with skills and knowledge that would empower them to build a better future. Demonstrating their deep commitment to the Bank's corporate values of Integrity, Care, Passion, Teamwork and Service, NDB Bank staff reached out to the community with enthusiasm and compassion.

Employees were given the flexibility to choose the project they wished to work on, department-wise, in line with NDB Bank's Strategic CSR initiatives. Many latent talents surfaced at these initiatives on which employees laboured tirelessly, sacrificing their leisure time to put smiles on faces and new hope in hearts.

Entrepreneurship training for a better future



The Entrepreneurship training session

The CSR initiative of the HR, Legal and Corporate Office was a training programme themed "Entrepreneurship" designed for schoolchildren who would be sitting for their A/L examinations and those who had already sat their A/L examination last year. Two schools each were selected from Anuradhapura and Galle, a boys' school and a girls' school. Two full day programmes were carried out on Career Guidance, Entrepreneurship, Knowledge and Experience Sharing, and 'My Individual Rights'. 'Career Guidance' was conducted by NDB Bank's HR and Legal departments, the programmes were in Sinhala and covered

areas like knowledge of the types of jobs available, the skills and competencies required when job seeking, job hunting techniques and career growth. The 'Knowledge and Experience Sharing, Commercial Entrepreneurship in Practice' session shared the success stories of two SME customers who came up in life through their own entrepreneurship, supported financially by NDB Bank.

Infrastructure improved at WP/KE Sir D B Jayathilaka Vidyalaya, Kelaniya

Improving the sanitary conditions at the WP/KE Sir D B Jayathilaka Vidyalaya, Kelaniya, in the Gampaha district was the CSR project of the SME, SCM, Auto Finance and Refinance Departments. Most students in the school are from the poorest strata of society, and/or orphaned. As such, they lack the financial capacity to assist the school, and even default in the school facilitation fee. The only toilet for the school children, both girls and boys, was in a dilapidated state. Eight new toilets were built and the children's play area was upgraded.



The teams from Auto Finance, SME, Refinance and SCM adding the finishing touches

Upgrading the Kadawatha Roman Catholic School

The Marketing, Call Centre, Reception, Retail Operations and Finance Departments stepped in to upgrade the principal's office of the Kadawatha Roman Catholic School which was dilapidated and in dire need of renovation. The team also donated books to the library.

Primary School given impetus to excel

The Walpola Primary School is a State-run facility attended by students from low income families engaged in farming activities

Sustainability Report

in the area. Hence their parents are unable to provide financial support for school development activities. The Corporate Banking Department and Project Finance teams took on this project and focused on enhancing the students' soft skills by improving their IT and language knowledge as well as building the required infrastructure for the school. This team also facilitated the opening of NDB savings accounts for the students, which assures them of a more secure future.

Refurbishing the MICU of Lady Ridgeway Hospital



Empoyees from risk and audit helping out

The Risk and Audit & Compliance teams selected the project under the category of 'children' and upgraded the Medical Intensive Care Unit (MICU) of Lady Ridgeway Hospital, Colombo, and its environs. Critically ill children fight for their lives at the MICU, which is a large facility that provides different

modes of ventilatory support, invasive monitoring, resuscitation, and emergency management of children needing intensive care. The existing wooden doors and doorframes were narrow thereby constricting the movement of beds in and out of the MICU. Furthermore the doors caused air leakage into the unit and increased the chances of infection. The NDB team expanded the doorframes to facilitate easy movement of beds in and out of the MICU and replaced the doors with well insulated aluminium doors that reduced air contamination and improved the environment within for these children in delicate health. As part of the project, 2963 sq. ft. was painted and chairs, mattresses and bed linen were also donated to upgrade the room where mothers keep vigil by their sick children.

Renovating Kuruppumulla Sri Parakrama Vidyalaya, Panadura

Another school in need of upgrading was the Kuruppumulla Sri Parakrama Vidyalaya in Panadura. The Recoveries & Collection and Personal Loans & Sales Departments set themselves the task of renovating part of the building and the toilets.

Vijaya Vidyalaya, Dehiwela gets a facelift

Vijaya Vidyalaya, Dehiwela dates back 150 years and caters to children from the lowest socio-economic strata, many of whom are from broken homes. There are presently 103 students, of which 32 are from the Salvation Army Girls' home. The project carried out by the Treasury, Trade, TrBO, Consumer Credit, Personal Banking, Cards and ADC teams upgraded the three classroom blocks and donated a Roneo machine for copying classroom notes and examination papers, which had been an urgent requirement as examination papers had hitherto been written on the board due to lack of a copying facility.

Kalutara goes 'techy'

With IT knowledge becoming a key requirement the world over, IT related programmes and qualifications are in high demand by the youth of this country, but most of these programmes are expensive and therefore beyond the reach of the average youth, especially those in the outskirts of Colombo. The IT and Retail Credit departments decided to provide a group of young students training experience with IT giant Microsoft.

Human Resources

Human Resources

Human resource initiatives at NDB Bank are about building and sustaining a great team of employees who are ready to act on today's opportunities for a better tomorrow. NDB Bank recognises that the key to its performance in good times and in bad has been its highly motivated and committed staff. It is their spirit that drives NDB Bank forward. They are its strongest asset.

Diversity and Inclusiveness

At NDB Bank every employee is treated with equal consideration. NDB Bank has a diverse yet inclusive culture in which all employees feel valued, respected and supported and are given the opportunity to excel in their careers and reach their full potential, irrespective of their background, gender, age or ethnicity.

Growing Opportunities

NDB Bank has a high proportion of youth in its employee composition, particularly employees in the age category of 21 to 30 years, from 2008 to 2010. This clearly confirms NDB Bank's success in providing young aspiring professionals with opportunities to excel in their careers.

Winning with People

NDB Bank believes that its competitive advantage lies in its employees' commitment to continuous improvement and results. The Human Resources Department has adopted focussed human resources management strategies that cater to business expansion plans by developing partnerships with employees to recognize the most competent people and make them accountable for business growth. In this process the Human Resources Department uses

techniques such as key staff mapping, career mapping and job rotation.

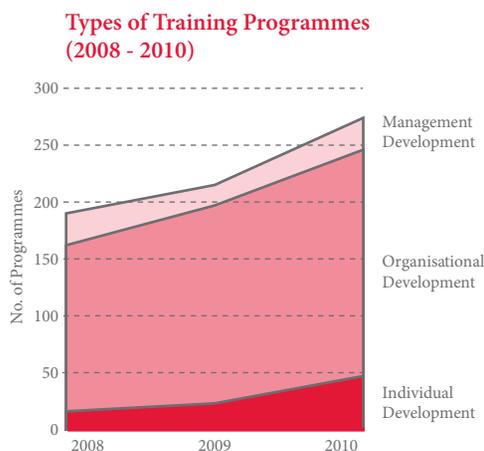
NDB Bank's average training days are well above the industry average. For instance the Bank's average training days per employee in 2009 was 4.9 and in 2010 it has risen substantially to 5.4 days. Further, a total of 274 training programmes were carried out during the financial year; 26% were for senior management, 25% for executives and 49% for non executives. Out of these programmes, 17% addressed individual development while 10% were management development programmes and 73% focussed on organisational development. In today's world, learning is a model that poses the most ever changing challenges. Hence it is the Human Resources Department's responsibility to provide the opportunity to 'Act' upon our learning vision:

'Act is not what you Discover, but how you Act with your discovery that is important'

'Act is not what you Think, but how you Act with your thinking that counts'

'Act is not what you Say, but how you Act on those decisions that makes a difference'

As a result NDB Bank now has a one of a kind fully fledged training centre with a total capacity of 75 participants, solely dedicated for class room based in house training programs, auditorium style lectures, departmental briefings, and even distant learning sessions. These fully equipped, state of the art meeting rooms and training centre could be used as business centres, meeting rooms as well as induction rooms.



Fully fledged training centre

Human Resources

NDB Bank expended Rs 57 million on training and development during the year under review, which confirms its commitment to investing in its human talent development. No staff was retrenched even during the economic downturn. Instead, recruitment was frozen and the Bank looked into those business areas that would grow in an economic turnaround and focussed on training and developing staff in these areas.

At a time during which the training budget was cut across all industries in general, and across the banking industry in particular, NDB Bank augmented its training budget by 10%, using the slack period to train in new areas, and devised the leadership competency framework.

Leaders of the Future

On the premise that technical expertise and job knowledge is insufficient for career progression beyond a certain level of seniority, NDB Bank took the decision that differentiation within the industry could be achieved through developing extraordinary leadership skills among its employees, vital to achieving both personal development as well as organisational objectives.

“Those who build great companies understand that the ultimate throttle on growth for any great company is not markets, or technology, or competition, or products. It is one thing above all others: the ability to get and keep enough of the right people”

Jim Collins. Source - “Good to Great”

Having this in mind during 2010, Heidrick and Struggles, one of the world's leading consultancy firms, were appointed to formulate a leadership competency framework in line with NDB Bank's business strategy, around which, all its training and development initiatives are now structured. The leadership competency framework is designed as a special project to ensure that anybody within the organisation has the opportunity to aspire to a senior position, and that nobody from within is precluded from gaining leadership experience. The framework was built on the concept that shared leadership actively supports effective teamwork, and several successors are identified for a single position, with leadership not being restricted to those who hold designated leadership roles. In effect, leadership could be from anybody in the organization, according to the requirements of the time. Once the opportunity for leadership arises, selection is made from within the resource pool of potential successors, but if none of those identified internally are found suitable, NDB Bank pursues the option of bringing in a successor from outside. Twenty five leaders were identified and evaluated against this

framework using 360 degree feedback, assessment centres and interviews, their performance gaps were identified and corrective measures were adopted. As a result NDB Bank had no limitations and was equipped to recruit its CEO from within the organisation, when called upon.

These far sighted strategies have paid rich dividends. Today, the people of NDB Bank are very capable of meeting the demands of the new economic order in the post conflict era of the country.

Participatory Management and Equity Linked Compensation Plan

The overall human resources management philosophy is attuned towards participatory management which creates a conducive environment for performance management and recognition. The remuneration structure is in fact linked with the performance management system.

Additionally, in order to develop long term employee commitment, the management revamped its compensation strategy, looking beyond short term bonuses and benefits to sustainable long term rewards. Remuneration is structured to include not only short term compensation in the form of the guaranteed pay and variable pay but long term compensation as well. Consequently, as per the current Equity Linked Compensation Plan (ELCP) the Vice Presidents and the Assistant Vice Presidents are eligible for share- based ownership plans.

The NDB Family

NDB is committed to providing staff with a healthy work/ life balance that will develop them not only professionally but personally as well. NDB bank provides its employees with many formal and informal opportunities to interact with each other outside the workplace. NDB Sports and Recreation Club, organizes many interesting and interactive programmes throughout the year which are well patronized by employees at all levels and their families.

The NDB Children's Development Workshop was another event organized by the Human Resources Department, in partnership with a well respected corporate trainer as an year - end welfare initiative for the children of NDB employees. This was developed to inculcate in the children a passion for success through helping them excel in academic pursuits, sports and community service.



Childrens workshop



Health check



Kids camp

Cost Management Strategies

The Human Resources Department treads the fine line between cost consciousness and cost effectiveness, both well managed to create human resources strategies that have established its position as an aggressive player in the market. The Human Resources Department has made significant progress over the past few years and has put in place the policies, guidelines and processes required to keep its most valued internal customers happy by improving efficiency levels and reducing the cost component. In doing so the department has now embarked on an initiative to obtain ISO 9001:2008 certification, by adopting world class practices to increase efficiency levels to carry through employee needs and expectations.

Our Vision for Future

Focused development initiatives, continuous improvements in performance management mechanisms as well as fostering a familiar and supportive working environment has given NDB Bank the stimulus to reach greater heights of excellence when operating in a competitive and challenging financial environment. Plans for the future are to create many more horizontal and vertical opportunities for staff. Having, over the years, built an extraordinary workplace and a committed and professional staff, NDB Bank counts this a true source of strength and is confident that it gives it a competitive advantage when moving into a future of vibrant growth.

Grow Sri Lanka

Universal Banking from NDB Bank

Governance & Risk

“..joining the effort to grow Sri Lanka..”



Corporate Governance

The Governance Framework

In a complex, challenging and regulated corporate environment, the practice of sound Corporate Governance principles is essential for the wellbeing of a company. The principles of Corporate Governance are now recognised as being fundamental to improving economic efficiency, because they provide the structure for setting company objectives and stipulate the means by which these objectives are attained and performance monitored. Additionally, it provides the incentive for the Board and the management to pursue objectives that are in the best interests of the Bank and its shareholders. Corporate Governance principles form an integral part of the corporate culture and therefore, should be articulated in the corporate strategy.

In recognition of the fact that Corporate Governance is critical to achieving and maintaining NDB Bank's long term success and performance, NDB Bank's Board of Directors, voluntarily adopted its own Code of Corporate Governance, in January 2007.

The following are in place to enhance Governance practices within the Bank,

- A well articulated corporate strategy and overall policy framework geared to measure the success of overall organizational performance and the contribution of individuals.
- An appropriate Board structure that ensures that the Directors are accountable for the proper stewardship of the Bank's affairs, apply sound judgement, and place sufficient emphasis on issues of strategy, performance, resources and standards of business conduct.
- An organization structure that clearly defines the assignment of responsibilities and accountability, supported by a competitive remuneration policy that enables recruitment and retention of high calibre executives and key staff. A stringent evaluation process prior to recruitment ensures that employees maintain high standards of integrity.
- A framework that ensures proper oversight by senior management.

- Strong internal control systems including internal audit, compliance and risk management functions independent of business lines.
- Effective internal and external information flows, ensuring appropriate financial reporting.
- To promote fairness and transparency and adherence to best practices, NDB Bank complies with the Directions on Corporate Governance issued by the Central Bank of Sri Lanka and the Listing Rules of the Colombo Stock Exchange, and is guided by the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

The Banking Act Directions No. 11 of 2007 and its amendments on Corporate Governance for Licensed Commercial Banks in Sri Lanka, issued by the Monetary Board of the Central Bank of Sri Lanka under section 46 (1) of the Banking Act No. 30 of 1988 provides that the mandatory requirements set out in Direction 3 should be complied with by Licensed Commercial Banks from 1st January 2008 onwards and that all Licensed Commercial Banks should fully comply with the said provisions by or before 1st January 2009, except where extended compliance dates have been specifically provided for in the said Direction. The NDB Bank complies with the said Directions on Corporate Governance and the table containing the degree of compliance with explanatory comments thereon is given in pages 69-73.

Board Composition and Balance

The Board of NDB Bank as at year end comprised eight Directors, seven of whom, including the Chairman, are Non-Executive Directors. The six independent Directors provide a strong and independent balance to the Board. The Chief Executive Officer (CEO) of NDB Bank functions as the only ex-officio Director. The filling of vacancies of Directors by the Board is made on the recommendation of the Nominations Committee of the Board, based on guidelines approved by the Board. Thus, there is a formal and transparent process for appointment of new Directors. The correct balance of appropriate skills and experience of Non-Executive Directors are taken into account when considering

a Director for appointment to the Board. Additionally, in recommending the appointment of Non-Executive Directors, the Nominations Committee ensures that these Directors are persons of repute with credible track records, who are drawn from the private and public sectors and represent a diversity of views and experience on the Board. The selection process ensures that Directors are competent to deal with current and emerging business issues. The Board has met fourteen times during the financial year under review.

Role of Chairman and Chief Executive Officer

The roles of Chairman and CEO are separate and their respective responsibilities are stipulated in the NDB Bank's internal Code of Corporate Governance. The Chairman is an independent Director who leads the Board in its oversight role. The Chairman facilitates and encourages constructive contribution of the Directors in discussion and decision making on matters considered by the Board and promotes effective communication among the Directors.

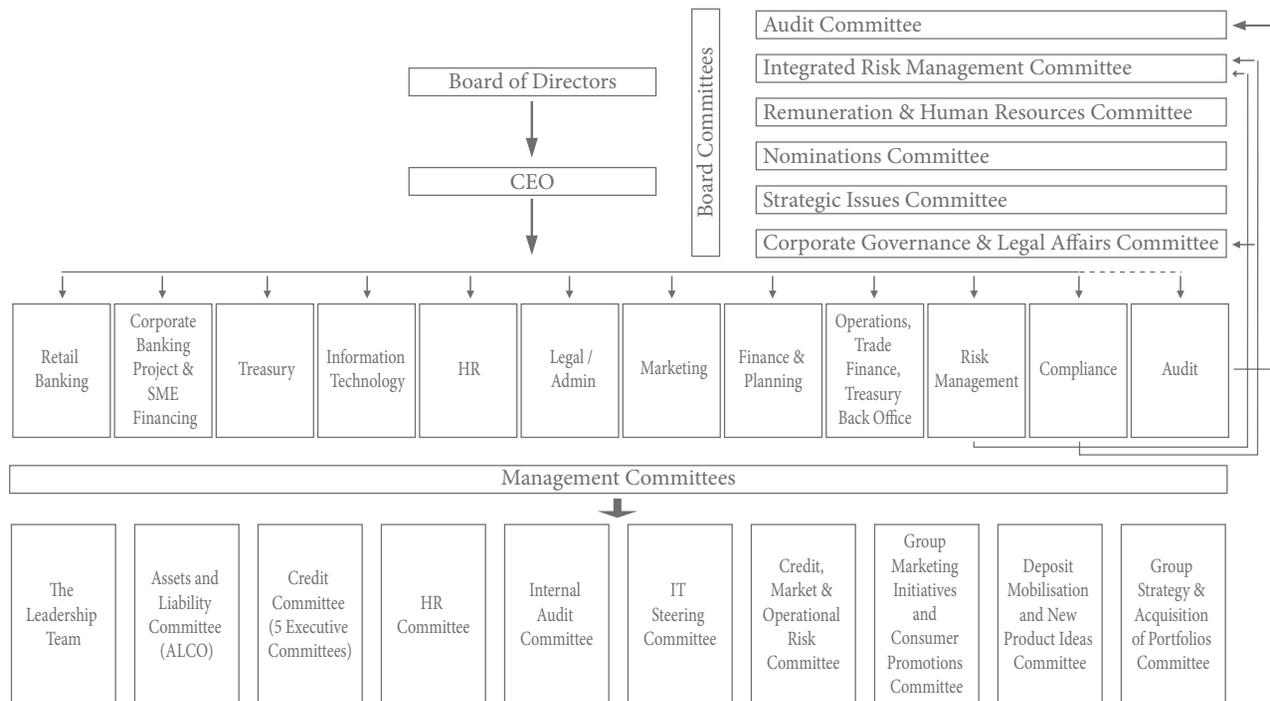
The CEO functions as the apex executive in charge of the day to day management of the Bank's operations and business.

Board Responsibilities and Accountability

The main focus of the Board is to set out the strategic direction of the Bank, provide leadership to achieve such direction and monitor managerial performance to achieve a satisfactory return to its shareholders and ensure financial stability.

While the Board is entrusted with the responsibility of providing leadership in terms of NDB Bank's overall business strategy, including the approving of the risk policy and risk management procedures, it is the responsibility of the senior management to ensure the implementation of these strategies, which is monitored by the Board. Principle risks are identified by the Board, which ensures that appropriate systems are in place to manage risks prudently. The Board has delegated its authority in operational areas to the senior management, within clearly defined limits. The management works through a number of internal committees as shown in the diagram below.

ORGANIZATION CHART



Corporate Governance

The Board effectively reviews the performance of key management personnel and maintains a continuous dialogue with them to monitor progress towards corporate objectives.

Key management personnel who have significant authority and responsibility for the Bank's operations have been identified by the Board and the parameters of their authority defined. Through various processes, the Board ensures that there is appropriate oversight of the affairs of the Bank by key management personnel, consistent with Board policy.

The Board of Directors consistently maintains high standards and inculcates such standards and corporate values throughout the Bank. It has also formulated appropriate checks and balances to ensure that the Corporate Governance process is upheld at all times. The Board lays strong emphasis on transparency, accountability and integrity of transactions in line with the Bank's Code of Corporate Governance.

The Board ensures communication with all stakeholders and reviews the adequacy and integrity of the Bank's internal control systems and management information systems.

Succession Planning

To ensure long term continuity of the Bank, the Board has set out an appropriate succession procedure for key management personnel.

Whistleblowing Policy

The Board has also implemented a whistleblowing policy to encourage employees to communicate legitimate concerns of illegal or unethical practices without fear of reprisal.

Access to information

The senior management provides the Board of Directors with complete, adequate and timely information on an on going basis. The Board endeavours to keep abreast of the regulatory environment and ensures a continuous and effective relationship with the regulators.

A procedure has also been announced for Directors to seek expert professional advice, if required, with the costs being borne by the Bank.

Assessment of Governance practices

The Board assesses the effectiveness of the Board of Directors' own governance practices and makes necessary changes based on best practices.

Banking Act Direction No. 11 of 2007 on Corporate Governance

NDB Bank's adherence to the Corporate Governance Directions, contained in the Banking Act Directions No.11 of 2007 (as amended) issued by the Central Bank of Sri Lanka with explanatory comments thereon is set out as follows:

Rule No.	Principle	Compliance Status	Comments
3 (1) RESPONSIBILITIES OF THE BOARD			
3(1)(i)	The Board shall strengthen the safety and soundness of the Bank	Compliant	The Board provides leadership in terms of NDB Bank's overall business strategy, and takes action to meet the requirements of this Direction.
3(1) (ii)	The role of the Chairman and CEO	Compliant	The positions of the Chairman and CEO are held separate.
3(1) (iii)	Board Meetings	Compliant	There have been fourteen Board meetings during 2010. Circulation of Board papers to obtain Board's consent is minimised and resorted to only when absolutely necessary.
3(1) (iv)	Board to ensure that arrangements are in place for Directors to include matters and proposals in the agenda	Compliant	The Directors have been informed that they could propose items for inclusion in the Agenda.
3(1) (v)	Notice of Board Meetings	Compliant	Directors are normally given at least 7 days notice of Board Meetings.
3(1) (vi)	Non attendance by Directors	Compliant	Board members have been informed of the relevant provisions and the Company Secretary monitors attendance to ensure compliance.
3(1) (vii)	Appointment of a Company Secretary	Compliant	A person with the specified qualifications has been appointed.
3(1) (viii)	Access to the advice and services of the Company Secretary	Compliant	Directors have access to the Company Secretary's advice and services.
3(1) (ix)	Board Meeting Minutes	Compliant	Detailed Board minutes, as appropriate, are made available to Directors.
3(1) (x)	Minutes to be in detail	Compliant	The minutes contain adequate details appropriate to the matters dealt with. The minutes are also read together with the corresponding Board papers, which supplement the information in the minutes.
3(1) (xi)	Independent professional advice at bank's expense	Compliant	The availability of professional advice has been communicated to the members of the Board.
3(1) (xii)	Avoid conflicts of interest	Compliant	The Directors have been informed of the requirements. Annually, a declaration is obtained from the Directors confirming whether they have avoided conflicts of interest.
3(1) (xiii)	Formal schedule of matters	Compliant	The Board has not delegated any matter so as to preclude the Board from having authority to direct and control the Bank. A delegation is made formally.

Corporate Governance

Rule No.	Principle	Compliance Status	Comments
3(1) (xiv)	Insolvency	Compliant The situation has not arisen	A Solvency Statement is prepared quarterly and tabled at the Integrated Risk Management Committee and the Board.
3(1) (xv)	Capital adequacy ratio	Compliant	The Capital Adequacy Ratios of the Bank are substantially in excess of the minimum stipulated by the Central Bank.
3(1) (xvi)	Corporate Governance Report	Compliant	The Annual Report contains a Corporate Governance Report.
3(1) (xvii)	Self Assessment	Compliant	An evaluation has been made by the Directors on a format which would constitute the scheme.
3(2) COMPOSITION OF THE BOARD			
3(2) (i)	Number of Directors	Compliant	The Board comprised eight Directors as at 2010 year end.
3(2) (ii)	Period of service of a Director	Compliant	This is monitored by the Company Secretary to ensure compliance.
3(2) (iii)	Appointment of an employee as a Director	Compliant	The CEO is the only employee on the Board.
3(2) (iv)	Independent Non Executive Directors	Compliant	Six of the seven Non Executive Directors as at year end 2010 were independent.
3(2) (v)	Appointment of an alternate Director	Compliant	The Company Secretary monitors this to ensure compliance.
3(2) (vi)	Non Executive Directors with credible track records, necessary skills and experience	Compliant	The Directors of NDB Bank are eminent persons with private and/or public sector backgrounds, possessing relevant skills and experience.
3(2) (vii)	Number of Non Executive Directors required to form a quorum	Compliant	The Company Secretary monitors this.
3(2) (viii)	Details of Directors	Compliant	The Directors' profiles and composition of the Board are published in the Annual Report.
3(2) (ix)	Appointment of new Directors	Compliant	The Board has approved guidelines for the Nominations Committee to recommend new Directors to the Board.
3(2) (x)	Appointment to fill a casual vacancy	Compliant	Appointment to fill a casual vacancy is made by the Board. Such appointment is effective till the next Annual General Meeting (AGM). A person so appointed could be elected as a Director at the next AGM. Central Bank approval is obtained in terms of the Banking Act for the appointment of Directors.
3(2) (xi)	Resignation or removal of a Director	Compliant	The reason for resignation is given.
3(2) (xii)	Appointment of a Director/ Employee to another bank	Compliant	None of the Directors or employees of the Bank has been appointed as Directors of other banks.
3(3) CRITERIA TO ASSESS THE FITNESS AND PROPRIETY OF DIRECTORS			
3(3) (i)	Directors over 70 years of age	Complied	This is monitored by the Company Secretary to ensure compliance.
3(3) (ii)	Holding of office in more than 20 companies	N/A	This will become effective from 01/01/2012.

Rule No.	Principle	Compliance Status	Comments
3(4) MANAGEMENT FUNCTION DELEGATED BY THE BOARD			
3(4) (i)	Delegation arrangements	Compliant	Delegation papers are prepared in detail and presented to the Board.
3(4) (ii)	Extent of delegation	Compliant	By delegating the Board does not lose the authority to deal with matters that have been delegated when necessary.
3(4) (iii)	Review of delegation process	Compliant	Delegation of authority is reviewed from time to time.
3(5) THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER			
3(5) (i)	Separation of roles of the Chairman and CEO	Compliant	This is also a requirement of the NDB Bank's internal Code of Corporate Governance.
3(5) (ii)	Chairman to be a non-executive Director and preferably an independent Director	Compliant	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)	Relationship between Chairman and CEO & other Directors	Compliant	Based on the annual Declarations and Affidavits provided by the Directors, there is no relationship between the Chairman and CEO and among the members of the Board.
3(5) (iv)	Role of the Chairman	Compliant	The Chairman provides leadership to the Board and ensures that Board performs its duties effectively and expeditiously.
3(5) (v)	Primary responsibilities of the Chairman	Compliant	The responsibilities of the Chairman are included in the Bank's internal Code of Corporate Governance. The Chairman is, inter alia, responsible for the smooth functioning of the Board, including preserving order, ensuring that proceedings at meetings are conducted in a proper manner and ascertaining the views of the Directors on the issues being discussed, before decisions are taken.
3(5) (vi)	Briefing on issues arising at Board meetings	Compliant	The Directors are adequately briefed in the course of discussions by the Chairman, CEO and officers of the management in respect of matters that are taken up by the Board. Board papers containing information are normally circulated among the Directors in advance.
3(5) (vii)	Board to act in the best interest of the Bank	Compliant	The Chairman ensures that all members of the Board participate effectively as a team for the benefit of the Bank.
3(5) (viii)	Effective contribution of non-executive Directors and constructive relations between executive & non-executive Directors	Compliant	The Chairman ensures that the non executive Directors actively contribute to the decisions of the Board.
3(5) (ix)	Chairman not to engage in executive duties whatsoever	Compliant	The Chairman does not engage in the direct supervision of key management personnel and other executive duties.
3(5) (x)	Effective communication with shareholders	Compliant	The Chairman ensures effective communication with shareholders and the Board is informed of the views of major investors.

Corporate Governance

Rule No.	Principle	Compliance Status	Comments
3(5) (xi)	CEO to be the apex executive-in-charge of the daily operations & business	Compliant	This is a requirement of the Bank's internal Code of Corporate Governance as well.
3(6) BOARD APPOINTED COMMITTEES			
3(6) (i)	Four Board appointed committees	Compliant	The Board has appointed a Corporate Governance & Legal Affairs Committee (CGLA) and a Strategic Issues Committee in addition to the four Board committees mentioned in the Direction. Please refer pages 74-75 for details.
3(6) (ii)	Board Audit Committee - Composition & Responsibilities	Compliant	Please refer page 74 This is being reviewed.
3(6) (iii)	Human Resources and Remuneration Committee - Composition & Responsibilities	Compliant	Please refer page 75
3(6) (iv)	Nomination Committee – Composition & Responsibilities	Compliant	Please refer page 75
3(6) (v)	Integrated Risk Management Committee - Composition & Responsibilities	Compliant	Please refer page 75 This is being reviewed.
3(7) RELATED PARTY TRANSACTIONS			
3(7) (i), (ii), (iii)	Avoid conflicts of interest in related party transactions and favourable treatment	Compliant	When entering into Related Party Transactions, the Bank is governed by the Banking Act and regulations issued thereunder. Policies and procedures will be further strengthened.
3(7) (iv)	Accommodation to Directors and /or their close relations	Compliant	When accommodation is granted to Directors and their close relations, the requirements of the Banking Act and Directions are complied with.
3(7) (v)	Appointment of a Director subsequent to granting of facilities	Compliant	If such situation arises, the requirements of the Banking Act and Directions will be complied with.
3(7) (vi)	Accommodation to employees	Compliant	Accommodation to employees is based on specific schemes that have been formulated.
3(7) (vii)	Remission of accommodation/ interest due on facilities under 3(7) (v) & 3(7) (vi)	Compliant	The situation has not arisen.
3(8) DISCLOSURES			
3(8) (i)	Preparation and publication of annual and quarterly financial statements	Compliant	Please refer “Statement of Directors’ Responsibilities” on page 91 and “Annual Report of the Directors on the Affairs of National Development Bank PLC” on pages 85-87
3(8) (ii)	Minimum disclosure requirements in the Annual Report		

Rule No.	Principle	Compliance Status	Comments
	a) Annual audited financial statements to be prepared in line with applicable accounting standards and regulatory requirements	Compliant	Please refer "Statement of Directors Responsibilities" on page 91 and "Annual Report of the Directors on the Affairs of National Development Bank PLC" on pages 85-87
	b) Confirmation from Directors on the effectiveness of the internal control mechanism over the financial reporting system and compliance with accounting principles and regulatory requirements	Compliant	Please refer "Directors Statement on Internal Control" on pages 92-93
	c) External Auditor's certification on the internal control mechanism referred to in 3(8) (ii)(b) above	Compliant	Please refer "Directors Statement on Internal Control" on pages 92-93
	d) Details of Directors, Directors' transactions with the Bank and total of fees/remuneration paid by the Bank	Compliant	Please refer "Board of Directors" on pages 14-16, "Directors' Interest in Contracts with NDB Bank" on pages 88-90 and page 87 for Directors' Remuneration.
	e) Total net accommodation to related parties included as a percentage of the Bank's regulatory capital	Compliant	Please refer pages 130-131
	f) Aggregate values of remuneration paid to and transactions with key management personnel	Compliant	Please refer page 130
	g) External Auditor's certification of the compliance with the Corporate Governance Directions	Compliant	Certification has been provided by the External Auditor's as required by the Direction.
	h) Report of compliance with prudential requirements, regulations, laws and internal controls and rectification measures	Compliant	Please refer page 91
	i) Lapses in the Bank's risk management or non compliance with these directions, pointed out by the Director of Bank Supervision and directed by the Monetary Board to be disclosed to the public	Compliant	The situation has not arisen.

Corporate Governance

Board Committees

To ensure that the activities of the NDB Bank are conducted in accordance with the highest ethical standards and in the best interests of all its stakeholders, the Board of Directors has appointed six committees to oversee specific areas. They are the Audit Committee, the Integrated Risk Management Committee,

the Nominations Committee, the Strategic Issues Committee, the Remuneration and Human Resources Committee and the Corporate Governance and Legal Affairs Committee. The composition and workings of these committees are elaborated in the table below.

Board Committees

Committee / Composition as at 31st December 2010	Scope of the Board Committee/Principal Activities carried out during the year
<p>Audit Committee: T L F W Jayasekara (Mr. A.R. Gunasekara was the Chairman of the committee until he resigned on 1st December 2010. Mr. T L F W Jayasekara has succeeded him as Chairman) Dr. R Vokes D S P Wikramanayake</p>	<p>The Audit Committee is entrusted with the task of monitoring the internal controls, systems and processes of the Bank. It also serves as an effective forum for the Board of Directors in discharging their responsibilities and is empowered to review and monitor the financial reporting process of the Bank and to provide additional assurance on the reliability of financial statements through a process of independent and objective review.</p> <p>At the end of 2010, the Audit Committee comprised of three non-executive Board members.</p> <p>Among its other functions, the Audit Committee Charter empowers the Audit Committee to examine any matters relating to the financial affairs of NDB Bank and to review the adequacy of internal control procedures, coverage of internal and external audit plans, disclosure of accounting policies etc.</p> <p>NDB Bank has an effective and independent Internal Audit function, which reports to the Audit Committee covering Operational, Financial, Credit and Information Security Audits.</p> <p>The Committee ensures that the audit function is independent of the activities it audits and that impartiality is maintained with due professional care being exercised when carrying out its duties. The internal audit plan and results of the internal audit process is reviewed by the Committee and where necessary, it is ensured that appropriate actions are taken on the recommendations of the internal audit department.</p> <p>The Committee also provides a forum for the impartial review of the regular internal audit reports and investigation reports and takes into consideration the major findings and recommendations stated therein relating to significant business risks and control issues suggesting appropriate remedial measures where necessary.</p> <p>The Committee also reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with the applicable standards and best practices. Before the audit commences, the nature and scope of the external audit is discussed including an assessment of the Bank's compliance with the relevant directions in relation to Corporate Governance, the management's internal controls over financial reporting and the preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations. The Committee also reviews the external auditor's management letter and management's response thereto.</p> <p>The Committee reviews the financial statements of the Bank, its annual report, accounts and disclosures and significant financial reporting judgments contained therein, before submission to the Board, focusing particularly on major judgmental areas, any changes in accounting policies and practices, significant adjustments arising from the audit, going concern assumption and compliance with the relevant accounting standards and other legal requirements.</p> <p>During the year, eight Audit Committee meetings were held with due notice of issues to be discussed, recording its conclusions in discharging its duties and responsibilities. The minutes of committee meetings were formalised and made available to the Board of Directors for their information.</p>

Committee / Composition as at 31st December 2010	Scope of the Board Committee/Principal Activities carried out during the year
<p>Integrated Risk Management Committee:</p> <p>D S P Wikramanayake (Mr. A.R. Gunasekara was the Chairman of the committee until he resigned on 1st December 2010. Mr. D. S. P. Wikramanayake has succeeded him as Chairman)</p> <p>T L F W Jayasekara N I R de Mel (CEO) Nirmala Rayen (Head - Group Risk Management)</p>	<p>The Integrated Risk Management Committee was formed in June 2008 replacing the Risk & Credit Committee of the Board. At the end of 2010 the Committee consisted of two non executive directors, the Chief Executive Officer and the Head of Group Risk Management. In addition, key members of the staff participate at the meetings as appropriate. The Committee meets at least once in a quarter.</p> <p>The main responsibility of the Committee is to assess risks faced by the Bank covering mainly credit, market, liquidity, and operational areas. In fulfilling its duties, the Committee reviews the quality of the portfolio, adequacy of provisions, liquidity position, impact on market volatility, progress on operational risk roll-out throughout the organization, review of Business Continuity Plans, adequacy and effectiveness of all Executive Credit Committees & ALCO, compliance with the local laws and regulations etc.</p> <p>The Committee takes appropriate corrective action to mitigate specific risks in case such risks are beyond prudent levels based on internal and regulatory requirements. A risk assessment report is submitted to the Board quarterly.</p>
<p>Strategic Issues Committee:</p> <p>P M Nagahawatte*</p> <p>Dr. R Vokes H D S Amarasuriya T L F W Jayasekara Ms K Fernando</p>	<p>Responsible for evaluating all major strategic decisions taken by NDB Bank, and reviews the strategy development and implementation process and assesses the key business drivers.</p>
<p>Remuneration & Human Resources Committee:</p> <p>H D S Amarasuriya*</p> <p>Dr. R Vokes T L F W Jayasekara Ms K Fernando H A Siriwardena</p>	<p>Responsible for maintaining NDB Bank's performance and market oriented remuneration policy for staff, ensuring the selection of the best talent and creating incentives for staff loyalty and retention of service. Is also responsible for reviewing the recruitment and promotions of senior management and executive officers, thereby ensuring that an effective succession plan is in place for the Bank. It makes recommendations to the Board with regard to the manner in which the aggregate sum determined by the shareholders for payments in respect of remuneration to the non-executive directors, including the Chairman, may be divided among them by the Board. It also makes recommendations to the Board with regard to payments in respect of remuneration payable to the CEO. It evaluates the performance of the CEO and key management personnel against set targets and goals and determines the basis for revising remuneration, of the key management personnel.</p>
<p>Nominations Committee:</p> <p>P M Nagahawatte*</p> <p>H D S Amarasuriya Dr. R Vokes T L F W Jayasekara</p>	<p>It comprised the Chairman of NDB Bank and three other non-executive directors. All new appointments to the Board as well as continuing Directorships are reviewed and recommended by the Committee. It assesses the need for certain skills representation on the Board. It is also responsible for identifying suitable persons with credible track records and/or with the necessary skills and experience to be recommended for appointment by the Board of Directors for election at the AGM. The Committee has recommended a procedure for the appointment/selection of key management personnel.</p>
<p>Corporate Governance & Legal Affairs Committee:</p> <p>P M Nagahawatte *</p> <p>Ms.K Fernando H A Siriwardena D S P Wikramanayake</p>	<p>The Corporate Governance and Legal Affairs Committee was established in May 2007 and consisted of four non-executive directors. This Committee was mandated with the task of assisting the Board in ensuring compliance with the Companies Act No. 7 of 2007, the Bank's Corporate Governance Code and all rules, regulations and guidelines issued by regulatory authorities relating to Corporate Governance for Licensed Commercial Banks.</p>

*Chairman of the Committee

Corporate Governance

Structure and composition of the main Board, Board Committees as at end 2010 and the attendance of each Director is indicated in the below table

Name of Director	Category	Main Board		Audit Committee		Integrated Risk Management Committee		Strategic Issues Committee		Remuneration and Human Resources Committee		Nominations Committee		Corporate Governance and Legal Affairs Committee	
		*E	*A	*E	*A	*E	*A	*E	*A	*E	*A	*E	*A	*E	*A
Committee/composition															
Mr. P M Nagahawatte (Chairman)	Non Executive Independent	14	13					1	1			12	12	1	1
Mr. N I R de Mel (CEO-appointed w.e.f. 26.03.2010)	Executive	10	10			3	2								
Mr. E Wickramaratne (CEO-resigned w.e.f.26.03.2010)	Executive	5	5			2	2								
Mr. H D S Amarasuriya	Non Executive Independent	14	11					1	1	4	4	12	8		
Dr. G C B Wijeyesinghe (resigned w.e.f. 25.03.2010)	Non Executive	5	5	2	2			1	1	2	2				
Mr. I. de Mel(resigned w.e.f.24.03.2010)	Non Executive	5	5	2	2	2	2	1	1			4	4		
Mr. A R Gunasekara (resigned w.e.f.01.12.2010)	Non Executive Independent	13	12	8	8	5	4	1	1			12	12	1	1
Dr. R Vokes	Non Executive Independent	14	13	8	3			1	0	4	2	5	1	1	1
Dr. S Yaddhegige (resigned w.e.f.23.11.2010)	Non Executive	13	9			2	1								
Mr. T L F W Jayasekara	Non Executive Independent	13	13	6	6	3	3	1	1	3	3	10	8		
Mr. N Welikala (resigned w.e.f.25.03.2010)	Non Executive	4	4			2	2	1	1						
Mr. D S P Wikramanayake	Non Executive	7	7	4	4	2	2								
Ms. K Fernando	Non Executive Independent	7	7												
Mr. H A Siriwardena	Non Executive Independent	7	5												
Mr. R B Thambiyah (resigned w.e.f.21.01.2010)	Non Executive	1	1												

Compliance

NDB Bank has established a permanent and effective compliance function. A dedicated Compliance Department headed by a senior officer, independently monitors adherence to all applicable laws, regulations and statutory requirements and reports to the Integrated Risk Management and the Corporate Governance and Legal Affairs Committees. Quarterly reports are submitted to the Integrated Risk Management Committee confirming compliance with the Bank's Compliance Policy and Code of Conduct in addition to compliance with external laws and regulations. These reports are also tabled quarterly at Board meetings for the information of the Directors.

NDB Bank has effective processes in place to ensure compliance with applicable laws and regulations pertaining to the banking industry (including the Anti Money Laundering Act No. 5 of 2006 and related Acts, Companies Act No. 7 of 2007, and the Listing Rules of the Colombo Stock Exchange). The Compliance Department ensures that compliance reports are submitted to the Central Bank of Sri Lanka confirming the Bank's compliance with Central Bank regulations and guidelines.

Risk Management

The Global Financial Crisis and Global Economic Prospects

The deep global recession of 2008-09 was created by financial institutions, which were the worst hit, globally. The cascading impact of the recession can be seen in most economies particularly in the west. Financial markets have now recovered from last year's lows with global recovery moving into a mature phase, led by growing domestic demand. However recovery of the world economy through on a revival path, is not uniform across the globe and not robust enough to provide positive stimulus.

Foreign direct investment has declined drastically because of restrict mobility of such funds. The decline in FDI has dried the resource pool, thus delaying the implementation of many projects. Its direct impact on international trade and productivity could have adverse consequences on developing economies, which would benefit from a more rapid adjustment of fiscal policy.

A strong and pervasive integrated risk-management culture provides a bank with the foundations to a sound process - its framework so designed that risk (which is inherent in the operations of any bank) is managed in a way consistent with the bank's objectives, risk tolerance, control standards and management philosophy.

Risk and reward bear a direct relationship to each other. Thus, risk management in banking does not mean minimizing risk; rather its goal should be to optimize the trade-off between risk and reward.

Thus the main objectives of risk management in any bank is to

1. manage risk at an acceptable level
2. reject unacceptable risks
3. continuously monitor risk to avoid surprises and to manage volatility in returns in order to maintain a quality portfolio

Integrated Risk Management at NDB Bank

NDB Bank promotes a strong risk management culture supported by a robust risk governance structure. The Bank's Group Risk Management (GRM) is assigned the responsibility to design and operate the Bank's integrated risk-management process and is independent of the Bank's business units. Its risk management framework is integrated with the Bank's strategy and business planning processes.

The key elements of the Bank's risk management framework are:

The integration of risk considerations and capital needs into management and decision making processes through the attribution of risk and the allocation of capital to various segments

An integrated risk capital framework consistently applied across all business units to protect its capital base and support effective capital management.

Two Policy Committees i.e. Credit and Market Risk Policy Committee and an Operational Risk Policy Committee are in operation to formulate policy and to focus more clearly on defined risk areas. The membership of these committees comprises the CEO, the heads of business units and of the Group Risk Management. The committees meet regularly to review the Bank's risk policy framework vis-à-vis overall performance and the potential risks faced by specific lines of business and support functions.

In addition to the above, a Board Integrated Risk Management Committee (IRMC) meets quarterly to review and assess the Bank's overall risks and to focus directly on integrated risk management. The IRMC Charter was formulated and approved by the Board of Directors.

There is a standard typology of risk, based on origin and nature, as follows:

- credit risk.
- market risk.
- liquidity risk.
- operational risk.

Credit Risk

Credit risk is defined as the potential for loss arising from the failure of a counterparty to perform according to its contractual arrangements with the Bank. It includes failures in repayment of capital or interest in full within the agreed time period, at the agreed rate of interest and in the agreed currency.

Credit Risk Management at NDB Bank

NDB Bank has a well-defined credit policy approved by the Board of Directors. It defines the credit culture of the Bank, specifying target markets for lending and areas to avoid. The policy is implemented through the credit process, which is set about with clear guidelines and procedures. The GRM ensures that the credit process is comprehensive and that the quality of the Bank's credit portfolio is maintained. The effectiveness of this system is well reflected in the Non-Performing Loan (NPL) ratio of the Bank, which was 1.90% as at 31st December 2010, against an average industry NPL ratio of 5.30% as at 31st December 2010.

There are five executive credit committees in operation, representing the five business units of the Bank. They address policy issues and approve credits under delegated approval authority. These executive credit committees comprise senior officers of business units and the GRM. Increased delegation of authority was approved to business lines to improve speed and flexibility in decision making. The post sanction monitoring mechanism to ensure quality of credit is not compromised.

NDB Group risk-management philosophy is guided by three basic, interdependent principles: independence, the 'four-eyes principle' (i.e. minimum of two officers signing a credit proposal) and service function. Although the Bank mitigates credit risk through collateral, lending decisions are mainly based on detailed credit evaluation carried out by customer relationship managers and reviewed by the GRM as well as the designated approving authority. The financial performance of borrowers is continuously monitored and frequently reviewed, as is the manner in which the borrower has operated his accounts.

Group Risk Management works closely with the Bank's business units at every stage of the credit process, from facility origination to approval to collections, adding value as appropriate and developing the proposal in terms of risks, mitigants and returns. A well-defined risk rating system is in place for use in account monitoring, provisioning, granting delegated authority and pricing. Continuous training is offered to all staff engaged in lending operations.

Credit portfolio and provisioning

The credit portfolio of the Bank is risk-rated using an internally-developed system that takes into account areas such as management, financial position, industry performance and operating conditions. This rating system is used to monitor the overall quality of the portfolio and determine the degree of supervision required for each credit. Any deteriorating credits are identified and monitored closely with periodic reports submitted to the Executive Credit Committee. Non-performing assets are identified at an early stage, enabling management to take action as appropriate.

NDB Bank follows a prudent provisioning policy, which exceeds the minimum requirements of the Central Bank of Sri Lanka (CBSL). Provisioning is implemented in three categories:

1. general provision (in line with CBSL guidelines)
2. judgmental provision (provision made as a prudential measure on selected accounts)
3. specific provision (in line with CBSL guidelines)

NDB Bank's credit-risk management system clearly defines risk-acceptance criteria. These are complemented by clear guidelines and procedures to ensure a well-diversified, high-quality portfolio. Additional stress tests / scenario analysis are carried out to assess impact on portfolio.

In addition to the above, an independent Credit Audit Unit carries out audits to determine the level of compliance with designed processes, adequacy of controls and identifies areas for improvement. The Board IRMC, which meets on a quarterly basis, reviews the credit portfolio of the Bank, its policies and processes. A risk-assessment report is submitted to the Board, summarizing the proceedings at IRMC meetings.

Market Risk

Is the risk that the value of a portfolio, either an investment portfolio or a trading portfolio, will decrease due to the change in value of the market risk factors. The four standard market risk factors are stock prices, interest rates, foreign exchange rates, and commodity prices.

Financial institutions are exposed to market risk in a variety of ways. Exposure may be explicit in portfolios of securities, equities and other actively-traded instruments, or it may be implicit - manifesting itself, for example, as interest-rate risk arising from a mismatch of loans and deposits.

The associated market risks are:

- Equity risk, the risk that stock prices and/or the implied volatility will change.
- Interest rate risk, the risk that interest rates and/or the implied volatility will change.
- Currency risk, the risk that foreign exchange rates and/or the implied volatility will change.
- Commodity risk, the risk that commodity prices (e.g. energy, precious, precious/base metals and agriculture) and/or implied volatility will change.

The possibility that the on and off-balance sheet positions of a financial institution will be adversely affected by movement in market rates or prices (such as interest rates, foreign-exchange rates, equity prices, credit spreads and commodity prices), resulting in a loss to earnings and capital, is known as market risk. Financial institutions are exposed to market risk in a variety of ways. Exposure may be explicit in portfolios of securities, equities and other actively-traded instruments, or it may be implicit - manifesting itself, for example, as interest-rate risk arising from a mismatch of loans and deposits.

Market risk may be categorized as follows:

- interest-rate risk: the risk of loss due to changes in the yield curve, interest-rate volatility.
- credit-spread risk: the risk of loss due to changes in the market price of credit or the creditworthiness of a particular issue.
- foreign-currency risk: the risk of loss due to changes in spot and forward currency prices and the volatility of currency exchange rates.
- equity risk: the risk of loss due to changes in equity prices and the volatility of individual instruments and equity indices.

Risk Management

Market-risk Management at NDB Bank

Market Risk Management ensures that the Bank operates within the pre-defined risk parameters, thereby business units optimise the risk/reward relationship without exposing the Bank to unexpected losses.

A more comprehensive risk management policy framework has been introduced to manage Market and Asset/Liability risks, with the assistance of an independent consultancy service. The policies that were drafted covers the best practices in risk management and statutory guidelines. Implementation of the policy recommendations are in progress with setting up of necessary limits for Liquidity risks, Price risks and Exchange risks for close monitoring of exposures.

Additionally, Stress tests, Scenario tests, Sensitivity analysis and Mark to Market exercises which appropriate are forward looking analytical tools are being carried for Products, Portfolios and Balance Sheet on a regular basis, whilst appropriate contingency funding plans are in place.

Treasury front office reports to the Vice President Finance Planning and Treasury through the Head of Treasury whilst Treasury Operations reports to the Vice President of Operations through the Head of Trade Finance & Treasury Operations ensuring segregation of duties between business lines. The Market Risk unit reports directly to the Head of Group Risk who is a member of the Bank's Assets & Liabilities Committee (ALCO).

The Bank's Assets & Liabilities Committee (ALCO) reviews all exposures, and excesses if any, on a monthly basis and appropriate decisions are made to facilitate future business requirements. These decisions are further reviewed and approved by the Board.

The Assets and Liabilities Committee (ALCO), comprising of senior management from the treasury, risk-management, finance and various business units of the Bank together with the Market Risk Management unit is responsible for the supervision and management of market risks. The ALCO meets monthly and whenever circumstances demand. Its main responsibilities are:

- to monitor the structure and composition of the Bank's assets and liabilities and decide on product pricing for deposits and advances;
- to review the current and to decide on the required maturity profile and mix of incremental assets and liabilities;
- to review the interest rate view of the Bank and decide on future business strategy based;
- to review the funding policies and funding plans;
- to decide and agree on the transfer pricing policy of the Bank;
- to evaluate market risk involved in launching new products

The Market Risk Consultancy project has enabled the Bank to achieve better results in:

1. Compliance with international best practice in market risk management systems, which enabled the Bank to elevate its market risk techniques to be more in line with advanced techniques used in the banking industry.
2. Enhanced Risk Management: improving the overall return to the Bank through better risk management by aligning such returns from business with the assured risks and minimize losses, thereby improving the overall return to the Bank.
3. Training: as part of the assignment, comprehensive training covering market risk management and asset liability management was carried out for Bank's staff involved in the respective areas of operations and for senior management.
4. Enhanced Shareholder Value: Is directly related to effective risk management within the Bank. The independent and effective monitoring of risk will enable capital to be allocated to those businesses with the best returns.
5. Setting up a Market Risk Management Unit: A separate Market Risk Management unit was set up to carry out independent monitoring of the market and liquidity risks of the Bank.

The implementation of the relevant proposals encompasses a road map to a framework of best practice in risk management and includes detailed policies, methodologies and templates designed to be in line with the Bank's requirements. It has also designed the improved management information to manage market risk at various levels of the Bank.

Liquidity Risk

Liquidity risk is the potential for loss to an institution arising either from its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable costs or losses. It arises when the cushion provided by the institution's liquid assets is insufficient to meet its obligations. In such a case, a bank will often access the markets to meet its liquidity requirements, – but the success will depend on the liquidity of the market and other market conditions.

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.

Liquidity Risk Management at NDB Bank

This category of risk is also delegated to the supervision and management of ALCO. 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 one to monitor the liquidity mismatch gaps. These limits correspond to the liquidity available to NDB Bank through various

providers, at an agreed level of confidence. The Bank has also adopted a liquidity policy to ensure that it has at all times sufficient liquidity to meet its financial obligations at a fair market price (substantially above the minimum liquid assets-to-liability ratio of 20 percent specified by the The Central Bank of Sri Lanka). Market and liquidity risks are addressed at Board IRMC meetings on a quarterly basis.

The Market Risk Management consultancy has also enabled the Bank in drafting revised policy guidelines for liquidity management and contingency funding plans to be implemented in the area of Liquidity Risk Management in line with the regulatory guidelines.

Operational Risk

Operational Risk is the risk of direct or indirect loss due to an event or action resulting from the failure of internal processes, people and systems, or from external events. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

Operational Risk Management at NDB Bank

Successful operational risk management is particularly important to a diversified financial services conglomerate such as NDB Bank due to of the very nature, volume and complexity of our various businesses and group companies.

In line with our management governance structure, the lines of business are responsible for all the risks within the business, including operational risks. Operational risks are managed through a Bank wide operational risk policy, procedures, controls and monitoring tools.

Operational risk management at NDB Bank is practiced proactively in contrast to adopting a reactive approach (managing losses).

The Bank is currently in the process of implementing a Operational risk management framework across all the units in the Bank. This is done with the assistance of an external consultancy on the basis of the Basel II Basic Indicator Approach.

The Internal Operational Risk Policy Committee was formed to operationalise the Operational Risk framework of the Bank, and also included areas such as Business Continuity Planning and Disaster Recovery Management.

Operational risk management is monitored with the use of by the following tool kits.

- Key Operational Risk Controls (KORCs) – Qualitative analysis
- Key Risk Indicators (KRIs) – Quantitative analysis

The Operational Risk Management unit regularly reviews the risk environment and ensures that issues receive sufficient attention across all lines of business with the most significant risks reported

to the Operational Risk Policy Committee and the Integrated Risk Management Committee of the Board.

Basel II Compliance and move towards Basel III

Currently, the Bank is applying the Standardised Approach for Credit Risk, Standardised Measurement Approach for Market Risk and Basic Indicator Approach for Operational Risk in computing the minimum capital requirements as per Central Bank regulations. Further, stress tests are carried out considering scenarios such as the increase in NPLs and negative shifts in NPL categories to assess the impact of these in capital allocation. The Bank continues to exceed the Central Bank requirement for minimum capital even under stressed scenarios, thereby protecting stakeholder interest and enhancing the financial strength and stability of the Bank.

The Bank is in the final stages of implementing a new core banking system upgrade. This will facilitate the capturing and analysis of data and bridge certain gaps identified, in preparing the road map to the migrate to the advanced approaches of BASEL II.

The Bank possess a strong capital base and it would facilitate the move towards Basel III where banks are expected to increase the quality and quantum of minimum capital allowing for higher losses to absorbed during stressed periods. It would also involve maintenance of capital conservation buffers to cover against procyclical (build buffers in good times to draw down at times of stress) and countercyclical effects (if rapid aggregate credit growth would aggravate system wide risk, which needs to be assessed by the regulator). Failure to meet the set minimum standards would restrict the earnings distribution (dividend payments, share buybacks and bonuses). The international banks would commence the transition in 2013 which needs to be compliant in stages by 2019. The local regulator would initially concentrate on increase in Tier I capital which is bound to have an increased cost of credit.

Group Risk Management

The Key Risk Indicators / Key Performance Indicators of the group companies are monitored and reported to the Integrated Risk Management on a monthly / quarterly basis. Further, the Bank's Group Risk Management which is independent of the Bank approves credits, pre-clears of product papers / underwriting standards of specific companies.

Conclusion

NDB Bank's proactive approach to Risk Management, its close involvement with business lines from business initiation to portfolio growth and management, and its presence and active participation in ALCO and Credit Committees, has developed a successful road map for Risk Management. The challenging task of looking beyond the sluggish past trends to an era of growth and opportunity has necessitated alignment of Risk management in every business activity. This will be the way forward too.

Grow Sri Lanka

Universal Banking from NDB Bank

Financial Information

“..for people, for businesses and for the nation..”



.....CORPORATE BANKING

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Financial Calendar 2010

Interim Quarterly Un Audited Reports for 2010

March	20 May 2010 *
June.....	17 August 2010*
September.....	24 November 2010*
December	25 February 2011*

Annual Reports and Accounts

2007	4 April 2008
2008	6 March 2009
2009	5 March 2010
2010	6 March 2011

Meetings

First Annual General Meeting for National Development Bank Limited	26 April 2006
Second Annual General Meeting	26 April 2007
Third Annual General Meeting	29 April 2008
Fourth Annual General Meeting.....	30 March 2009
Fifth Annual General Meeting.....	30 March 2010
Sixth Annual General Meeting	30 March 2011

Dividends

Final Dividend 2006.....	26 April 2007
Final Dividend 2007.....	28 April 2008
Final Dividend 2008.....	30 March 2009
Final Dividend 2009.....	30 March 2010
Interim Dividend 2010.....	28 December 2010
Final Dividend 2010.....	30 March 2011**

* Published in the newspapers

** Subject to approval by the Shareholders

Annual Report of the Directors on the State of Affairs of National Development Bank PLC

The Directors of the National Development Bank PLC (NDB Bank) have pleasure in presenting their Report and the audited Financial Statements for the year ended 31 December 2010.

Principal Activities

The principal activities of NDB Bank and NDB Group are described under Note 1 to the Financial Statements on page 108.

Details of the NDB Group Companies indicating NDB Bank's own holding in key companies is shown on pages 50 and 51.

Review of Business

The Chairman's Review, the Chief Executive's Review, the Financial Review and the Operations Review which form an integral part of the Directors' Report on the State of Affairs of the Bank, contain a detailed description of the operations of NDB Bank during the year ended 31 December 2010 and contain a fair review of NDB Bank's affairs.

Directors' Responsibility for Financial Reporting

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

The Directors are satisfied that the Financial Statements, presented on pages 96 to 131 inclusive, give a true and fair view of the state of affairs of NDB Bank and the NDB Group as at 31 December 2010 as well as the profit for the year then ended.

The Directors consider that, in preparing these Financial Statements, suitable accounting policies have been used which are applied consistently and supported by reasonable and prudent judgement and that all applicable accounting standards have been followed. The Financial Statements are prepared on a going concern basis.

The Directors are satisfied that all statutory payments have been made up to date.

Corporate Governance

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

A description of NDB Bank's Corporate Governance practices is set out on pages 66 to 77.

Profits, Reserves and Dividends

The NDB Group's profit before taxation including that of its subsidiaries and its share of profit from associate companies amounted to Rs. 4,455 mn (compared to Rs. 4,276 mn in 2009). After deducting Rs. 2,232 mn (compared to Rs. 2,154 mn in 2009) for taxation, the profit after tax for the year amounted to Rs. 2,223 mn (compared to Rs. 2,121 mn in 2009).

NDB Bank's profit before taxation amounted to Rs. 3,458 mn (compared to Rs. 3,492 mn in 2009). After deducting Rs. 1,881 mn (compared to Rs. 1,810 mn in 2009) for taxation, the profit after tax for the year amounted to Rs. 1,576 mn (compared to Rs. 1,682 mn in 2009).

Details are given in the Income Statement on page 96.

Shares and Shareholders

In July 2010, NDB Bank issued 245,566 ordinary shares at a price of Rs 245/- per share to Corporate Services (Private) Limited as Trustee to be allotted as a grant to the eligible members of staff under the Equity Linked Compensation Plan. This resulted in the shares in issue of NDB Bank increasing from 81,855,385 to 82,100,951. A description of the Equity linked Compensation Plan is given on page 107.

NDB Bank had 7,870 registered shareholders as at 31 December 2010. The distribution, public holding, 20 largest shareholders and the share price during 2010 are set out in page, 137 and 138 of the Annual Report.

Dividend

NDB Bank paid a final dividend of Rs. 8.00 per share for the year ended 31 December 2009.

Further NDB Bank paid an interim dividend of Rs 4.00 per share for the year ended 31 December 2010. In declaring the interim dividend the directors ensured due compliance by NDB Bank of the solvency provisions contained in the Companies Act No 7 of 2007. This dividend was partly paid out of dividends received and partly out of taxable profits, the latter being subject to withholding tax.

Details of the reserves are shown in the Statement of Changes in Equity on page 99.

Property, Plant & Equipment and Depreciation

Details of the property, plant and equipment of NDB Bank, additions made during the year and the depreciation charges for the year are shown in Note 30 to the Financial Statements on page 122.

Annual Report of the Directors on the State of Affairs of National Development Bank PLC

Donations

No donations to external charitable or political organizations were made by NDB Bank during the year, except for the following donations made under NDB Bank's Corporate Social Responsibility Initiatives:

	Amount Rs
Prevention of Child Abuse Trust	500,000
NDB Bank Cancer Aid Trsust Fund	500,000
The Asia Foundation	375,000
The Ceylon School for the Deaf and Bilnd	400,000
Ranviru Rehabilitation Fund	350,000
Womens Development Federation	400,000
Martin Wickremasinghe Trust	400,000
Victoria Home for Incurables	350,000
Lanka Alzheimers Foundation	250,000
The Ceylon association for the Mentally Retarded	200,000
Society for Uplift and Rehabilitation of Leprosy Patients	200,000
Lt. General Denzil Kobbekadua Trust	175,000
Leonard Cheshire Disability Resource Centre	150,000
The Zonta Club	100,000
Educate a Child Trust	100,000
Prithipura Infants Home	100,000
National Federation for Sports for the Disabled	50,000
Sri Lanka Sumithrayo	100,000
National Council for Child and Youth welfare	75,000
The Childrens Heart Project of Sri Lanka	325,000
University of Moratuwa	2,835,624
Millennium Institute for Children with Special Needs	181,900
Staff CSR activities	1,724,400
CSR-North and East Project	2,112,643
Sponsorships for Edex	500,000
IDP Empowerment Trust	5,255,640
Other CSR activities	668,250
	18,378,457

The report on the Community Upliftment by NDB Bank is given on pages 54 to 60 of the Annual Report.

Portfolio Loss Provision

The Directors have taken all reasonable steps in relation to the writing off and providing for portfolio losses. In respect of bad and doubtful loans they have satisfied themselves that all known bad loans and advances have been written off and that, where necessary, adequate provision has been made for doubtful loans.

In terms of the Sri Lanka Accounting Standards, provision has been made for any permanent diminution in value in the case of investment securities on an aggregate portfolio basis.

As at the date of this Report, the Directors are not aware of any circumstances, which would render inadequate amounts written off or provided for portfolio losses in the accounts of the NDB Group.

Post Balance Sheet Events

On 11 February 2011, NDB Bank resolved to increase the number of existing ordinary shares amounting to 82,100,951 by subdividing the said existing ordinary shares in the proportion of one share for every ordinary share in issue so that the number of ordinary shares representing the stated capital of NDB Bank shall be increase to 164,201,902 subject to shareholder approval at the Annual General Meeting. There have been no other events subsequent to the end of the reporting period that require disclosure.

Share Capital/Stated Capital and Debentures

The stated capital of NDB Bank at the beginning of the year was Rs. 1,032,931,000.00. In July 2010, as per the Equity Linked Compensation Plan (ELCP) of NDB Bank, eligible members of the staff were allocated 245,566 ordinary shares. Accordingly this share issue resulted in the increase of the stated capital of the Bank from Rs 1,032,931,000.00 to Rs 1,093,094,670.00 as at 31 December 2010.

On 11 December 2007 NDB Bank privately placed debentures having an aggregate face value of Rs. 250,000,000 and the same was listed at the Colombo Stock Exchange on 24 December 2007 by way of an introduction. The proceeds of these debentures were utilized for re-lending purposes. These debentures were redeemed on 27 November 2010.

Directorate

In terms of the provisions of the Articles of Association of NDB Bank, the Board of Directors, as at 31 December 2010, consisted of eight (08) Directors, including the Chairman and was made up as follows:

- The Chief Executive Officer is an ex-officio Director, with voting rights.
- Three (03) Directors appointed on casual vacancies.
- Four (04) Directors elected by the shareholders.

The list of Directors who held office during the year under review and changes thereto are given on the Inner Back Cover.

In terms of the provisions of the Articles of Association of NDB Bank, one-third of the elected Directors shall retire from office and new Directors will be elected at each Annual General Meeting of NDB Bank. Accordingly Dr Richard Vokes will retire and stand for re-election by the shareholders at the Annual General Meeting of NDB Bank.

In compliance with the internal Code of Corporate Governance of NDB Bank which was adopted on January 2007, of the eight (08) Directors, six (06) Directors are independent.

Interest Register

The Bank, as per the Companies Act No. 7 of 2007, maintains the Interest Register. All Directors have made declarations as provided for in Section 192 (2) of the Companies Act aforesaid. The related entries were made in the Interest Register during the year under review. The share ownership of Directors is indicated elsewhere in this Report. Entries were made in the Interest Register on share disposals, Directors' interest in contracts, remuneration paid to the Directors etc. The Interest Register is available for inspection as required under the Companies Act.

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed on pages 88 to 90 of the Annual Report. These interests have been declared at Directors' Meetings. As a practice, Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

Directors Remuneration

Directors' fees and emoluments, in respect of the Group and the Company for the financial year ended 31 December 2010 are as follows:

Rs. Mn	Bank	Group
Directors' Fees and emoluments	14.79	15.70

Insurance and Indemnity

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

Board Subcommittees

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

Directors' Shareholdings

Shareholdings of the Directors in NDB Bank as at the year-end and their corresponding holdings as at the end of the previous year are as shown on page 137 of the Annual Report.

Directors' Interests in Debentures

There were no debentures registered in the name of any Director as at the beginning and at the end of the year.

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

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 66 to 77 of the Annual Report.

Application of the Corporate Governance Rules of the Colombo Stock Exchange

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 financial year commencing 1 January 2010.

Auditors

The Financial Statements for the year ended 31 December 2010 have been audited by M/s. Ernst & Young, Chartered Accountants.

Fees to Auditors

The audit and other assurance fees and reimbursement expenses paid to the auditors during the year was Rs 6.0 mn (2009 - Rs. 4.6 mn) and non audit fees and reimbursement of expenses were Rs. 1.2 mn. (2009 - Rs. 0.5 mn).

Re-appointment of Auditors

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

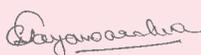
For and on behalf of the Board



P M Nagahawatte
Chairman



N I R de Mel
Chief Executive Officer



C L Jayawardena
Secretary to the Board

11 February 2011

Directors' Interest in Contracts with NDB Bank

	Relationship	Accommodation Granted/ Deposits	Balance Outstanding as at 31.12.2010 Rs. '000	Balance Outstanding as at 31.12.2009 Rs. '000	
(a)	Mr. N I R de Mel				
	Capital Development & Investment Co PLC	Director	Deposits & Investments	533,564	1,279,176
	NDB Investment Bank Limited	Director	Loans/Advances	84	6
			Deposits & Investments	99,717	25,598
	AVIVA NDB Insurance Company PLC	Director	Loans/Advances	-	1,447
			Off Balance Sheet Accommodations	-	1,806
			Deposits & Investments	383,198	143,422
	Maldives Finance Leasing Co Ltd	Director	Loans/Advances	15,484	46,293
(b)	Mr. L de Mel				
	Development Holdings (Pvt) Ltd	Director	Deposits & Investments	174,561	125,686
(c)	Ms. K Fernando				
	L B Finance PLC	Director	Loans/Advances	1,080,800	269,200
			Deposits & Investments	4	-
	Vallibel Finance PLC	Director	Loans/Advances	85,500	-
			Deposits & Investments	463	-
(d)	Mr. D S P Wikramanayake				
	AVIVA NDB Insurance Company PLC	Director	Loans/Advances	-	1,447
			Off Balance Sheet Accommodations	-	1,806
			Deposits & Investments	383,198	143,422
	NDB AVIVA Wealth Management Ltd	Director	Deposits & Investments	100,083	-
	PC House PLC	Director	Loans/Advances	236,559	113,822
			Off Balance Sheet Accommodations	110,325	61,386
			Deposits & Investments	374	-
	Greenwich Lanka (Pvt) Ltd	Director	Loans/Advances	24,694	-
(e)	Mr. T L F W Jayasekera				
	Brandix Lanka Ltd	Director	Loans/Advances	1,479,712	139,968
			Off Balance Sheet Accommodations	14,114	-
			Deposits & Investments	1,108	2,377
(f)	Dr. S Yaddehige				
	Richard Peiris & Company PLC	Director	Loans/Advances	1,043,799	270,000
			Off Balance Sheet Accommodations	9,023	13,886
			Deposits & Investments	36,389	270,784

	Relationship	Accommodation Granted/ Deposits	Balance Outstanding as at 31.12.2010 Rs. '000	Balance Outstanding as at 31.12.2009 Rs. '000
Richard Peiris Exports Ltd	Director	Loans/Advances	34,853	-
		Deposits & Investments	601	16
Richard Peiris Distributors Ltd	Director	Loans/Advances	5	2
		Off Balance Sheet Accommodations	328,038	242,338
		Deposits & Investments	538,841	636,582
Arpico Interiors (Pvt) Ltd	Director	Loans/Advances	3,933	24,207
		Off Balance Sheet Accommodations	35,287	16,540
		Deposits & Investments	21,957	28,649
Arpidag International (Pvt) Ltd	Director	Loans/Advances	120,844	-
Arp-Echo (Pvt) Ltd	Director	Loans/Advances	549	-
		Deposits & Investments	-	4,139
RPC Management Services (Pvt) Ltd	Director	Loans/Advances	76,048	-
		Deposits & Investments	-	16,112
Kegalle Plantations PLC	Director	Loans/Advances	308,657	347,745
		Off Balance Sheet Accommodations	91,047	91,047
		Deposits & Investments	798,790	544,500
Maskeliya Plantations PLC	Director	Loans/Advances	275,661	279,322
		Off Balance Sheet Accommodations	11,449	11,449
		Deposits & Investments	6,294	-
Namunukula Plantations PLC	Director	Loans/Advances	105,584	39,500
		Deposits & Investments	138,465	79
RPC Plantation Management Services (Pvt) Ltd	Director	Deposits & Investments	192,052	-
		Loans/Advances	-	6,587
RPC Logistics Ltd	Director	Loans/Advances	1,942	-
RPC Construction (Pvt) Ltd	Director	Loans/Advances	143,099	114,381
Arpico Plastics Ltd	Director	Loans/Advances	20,803	829
Plastishells Ltd	Director	Loans/Advances	185,027	228,928
		Off Balance Sheet Accommodations	-	142
		Off Balance Sheet Accommodations	19,728	4,938
Arpico Flexifoam (Pvt) Ltd	Director	Deposits & Investments	106,056	88,611

Directors' Interest in Contracts with NDB Bank

	Relationship	Accommodation Granted/ Deposits	Balance Outstanding as at 31.12.2010 Rs. '000	Balance Outstanding as at 31.12.2009 Rs. '000
Richard Peiris Rubber Products Ltd	Director	Loans/Advances	6,394	-
		Off Balance Sheet Accommodations	5,126	68
		Deposits & Investments	-	1,075
Richard Peiris Tyre Company Ltd	Director	Loans/Advances	190,176	185,651
		Off Balance Sheet Accommodations	144	4,711
		Deposits & Investments	37	39
Richard Peiris Rubber Compounds Ltd	Director	Loans/Advances	4,197	9,255
		Off Balance Sheet Accommodations	34,320	15,020
		Deposits & Investments	-	-
Richard Peiris Natural Forms Ltd	Director	Loans/Advances	86,980	143,555
Arpico Homes Ltd	Director	Loans/Advances	74,987	75,004
RPC Retail Development (Pvt) Ltd	Director	Loans/Advances	72,534	76,163
RPC Real Estate Development Company (Pvt) Ltd	Director	Deposits & Investments	1,844	1,827
RPC Precision Craft (Pvt) Ltd	Director	Loans/Advances	5,669	5,669
Richard Peiris Group Services (Pvt) Ltd	Director	Deposits & Investments	613	2,743
RPC Airline Services (Pvt) Ltd	Director	Loans/Advances	65	-
Rivira Media Corporation (Pvt) Ltd	Director	Loans/Advances	-	10,175
		Deposits & Investments	242	15,000
Arpico Natural Latex Forms (Pvt) Ltd	Director	Deposits & Investments	4,178	89,733
Richard Pieris Plantation (Pvt) Ltd	Director	Loans/Advances	58,337	46,803
Arpimalls Development Company (Pvt) Ltd	Director	Loans/Advances	-	50,817
		Deposits & Investments	14,643	-
Arpico Industrial Development Company (Pvt) Ltd	Director	Loans/Advances	1,724	-
		Deposits & Investments	-	4,707
R P C Global Travels (Pvt) Ltd	Director	Loans/Advances	-	5,536
R P C Polymers (Pvt) Ltd	Director	Loans/Advances	-	85,295
		Off Balance Sheet Accommodations	125,821	98,609
		Deposits & Investments	47,729	16,465
Richard Peiris Securities (Pvt) Ltd	Director	Loans/Advances	324	-

Statement of Directors' Responsibilities

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

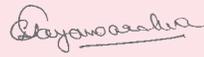
It is also the responsibility of the Directors to ensure that NDB Bank maintains proper accounting records and to take reasonable steps as far as practical to ensure the accuracy and reliability of accounting records and to prepare Financial Statements using appropriate Accounting Policies applied consistently and supported by reasonable and prudent judgement and estimates in compliance with the Sri Lanka Accounting Standards, the Banking Act No. 30 of 1988 (as amended), the Companies Act No. 7 of 2007 and the Listing Rules of the Colombo Stock Exchange. Changes in the accounting policies where applicable and the rationale for the changes have been disclosed in the 'Notes to the Financial Statements'.

The Directors have been responsible for taking reasonable measures and care to safeguard the assets of NDB Bank and the NDB Group and to prevent and detect frauds and other irregularities. The Directors have instituted an effective and comprehensive system of internal controls and an effective system of monitoring its effectiveness, internal audit being one of them. The Board has been provided additional assurance on the reliability of the Financial Statements through a process of independent and objective review performed by the Audit Committee. Please refer the Audit Committee Report on page 94 of this Report.

M/s. Ernst & Young, Chartered Accountants have been made available with all records of NDB Bank including the Financial Statements by the Board of Directors which they have examined and have expressed their opinion which appears as reported by them on page 95 of this Report.

The NDB Bank has also complied with the prudential requirements, regulations, laws and internal controls and there were no material non compliances.

By Order of the Board



C L Jayawardena
Secretary to the Board

11 February 2011

Directors Statement on Internal Control

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.

The Board of Directors (“Board”) is responsible for the adequacy and effectiveness of National Development Bank PLC’s system of Internal Controls. However, such a system is designed to manage the Bank’s key areas of risk within an acceptable risk profile, to achieve the policies and business objectives of the Bank, rather than eliminate the risk of failure. Accordingly, the system of Internal Controls can only provide reasonable but not absolute assurance against material misstatement of management and 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 this process includes enhancing the system of Internal Controls as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords 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 system taking into account principles for the assessment of Internal Control system as given in that guidance.

The Board is of the view that the system of Internal Controls 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 and 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 IN REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM

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 appointed Committees are established by the Board to assist the Board in ensuring the effectiveness of 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.
- On a quarterly basis, members of the Senior Management provide a confirmation on the effective implementation on Internal Controls in their respective areas. Any instances of control breakdowns, control weaknesses in IT driven systems and processes which result in losses and any instances of conflicts of interest involving management, or the Internal and External Auditors are reported to the Board Audit Committee through the CEO.
- Processes which have significant impact on Financial Statements of the Bank were identified, flow charts for the said processes were mapped out to highlight the vulnerable areas where lapses could occur and the controls in place to prevent such lapses were listed out. Confirmations were obtained from all the stake holders which in turn were signed off by the product or process owner for adherence. This process has assisted the Management to provide reasonable assurance regarding the reliability of the financial reporting, and the preparation of Financial Statements.
- The Internal Audit Division of the Bank check for compliance with policies and procedures and the effectiveness of the Internal Control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Audit Committee. Findings of the Internal Audit are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee of the Bank reviews Internal Control issues identified by the Internal Audit Division, regulatory authorities and management, and evaluate the adequacy and effectiveness of the Internal Control systems. They also review the Internal Audit function with particular emphasis on the quality of audits performed. The minutes of the Audit Committee meetings are tabled 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 page 94.

- In assessing the Internal Control system, 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. The Internal Audit Division checks for suitability of design and effectiveness of these procedures and controls on an ongoing basis during their Audit Process. The assessment did not include subsidiaries of the Bank.

CONFIRMATION

Based on the above processes, the Board confirms that 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 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 included in the annual report of the Bank for the year ended 31 December 2010 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 system of the Bank.

By order of the Board

(Sgd.)

P M Nagahawatte

Chairman

(Sgd.)

T L F W Jayasekara

Chairman Audit Committee

(Sgd.)

N I R De Mel

Chief Executive Officer

18 February 2011

Audit Committee Report

Introduction

This report focuses on the activities of the Audit Committee for the year under review. A more general description of the Committee's functions is given under Corporate Governance on page 74.

The Audit Committee Charter was last revised in July 2010, with the concurrence of the Board.

Composition of the Committee and Meetings

The Audit Committee comprised of three non-executive directors as at 31 December 2010 of whom two were independent directors. The Chairman of the Audit Committee is a Chartered Accountant and an independent director, while two other members of the committee have specialist financial backgrounds.

The Chief Executive Officer attended the meetings of the Committee by invitation. Other officials were invited to attend on a needs basis. The Internal Auditors, and the External Auditors, Ernst & Young, also attended the meetings.

The Committee had eight meetings during the year and information on the attendance at these meetings by the members of the Committee is given on page 76.

The activities and views of the Committee have been communicated to the Board of Directors by tabling the minutes of the Committee's meetings at Board meetings and by means of separate discussion papers for consideration by the Board.

Internal Audit, Risks and Controls

The Internal Audit Department has provided independent assurance on the internal control environment, by evaluating the adequacy and effectiveness of internal controls and compliance with laws and regulations and established policies and procedures for the NDB Group.

During the year, audit reports were received by the Committee from the internal auditors covering audits and investigations, which were reviewed and discussed with management and the internal auditors.

The recommendations of the internal auditors have been followed up and implemented.

On a quarterly basis, formal confirmations were also received from the Chief Executive Officer on the effective implementation of the internal controls.

While the monitoring of the risk management systems of NDB Bank, including the compliance function, comes under the purview of NDB Bank's Integrated Risk Management Committee, the Audit Committee has in its work been constantly alert to the threats posed by significant business and operational risks. Two members of the Audit Committee also served as members of NDB Bank's Integrated Risk Management Committee as at 31 December 2010.

Financial Reporting

The Audit Committee has reviewed and discussed the Bank's quarterly and annual financial statements prior to publication with management and the external auditors, including the extent of compliance with Sri Lanka Accounting Standards and the adequacy of disclosures required by other applicable laws, rules, and guidelines.

The Committee has also regularly discussed the operations of NDB Bank and its future prospects with management and is satisfied that all relevant matters have been taken into account in the preparation of the financial statements.

External Audit

The External Auditors' Letter of Engagement, including the scope of the audit, was reviewed and discussed by the Committee with management and the External Auditors prior to the commencement of the audit.

The External Auditors kept the Committee advised on an on-going basis regarding any unresolved matters of significance. Before the conclusion of the audit, the Committee met with the external auditors to discuss all audit issues and agree on their treatment. The External Auditors' management letter for the year 2009, together with management's responses was discussed with management and the auditors.

The External Auditors were also involved in validating the effectiveness of the internal control mechanism in relation to the financial reporting system, together with the management, in order to provide a certification on the internal control environment in terms of the Banking Act Direction on Corporate Governance.

The Audit Committee is satisfied that the independence of the External Auditors has not been impaired by any event or service that gives rise to a conflict of interest. Due consideration has been given to the level of audit and non-audit fees received by the external auditors from the NDB Group and confirmation has been received from the external auditors of their compliance with the independence criteria given in the Code of Ethics of the Institute of Chartered Accountants of Sri Lanka.

The performance of the External Auditors has been evaluated and discussed with the senior management of NDB Bank, and the Committee has recommended to the Board of Directors that Messrs Ernst & Young Chartered Accountants, be re-appointed as the External Auditors of National Development Bank PLC for the financial year ending 31 December 2011, subject to approval by the shareholders at the Annual General Meeting.

Conclusion

The responsibilities of the Audit Committee in terms of Banking Act Direction No. 11 of 2007 on Corporate Governance, issued by the Central Bank of Sri Lanka and the Listing Rules of the Colombo Stock Exchange have been fulfilled.

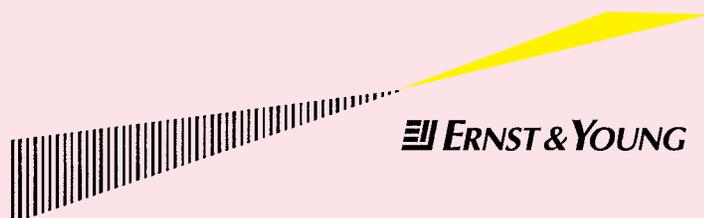
Based on the reports submitted by the External Auditors and the Internal Auditors of NDB Bank, the assurances and certifications provided by the Chief Executive Officer, and the discussions with management and the auditors both at formal meetings and informally, the Committee is of the view that the control environment within NDB Bank is satisfactory and provides reasonable assurance that the financial position of NDB Bank is adequately monitored and its assets are safeguarded.

(Sgd.)

T. L. F. W. Jayasekara
Chairman of the Audit Committee

15 February 2011

Independent Auditor's Report



Chartered Accountants

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P.O. Box 101
Colombo 10
Sri Lanka

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Tax : (0) 11 5578180
eysl@lk.ey.com

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL DEVELOPMENT BANK PLC

Report on the Financial Statements

We have audited the accompanying financial statements of National Development Bank PLC ("Bank"), the consolidated financial statements of the bank and its subsidiaries, which comprise the balance sheets as at December 31, 2010 and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in the pages 96 to 131.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended December 31, 2010 and the financial statements give a true and fair view of the Bank's state of affairs as at December 31, 2010 and its profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at December 31, 2010 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank and its subsidiaries dealt with thereby, so far as concerns the members of the Bank.

Report on Other Legal and Regulatory Requirements

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

(Sgd.)

Ernst & Young
Chartered Accountants

18 February 2011
Colombo

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. Y A De Silva ACA W R H Fernando FCA FCMA
W K B S P Fernando FCA FCMA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond)
H M A Jayasinghe FCA FCMA Ms. G S Manatunga ACA Ms. L C G Nanayakkara FCA FCMA B E Wijesuriya ACA ACMA

Income Statement

for the year ended 31 December	Note	NDB BANK			NDB GROUP		
		2010 Rs '000	2009 Rs '000	% Change	2010 Rs '000	2009 Rs '000	% Change
GROSS INCOME	2	11,824,324	13,821,072	(14)	12,737,811	14,166,864	(10)
Interest Income	3	9,758,214	11,233,423	(13)	9,952,736	11,606,877	(14)
Interest Expenses	4	5,862,462	7,518,311	(22)	5,685,903	7,373,688	(23)
NET INTEREST INCOME		3,895,752	3,715,112	5	4,266,833	4,233,189	1
Other income	5	2,066,110	2,587,649	(20)	2,785,075	2,559,987	9
NET INCOME		5,961,862	6,302,761	(5)	7,051,908	6,793,176	4
OPERATING EXPENSES	6						
Personnel costs		1,293,673	1,190,232	9	1,530,081	1,281,153	19
Staff retirement benefits	7	32,000	14,746	117	36,689	18,676	96
Other administrative and general expenses	8	1,349,992	1,231,772	10	1,496,120	1,370,091	9
Total operating expenses		2,675,665	2,436,750	10	3,062,890	2,669,920	15
OPERATING PROFIT BEFORE PROVISIONS		3,286,197	3,866,011	(15)	3,989,018	4,123,256	(3)
Provision/(reversal) for bad and doubtful debts	9	(171,541)	286,278	(160)	(171,541)	286,278	(160)
Provisions for fall in value of securities		-	87,217	(100)	-	87,217	(100)
OPERATING PROFIT AFTER PROVISIONS		3,457,738	3,492,516	(1)	4,160,559	3,749,761	11
Share of associate companies' profit	10	-	-	-	294,784	525,818	(44)
PROFIT BEFORE TAXATION		3,457,738	3,492,516	(1)	4,455,343	4,275,579	4
Taxation	11	(1,881,442)	(1,810,063)	4	(2,232,394)	(2,154,252)	4
PROFIT FOR THE YEAR		1,576,296	1,682,453	(6)	2,222,949	2,121,327	5
PROFIT ATTRIBUTABLE TO							
EQUITY HOLDERS OF THE PARENT		1,576,296	1,682,453	(6)	2,149,529	2,084,758	3
MINORITY INTERESTS		-	-	-	73,420	36,569	101
		1,576,296	1,682,453	(6)	2,222,949	2,121,327	5
Basic Earnings per share (in Rs)	12				26.22	25.47	
Diluted earnings per share (in Rs)	12				26.20	25.47	
Dividend per share - paid (in Rs)	13				12.00	6.75	

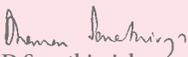
Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 100 to 131 are an integral part of these Financial Statements.

18 February 2011

Balance Sheet

as at 31 December	Note	NDB BANK			NDB GROUP		
		2010 Rs '000	2009 Rs '000	% change	2010 Rs '000	2009 Rs '000	% change
ASSETS							
Cash and short-term funds	14	2,191,431	5,591,964	(61)	2,475,443	5,840,984	(58)
Balances with Central Bank	15	3,077,406	2,402,173	28	3,077,406	2,402,173	28
Investments held for trading	16	7,782,587	11,385,939	(32)	8,007,936	11,385,939	(30)
Investments held to maturity	17	15,222,143	16,879,061	(10)	16,740,026	18,887,773	(11)
Securities purchased under resale agreements		1,984,200	1,662,193	19	2,085,264	1,662,193	25
Dealing securities	18	368,650	22,140	1,565	832,427	42,683	1,850
Commercial paper		-	-	-	-	148,923	(100)
Bills of exchange	19	3,266,461	2,539,402	29	3,266,461	2,539,402	29
Loans and advances	20	63,901,262	49,679,330	29	64,925,128	49,703,722	31
Lease rentals receivable	22	2,326,989	1,863,362	25	2,326,989	1,863,362	25
Investments in subsidiary companies	25	2,770,540	2,748,586	1	-	-	-
Investments in associate companies	26	452,460	452,460	-	1,762,589	1,723,809	2
Other assets	28	717,453	838,881	(14)	1,089,524	1,050,507	4
Intangible assets	29	206,720	147,383	40	210,300	147,383	43
Property, plant & equipment	30	650,433	611,281	6	707,727	658,099	8
Deferred Tax	36	-	23,305	(100)	-	24,741	(100)
Investment Property	31	-	-	-	1,200,000	1,200,000	-
Goodwill	32	-	-	-	4,330	4,330	-
Total assets		104,918,735	96,847,460	8	108,711,550	99,286,023	9
LIABILITIES							
Deposits	33	59,363,660	49,947,589	19	59,363,660	49,947,589	19
Borrowings	34	16,937,822	20,236,880	(16)	16,061,460	18,759,841	(14)
Securities sold under repurchase agreements		12,174,293	10,801,250	13	12,174,293	10,801,250	13
Other liabilities	35	3,822,745	3,899,829	(2)	3,979,134	3,989,746	-
Taxation		417,648	523,130	(20)	538,567	560,115	(4)
Deferred Tax	36	59,256	-	100	59,753	-	100
Dividends payable		450,793	344,158	31	450,793	344,158	31
Total liabilities		93,226,217	85,752,836	9	92,627,660	84,402,699	10
SHAREHOLDERS' FUNDS							
Stated Capital	37	1,093,095	1,032,931	6	1,093,095	1,032,931	6
Statutory reserve fund	38	878,718	818,554	7	878,718	818,554	7
Revenue reserves	39	9,720,705	9,243,139	5	13,394,994	12,345,216	9
		11,692,518	11,094,624	5	15,366,807	14,196,701	8
Minority interests		-	-	-	717,083	686,623	4
Total funds employed		11,692,518	11,094,624	5	16,083,890	14,883,324	8
Total liabilities and funds employed		104,918,735	96,847,460	8	108,711,550	99,286,023	9
Commitments and contingencies	41	95,704,093	74,866,224	28	95,704,093	74,866,224	28

These financial statements are in compliance with the requirements of the Companies Act No. 7 of 2007.


D Senathirajah
 Vice President - Finance & Planning

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Signed for and on behalf of the Board.


P M Nagahawatte
 Chairman


N I R De Mel
 Chief Executive Officer


C L Jayawardena
 Company Secretary

18 February 2011.

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 100 to 131 are an integral part of these Financial Statements.

Cash Flow Statement

for the year ended 31 December	Notes	NDB BANK		NDB GROUP	
		2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		10,352,927	11,001,686	10,685,516	11,488,893
Fee based income received		157,736	587,826	253,040	587,826
Dividend income received		197,284	394,661	213,917	340,373
Other income received		2,277,768	1,543,688	2,852,743	1,709,597
Interest paid		(6,252,562)	(7,337,323)	(6,251,883)	(7,337,323)
Personnel costs paid		(1,293,673)	(1,190,088)	(1,547,754)	(1,221,314)
General expenses paid		(1,211,287)	(930,617)	(1,377,592)	(1,007,340)
Financial Services VAT paid		(792,174)	(919,407)	(792,174)	(919,407)
Income taxes paid		(1,078,899)	(714,388)	(1,216,623)	(968,143)
Net increase in loans and advances		(15,733,608)	435,507	(15,733,608)	435,507
Deposits from customers		9,416,071	18,033,643	9,416,071	18,033,643
Net (increase)/decrease in other receivables		18,388	(115,393)	(226,097)	(125,863)
Net increase/(decrease) in other liabilities		291,175	369,089	406,771	392,385
Net cash provided by operating activities		(3,650,854)	21,158,884	(3,317,673)	21,408,834
CASH FLOWS FROM INVESTING ACTIVITIES					
Net increase in investments					
Acquisition of total minority interest in a subsidiary company		(21,883)	(130,672)	(21,883)	118,220
Return of capital by associate companies		-	110,959	-	110,959
Government treasury bills and bonds		4,866,426	(12,907,074)	4,676,815	(14,688,220)
Change in other investments		(904,164)	713,676	(955,332)	1,659,303
Securities sold under repurchase agreements		1,373,043	240,845	1,373,043	240,845
Net due to/(from) related companies		17,889	1,030	17,889	1,030
Expenditure on property & equipment		(257,265)	(126,392)	(292,212)	(148,868)
Proceeds from sale of property & equipment		27,177	665	27,248	710
Net cash provided by investing activities		5,101,223	(12,096,963)	4,825,568	(12,706,021)
CASH FLOWS FROM FINANCING ACTIVITIES					
Issue of shares		-	-	-	3,300
(Decrease)/Increase in borrowings		(3,299,056)	(5,864,875)	(3,299,056)	(5,864,875)
Dividend paid		(876,613)	(458,231)	(899,147)	(481,088)
Net cash used in financing activities		(4,175,669)	(6,323,106)	(4,198,203)	(6,342,663)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
		(2,725,300)	2,738,815	(2,690,308)	2,360,150
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR					
		7,994,137	5,255,322	8,243,157	5,883,007
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR					
	a	5,268,837	7,994,137	5,552,849	8,243,157
Note a					
RECONCILIATION OF CASH AND CASH EQUIVALENTS					
Cash and short-term funds		2,191,431	5,591,964	2,475,443	5,840,984
Balances with Central Bank		3,077,406	2,402,173	3,077,406	2,402,173
		5,268,837	7,994,137	5,552,849	8,243,157

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 100 to 131 are an integral part of these Financial Statements.

Statement of Changes in Equity

For the year ended 31 December

	Attributable to equity holders of the parent					Total Fund Rs' 000
	Stated Capital Rs' 000	Statutory Reserve Rs' 000	General Reserve Rs' 000	Retained Profit Rs' 000	Minority Interests Rs' 000	
NDB BANK						
Balance as at 1 January 2009	1,032,931	818,554	5,805,707	2,306,971	-	9,964,163
Exchange difference on conversion of FCBU reserves	-	-	-	531	-	531
Profit for the year	-	-	-	1,682,453	-	1,682,453
Dividend paid	-	-	-	(552,523)	-	(552,523)
Balance as at 31 December 2009	1,032,931	818,554	5,805,707	3,437,432	-	11,094,624
Balance as at 1 January 2010	1,032,931	818,554	5,805,707	3,437,432	-	11,094,624
Issue of new shares	60,164	-	-	-	-	60,164
Transfer to Statutory Fund	-	60,164	-	(60,164)	-	-
Exchange difference on conversion of FCBU reserves	-	-	-	(55,320)	-	(55,320)
Profit for the year	-	-	-	1,576,296	-	1,576,296
Dividend paid	-	-	-	(983,246)	-	(983,246)
Balance as at 31 December 2010	1,093,095	878,718	5,805,707	3,914,998	-	11,692,518
NDB GROUP						
Balance as at 1 January 2009	1,032,931	818,554	5,805,707	5,004,812	568,418	13,230,422
Exchange difference on conversion of FCBU reserves	-	-	-	531	-	531
Exchange gain from valuation of foreign associate	-	-	-	2,927	129	3,056
Acquisition of a subsidiary company	-	-	-	(996)	96,128	95,132
Net profit for the period	-	-	-	2,084,758	36,569	2,121,327
Dividends paid	-	-	-	(552,523)	(14,621)	(567,144)
Balance as at 31 December 2009	1,032,931	818,554	5,805,707	6,539,509	686,623	14,883,324
Balance as at 1 January 2010	1,032,931	818,554	5,805,707	6,539,509	686,623	14,883,324
Issue of new shares	60,164	-	-	-	-	60,164
Transfer to Statutory Fund	-	60,164	-	(60,164)	-	-
Exchange difference on conversion of FCBU reserves	-	-	-	(55,320)	-	(55,320)
Exchange gain from valuation of foreign associate	-	-	-	(6,353)	-	(6,353)
Acquisition of total minority interest in a subsidiary company	-	-	-	5,332	(24,049)	(18,717)
Profit for the year	-	-	-	2,149,529	73,420	2,222,949
Dividend paid	-	-	-	(983,246)	(18,911)	(1,002,157)
Balance as at 31 December 2010	1,093,095	878,718	5,805,707	7,589,287	717,083	16,083,890

Significant Accounting Policies

1. GENERAL

1.1 Accounting Convention

The Financial Statements, both Consolidated Financial Statements and Separate Financial Statements comprising Balance Sheets as of 31 December 2010, Statements of Income, Cash Flow and Changes in Equity for the year then ended, together with the Accounting Policies and notes thereto; have been prepared on a historical cost basis unless otherwise indicated. These Financial Statements of NDB Bank and NDB Group are presented in Sri Lankan Rupees and all values are rounded to the nearest thousand (Rs' 000) except when otherwise indicated. The Financial Statements of NDB Group has been prepared in accordance with Sri Lanka Accounting Standards. The preparation and presentation of these Financial Statements is also in compliance with the Companies Act No. 07 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto.

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

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

1.2 Format of Accounts, Prior Year Figures and Phrases

Certain prior year figures and phrases have been rearranged wherever necessary for better presentation and to conform to current presentation, as follows.

- The provision for loan losses and equity investments (previously classified as a note in the Financial Statements), has been reclassified separately on the face of the Income Statement.
- Interest receivable on loans and advances, previously classified in the Balance Sheet as a separate item has been reclassified under the loans and advances portfolio.
- Intangible assets, previously classified under property, plant and equipment has been reclassified separately on the face of the Balance Sheet.
- Commitments and contingencies pertaining to forward exchange contracts have been presented on a gross basis in the current year. Accordingly, previous year's disclosure has been changed to compare with the current year's presentation.

1.2.1 Date of Authorization for Issue

The Financial Statements of National Development Bank PLC for the year ended 31 December 2010 was authorized for issue in accordance with a resolution of the Board of Directors on 18 February 2011.

1.2.2 Going Concern

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

1.2.3 Significant accounting judgments, estimates and assumptions

In the process of applying Accounting Policies, management is required to make judgments, which may have significant effects on the amounts recognized in the Financial Statements. Further, management is also required to consider key assumptions concerning the future and other key sources of estimation uncertainty at the Balance Sheet date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The key significant accounting judgments and estimates involving uncertainty are discussed below, whereas the respective carrying amounts of such assets and liabilities are as given in related notes.

Impairment losses on Loans and Advances:

In addition to the provisions made for possible loan losses based on the parameters and directives for specific and general provisions on Loans and Advances by the Central Bank of Sri Lanka, the NDB Bank reviews its Loans and Advances portfolio at each reporting date to assess whether a further allowance for impairment should be provided in the Income Statement. Judgment of management is required in the estimation of these amounts and such estimations are based on assumptions about a number of factors, such as deterioration of country risk, industry and technological obsolescence, borrower's financial situation, strategies adopted, net book values of collateral undertaken, and deterioration of cash flows, though actual results may differ, resulting in future changes to the provisions.

Deferred Tax Assets:

Deferred tax assets are recognized for all deductible temporary differences and unused tax losses where applicable, to the extent that it is probable that taxable profit will be available against which such items can be deducted

in the future. 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.

Impairment of Goodwill

NDB Bank determines whether Goodwill is impaired by performing an annual impairment test. This requires an estimation of the 'value in use' of the cash generating units or the fair value of such assets. Estimating the value in use requires management to make an estimate of the expected future cash flows and to determine suitable discount rates in order to derive the present values, and hence is subject to uncertainty.

Defined Benefit Plans:

The cost of defined benefit plans- gratuity is determined on assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

1.3 Basis of Consolidation

The NDB Group refers to the consolidated financial statements of the NDB Bank and its subsidiaries.

- 1.3.1** The NDB Group Financial Statements include the consolidated results, assets and liabilities of the NDB Bank and its subsidiaries made up to the financial year-end of 31 December. The results of subsidiaries are included from the date on which the NDB Bank effectively acquires control of each subsidiary. The interests of outside shareholders of the subsidiaries in the net assets and their proportion of the results are grouped separately in the Consolidated Balance Sheet, Income Statement and the Statement of Changes in Equity respectively under the heading of minority interests.

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

- 1.3.2** In the NDB Group Financial Statements, investments in associate companies described in note 26 to the Financial Statements, are accounted for under the equity method of accounting. Under the equity method of accounting, the Group's share of profits and losses of the associate companies made up to the year end of 31 December is accounted for in the Consolidated Income Statement for the year. The carrying value of the investment in the Consolidated Balance Sheet is thereby increased

or decreased to recognise the Group's share of retained profits and losses of the associate companies since the date of acquisition. An associate company which becomes a subsidiary during the year is accounted for under the equity method of accounting up to the date on which it becomes a subsidiary, after which date it is accounted for as a subsidiary.

- 1.3.3** In the NDB Bank's Separate Financial Statements, investments in subsidiaries and associate companies are accounted for at cost. Income is recognised only to the extent that dividends are declared from the accumulated profit. Provision is made for any permanent diminution in value of such investments determined on an individual investment basis.

1.4 Business combinations and goodwill

- 1.4.1** Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised 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 recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the NDB 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.

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

Where goodwill forms part of a cash-generating unit (or 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

Significant Accounting Policies

on disposal of the operation. Goodwill disposed off in this circumstance is measured based on the relative values of the operation disposed off and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortised goodwill is recognised in the income statement.

1.5 Intangible assets - other than goodwill

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

1.6 Foreign Currency Translation

1.6.1 Transactions in foreign currencies are initially recorded using the closing exchange rate of the functional currency ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are re-translated at the middle exchange rate of the functional currency ruling at the balance sheet date. The resulting gains and losses are accounted for in the income statement.

Non monetary assets and liabilities that are measured on a historical cost basis in foreign currency are translated using the exchange rates prevailing at that date. Non monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

1.6.2 Forward exchange contracts are valued at the forward market rates prevailing at the date of the balance sheet. Forward profits and losses are dealt within the income statement.

1.6.3 Liabilities in respect of foreign currency borrowings guaranteed by the Government of Sri Lanka are not translated at rates of exchange prevailing at the Balance Sheet date, since the Government of Sri Lanka is required to bear any exchange risk that may arise at the time debt service payments are being made. The NDB Bank pays a premium to the Government of Sri Lanka for bearing such risk.

1.6.4 As at the reporting date, the assets and liabilities of overseas subsidiaries/ associates are translated into the NDB Bank's presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to equity.

1.6.5 On disposal of a foreign subsidiary/ associate, the deferred cumulative amount recognised in equity relating to that particular foreign subsidiary/associate is recognised in the income statement in 'Other operating expenses' or 'Other operating income', respectively.

1.7 Post Balance Sheet Events

All material events occurring after the Balance Sheet date are considered and where necessary, adjusted for or disclosed in the Financial Statements.

1.8 Taxation

1.8.1 Domestic Banking Unit

Provision for taxation is based on the elements of income and expenditure as reported in the Financial Statements and computed in terms of the provisions of the Inland Revenue Act No 10 of 2007 and amendments thereto, at the rate of 35% (2009 - 35%).

1.8.2 Foreign Currency Banking Unit

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act No 10 of 2007 and amendments thereto, at the rate of 35% (2009 - 35%) on On-shore foreign currency transactions, and at 20% (2009 - 20%) on Off-shore foreign currency transactions.

1.8.3 Deferred tax

Deferred tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences except

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised 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 recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

1.8.4 Value added Tax on Financial Services

The basis 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 prescribed rates. The amount of Value Added Tax charged in determining the profit for the period is given in Note 11 to the financial Statements on page 110.

1.9 Impairment of Non Financial Assets other than Goodwill

NDB Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

1.10 Financial Instruments

The Bank uses derivative financial instruments such as interest rate swaps foreign currency contracts to hedge its risk associated with interest rate and exchange rate fluctuations. The net gain or losses on such derivative instruments are recognised in the income statement over the period of such contracts.

2. ASSETS AND BASES OF THEIR VALUATION

2.1 Loans and Advances to Customers

2.1.1 Advances to customers are stated in the Balance Sheet net of provisions for possible loan losses and net of interest, which is not accrued to revenue.

2.1.2 Provision for bad and doubtful loans

Provision for bad and doubtful loans is made on the basis of a continuous review of all advances, in accordance with the directions issued by the Central Bank of Sri Lanka to the banking sector, which mandates minimum specific provisions on a sliding scale linked to the age of the debt, net of any realisable security value as follows.

Categories of Non performing Facilities	Minimum Specific Provisioning Requirement (%)
Substandard	20
Doubtful	50
Loss	100

In addition, the value of security is further discounted on the "Hair Cut Rule" imposed by the Central Bank of Sri Lanka. In arriving at the Forced Sale Value (FSV), the following thresholds have been laid down by the Central Bank of Sri Lanka.

Significant Accounting Policies

	% of FSV of Immovable Property that can be considered as the value of security.	
	Freehold Property	Leasehold Property
At the first time of provisioning	75	60
Period in loss criteria		
Less than 12 months	75	60
More than 12 but less than 24 months	60	50
More than 24 but less than 36 months	50	40
More than 36 but less than 48 months	40	30
More than 48 months	40 or less	Nil

The Bank complies with the recent Banking Act direction No. 3 of 2010 issued by the Central bank of Sri Lanka, where the 1% rate has been revised to 0.5% with effect from 1 October 2010. Accordingly Banks are given the opportunity to reverse the existing additional provision of 0.5% by 0.1% each quarter over five quarters commencing 1 October 2010.

2.2 Leases

Assets leased to customers under agreements that transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Lease rentals receivable in the Balance Sheet include total lease payments due net of unearned interest income not accrued to revenue, interest in suspense and provisions for bad and doubtful recoveries.

Provision for bad and doubtful recoveries is made in the same manner as for loans and advances as described under 2.1.2.

2.3 Investments

2.3.1 Securities held for trading

Government Securities in the trading portfolio are investments that are held principally for the purpose of selling or held as a part of a portfolio that is managed for short term profits. These investments are initially recorded at the prices that prevail at the date of acquisition and subsequently marked to market and carried at that market value in the Balance Sheet. Gains and losses on marked to market valuation are recognised in the Income Statement.

2.3.2 Dealing Securities

Investments in quoted shares are acquired and held with the intention of resale over a short period of time. Such quoted shares are initially measured at cost and subsequently measured at the market value as at the Balance Sheet date. Adjustment for changes in market values is accounted for in the Income Statement.

2.3.3 Investments held to maturity

Investments held to maturity are regarded as long-term investments and comprise of investments in Treasury Bonds, Treasury Bills, investments in unit trusts quoted on the Colombo Stock Exchange, non-quoted equity investments and sinking fund investments. Sinking fund investments consist of treasury bills and bonds.

The investments in Government Treasury Bills and Bonds held to maturity are recorded at the value of the Bills and Bonds purchased and the discount/premium accrued there on, is carried at these value until maturity.

Non-quoted equity investments are accounted for at cost, net of provisions for any permanent diminution in value on an individual basis. Investments in unit trusts and sinking fund investments are each carried at the lower of cost and market value as at the balance sheet date, determined on a portfolio basis. Temporary declines in value are charged to equity. All other investment securities are stated at cost and provisions are made for permanent diminution in value on a case by case basis.

2.3.4 Securities Purchased Under Resale Agreements

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

2.4 Property, Plant & Equipment

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

2.4.2 Depreciation

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

Buildings/ Improvements	10 Yrs - 20 Yrs
Motor vehicles	4 Yrs
Furniture and office equipment	5 Yrs

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

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

2.4.3 Derecognition

An item of Property, Plant & Equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. 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 Income Statement in the year the asset is derecognised.

2.5 Intangible Assets

2.5.1 An intangible asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard No. 37 on "Intangible Assets". Accordingly, these assets are stated in the Balance Sheet at cost less accumulated amortization and accumulated impairment loss, if any. Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in these assets. All other expenditure is expensed when incurred.

2.5.2 Amortisation of Intangible Assets

Intangible assets are amortised using the straight line method to write down the cost over its estimated useful economic lives and is given below.

Computer software	5 Yrs
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2.6 Investment Property

Properties held to earn rental income and properties held for capital appreciations have been classified as investment property. Investment properties are initially recognized at

cost. Subsequent to the initial recognition, the investment properties are stated at fair values, which reflect market conditions at the balance sheet date. Gains or losses arising from changes in the fair values are included in the income statement in the year in which they arise.

Investment properties are derecognised 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 Income Statement in the year of retirement or disposal.

3. LIABILITIES AND PROVISIONS

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

3.2 Pensions and Retirement Benefits

3.2.1 NDB Bank operates an approved employee non-contributory Pension Plan 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 as explained in 3.2.2 below. Up to 31 December 2002, annual contributions to the Pension Plan was payable by NDB Bank based on a percentage of gross salaries, as stipulated in the pension deed. However, following the formulation of a revised pension deed, which has been approved by the Department of Inland Revenue, the contributions in subsequent years are determined on the basis of an actuarial valuation each year.

3.2.2 The costs of retirement gratuities are determined by a qualified actuary using projected unit credit method. This item is stated under other liabilities in the Balance Sheet. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains or losses at the end of the previous reporting period exceeded 10% of the defined benefit obligation at the date and recognised over the expected average working lives of employees participating in the plan of the defined benefit obligation at that date.

3.2.3 Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in accordance with the respective statutes and regulations. NDB Bank contributes 15% and 3% of gross salaries of employees to NDB Bank's Employees' Provident Fund and the Employees' Trust Fund respectively. Group Companies

Significant Accounting Policies

contribute 12% and 3% to Central Bank of Sri Lanka for eligible employees for Employees' Provident Fund contributions and Employees' Trust Fund contributions respectively.

3.2.4 Securities sold Under Resale Agreements

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

3.3 Provisions

A provision is recognised when the Group has 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.

3.4 Commitments and Contingencies

All discernible risks are taken into consideration in determining the amount of commitments and contingencies.

4. INCOME STATEMENT

4.1 Revenue Recognition

4.1.1 Interest income from loans and advances

Interest income from loans and advances is recognised on an accrual basis. However, no accrued interest income is recognised where any portion of capital or interest is in arrears for periods specified in Central Bank Direction No. 03 of 2008 relating to classification of Non performing loans and advances. In such cases interest income is accounted for on a cash basis.

4.1.2 Lease income

- (a) Financial leases - The excess of aggregate rentals receivable over the cost of the leased asset constitutes the total unearned interest income. The unearned interest income is taken into revenue on an accrual basis over the term of the lease in proportion to the remaining balance of the lease. However, no accrued interest income is recognised where any portion of capital or interest is in arrears for three instalments or more. In such cases interest income is accounted for on a cash basis.
- (b) Operating leases - Rental income is recognised as revenue on a straight line basis over the term of the

lease. However, no accrued income is recognised where the rental is in arrears for three instalments or more. In such cases, rental income is accounted for on a cash basis.

4.1.3 Income from Government Securities and Securities Purchased under Resale Agreements

Discounts/Premium on Treasury Bills and Bonds are amortized over the period to reflect a constant yield. The coupon interest on Treasury Bonds is recognized on an accrual basis. The interest income on Securities purchased under Resale Agreements is recognized in the Income Statement on an accrual basis over the period of the agreement.

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

4.1.4 Bills Discounted

Income on bills discounted is recognized proportionately over the tenor of the bill.

4.1.5 Dividend income

Dividend income from shares is recognized when the Bank's right to receive the payment is established.

4.1.6 Profit or loss on sale of marketable securities

Profit or loss arising from the sale of equity shares, units, commercial paper and other marketable securities is accounted for on an accrual basis.

4.1.7 Income from fee - based activities

Fees for underwriting, advisory work, loan syndication, management of funds and all other fees and commissions are recognised on a cash basis. Fees charged on guarantee/bid bonds are recognized on an accrual basis over the period the service is performed.

4.1.8 Other income

Other income is recognized on an accrual basis.

4.1.9 Recovery of loans and advances written off

Recovery of amounts written off as bad and doubtful loans is recognised as income on a cash basis.

4.2 Expenditure Recognition

Expenses are recognized in the Income Statement on the basis of a direct association between the cost incurred and

the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

Interest expenses are recognized on an accrual basis.

NDB Bank enters into off balance sheet transactions such as forward exchange contracts. At the year end losses on such transactions are dealt within the Income Statement.

5. Cash Flow Statement

The cash flow has been prepared by using “The Direct Method”, whereby gross cash receipts and gross cash payments of operating activities, investing and financing activities have been recognized. Cash and Cash equivalents comprise of cash balances, short-term funds and balances with Central Bank of Sri Lanka.

6. Equity Linked Compensation Plan

30 March 2010, shareholders of NDB Bank approved an Equity Linked Compensation Plan (ELCP), to enable the management staff in the rank of Assistant Vice President and above of NDB Bank to take part in the ordinary share holders of the NDB Bank, subject to certain limits, terms and conditions. A total quantum of 2,455,661 shares of NDB Bank which is equivalent to a maximum of 3% of the voting share capital of NDB Bank is to be issued under the ELCP. Half of such shares are 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 (05) years commencing July 2010. Each of the five (05) tranches would amount to a maximum of 0.6% of the voting shares.

Details of the Share Options and the Share Grants are given in Note 37.1 to the financial statements.

7. Business Segment Reporting

A segment is a distinguishable component of the NDB Group that is engaged in providing services (Business Segment) or in providing services within a particular economic environment (Geographical Segment) which is subject to risks and rewards that are different from those of other segments.

In accordance with the Sri Lanka Accounting Standard No.28 on Segment Reporting, segmental information is presented in respect of the NDB Group. The segments comprise of banking, equity instruments, property investment, insurance and others. Segment results, assets and liabilities include items directly attributable

to a segment, as well as those that can be allocated on a reasonable basis.

Inter-segment transactions are accounted for at fair market prices charged to inter-bank counterparts for similar services. Such transfers are eliminated on consolidation.

8. Dividends on ordinary shares

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

9. Effect of Sri Lanka Accounting Standards issued but not yet effective:

- a) The following standards have been issued by the Institute of Chartered Accountants of Sri Lanka.
 - Sri Lanka Accounting Standard 44 Financial Instruments; Presentation (SLAS 44)
 - Sri Lanka Accounting Standard 45 Financial Instruments; Recognition and Measurement (SLAS 45)
 - Sri Lanka Accounting Standard 39 Share Based Payments (SLAS 39)

The effective date of SLAS 44, 45 and 39 was changed during the year to be effective for financial periods beginning on or after 01 January 2012. These three standards have been amended and forms a part of the new set of financial reporting standards mentioned under note 9 (b) below. In order to comply with the requirements of the two Financial Instruments Standards, the Bank is in the process of assessing the effect of adoption of these two standards. Due to the complex nature of the effects of these two standards the impact of adoption cannot be estimated as at the date of publication of these Financial Statements.

- b) Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards, the Council of the Institute of Chartered Accountants of Sri Lanka has adopted a new set of financial reporting standards that would apply for financial periods beginning on or after 01 January 2012. The application of these financial reporting standards is substantially different to the prevailing standards.

Notes to the Financial Statements

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

The National Development Bank of Sri Lanka was incorporated under the National Development Bank of Sri Lanka Act No 2 of 1979. In 2005, pursuant to the provisions of the National Development Bank of Sri Lanka (Consequential Provisions) Act No 1 of 2005, a company by the name of “National Development Bank Limited” was incorporated for the purposes of taking over the business of National Development Bank of Sri Lanka. Accordingly on 15 June 2005, the National Development Bank Limited was incorporated and with effect from that date the National Development Bank of Sri Lanka Act No 2 of 1979 was repealed except for certain provisions contained therein.

In terms of the new Companies Act No. 7 of 2007, the name of the Bank was changed as “National Development Bank PLC”. NDB Bank was re-registered in terms of the new companies regime on 4 July 2007 and was assigned with PQ 27 as the new Registration Number.

The Bank is listed on the Colombo Stock Exchange. The registered office of the Bank and its principal place of business is situated at No.40, Nawam Mawatha, Colombo 2.

The principal activities of the Bank, its subsidiaries and associate companies, consist of the business of commercial banking, development financing, merchant banking, investment banking, leasing, housing finance, venture capital, stockbroking, wealth management, property investment and insurance.

The number of staff employed by NDB Bank as at 31 December 2010 was 1126. (2009 - 991)

The number of branches of NDB Bank as at 31 December 2010 was 47. (2009- 44)

	NDB BANK		NDB GROUP	
	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000
2. GROSS INCOME	11,824,324	13,821,072	12,737,811	14,166,864
Interest income (Note 3)	9,758,214	11,233,423	9,952,736	11,606,877
Other income (Note 5)	2,066,110	2,587,649	2,785,075	2,559,987
	11,824,324	13,821,072	12,737,811	14,166,864
3. INTEREST INCOME				
Loans and advances	6,926,166	7,670,607	6,927,705	7,671,973
Treasury bills and bonds and placements with other banks	2,832,048	3,562,816	3,025,031	3,934,904
	9,758,214	11,233,423	9,952,736	11,606,877
4. INTEREST EXPENSES				
Long-term borrowings	1,245,407	1,514,872	1,245,407	1,514,872
Other term borrowings	1,279,119	2,074,504	1,102,560	1,929,881
Deposits	3,337,936	3,928,935	3,337,936	3,928,935
	5,862,462	7,518,311	5,685,903	7,373,688

	NDB BANK		NDB GROUP	
	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000
5. OTHER INCOME				
Dividend income from securities				
- Quoted investments	8,509	32,575	19,544	32,575
- Non-quoted investments	56,914	128,268	181,383	153,979
Dividend income from subsidiaries/associates				
- Quoted investments	110,784	131,143	-	-
- Non-quoted investments	21,076	102,675	-	-
Gain/(loss) from dealing securities	226,324	196,231	377,161	196,231
Gain/(loss) from investment securities	-	4,162	-	4,162
Gain/(loss) from group investments	800	94,484	-	-
	424,407	689,538	578,088	386,947
Net gain/(loss) from sale of government securities	143,543	733,474	126,108	733,474
Fee and commission income	934,732	607,656	934,732	607,656
Income from other fee-based activities	13,863	11,050	596,486	285,979
Forex income	534,505	503,870	534,601	503,870
Income from other activities	15,060	42,061	15,060	42,061
	2,066,110	2,587,649	2,785,075	2,559,987

6. OPERATING EXPENSES

Operating expenses include the following -

Employees' Provident Fund	92,052	73,032	101,734	79,140
Employees' Trust Fund	18,419	14,620	20,912	16,050
Gratuity	32,000	14,746	37,074	18,676
Depreciation and amortization	190,802	191,825	206,670	206,374
Legal charges	12,526	11,088	13,483	13,165

7. STAFF RETIREMENT BENEFITS

The NDB Bank operates an approved non-contributory Pension Plan for the payment of pensions to members of its permanent staff who qualify for such payments when retiring. Please see accounting policy 3.2.

The amount funded since the inception of the Plan is the amount recognised as an expense over the respective periods. The adequacy of the contributions was reviewed by an actuary as at 31 December 2010. Accordingly, the Actuarial experience loss or gains have been recognised over the expected future working life of the participants. As the current year's amortisation of the Actuarial Gains and expected returns on assets were more than the cost of benefits, no provision has been made.

The Pension Plan is fully funded.

The actuarial method used is the Projected Unit Credit method. The principal assumptions, which have the most significant effect on the valuation, are the investment return net of taxes, which has been estimated at 10% and the rate of increase in salaries, which have been estimated at 12%.

Provisions for retirement gratuities have been made based on the actuarial valuation carried out as at 31 December 2010. Please refer Note 35 (1) for detailed disclosure and assumptions on the retirement benefit liability.

Notes to the Financial Statements

	NDB BANK		NDB GROUP	
	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000
8. OTHER ADMINISTRATIVE & GENERAL EXPENSES				
Premises, equipment and establishment expenses	536,538	451,789	729,606	575,559
Depreciation and amortization	190,802	191,825	204,545	206,374
Other overhead expenses	622,652	588,158	561,969	588,158
	1,349,992	1,231,772	1,496,120	1,370,091

	NDB BANK		NDB GROUP	
	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000
9. PROVISION FOR BAD AND DOUBTFUL DEBTS AND FALL IN VALUE OF SECURITIES				
General Provision	81,628	15,694	81,628	15,694
Specific Provision	302,352	790,652	302,352	790,652
(-) Recoveries/releases	(555,727)	(534,433)	(555,727)	(534,433)
Write Offs	206	14,365	206	14,365
	(171,541)	286,278	(171,541)	286,278

	Holding	Rs '000	
		Rs '000	Rs '000
10. SHARE OF ASSOCIATE COMPANIES' PROFIT/(LOSS) BEFORE TAXATION			
Ayojana Fund (Pvt) Ltd	50.00%	(405)	5,254
Maldives Finance Leasing Co (Pvt) Ltd	35.00%	(75,803)	(34,007)
NDB Venture Investments (Pvt) Ltd	50.00%	807	133,092
Aviva NDB Insurance PLC	41.14%	367,692	393,932
Aviva NDB Finance Lanka (Pvt) Ltd	41.42%	2,493	27,547
		294,784	525,818

	NDB BANK		NDB GROUP	
	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000
11. TAXATION				
Income Tax expense of Domestic Banking Unit	729,012	750,336	729,012	750,336
Income Tax expense of Foreign Currency Banking Unit	237,763	236,872	237,763	236,872
Under/(over) provision for previous years	6,641	7,257	6,641	7,257
	973,416	994,465	973,416	994,465
Income tax of subsidiary companies	-	-	218,963	198,774
Income tax of associate companies	-	-	130,056	145,234
	973,416	994,465	1,322,435	1,338,473
Transfer from deferred taxation (note 36)	82,562	(31,570)	84,495	(31,389)
	1,055,978	962,895	1,406,930	1,307,084
VAT on financial services	825,464	847,168	825,464	847,168
	1,881,442	1,810,063	2,232,394	2,154,252

	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000
a. Reconciliation of effective tax rate				
Profit before tax	3,457,738	3,492,516	4,455,343	4,275,579
Tax effect at the statutory income tax rates	1,209,747	1,221,207	1,655,321	1,663,582
Tax effect of exempt income	(202,752)	(297,499)	(302,980)	(297,499)
Statutory tax at 2%	-	-	2,447	2,346
Tax effect of non-deductible expenses	333,495	473,776	333,495	473,776
Tax effect of deductible expenses	(394,170)	(425,172)	(394,170)	(525,783)
Tax effect of leasing loss	5,786	306	5,786	213
Social Responsibility Levy at the rate of 1.5% of income tax	14,669	14,590	14,833	14,581
Under/ (over) provision for previous years	6,641	7,257	7,703	7,257
Deferred taxation	82,562	(31,570)	84,495	(31,389)
Income Tax expense at effective rate of tax of 31% (2009-28%)	1,055,978	962,895	1,406,930	1,307,084

Effective overall tax rate (%)	54	52	50	50
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The Bank is liable to VAT on financial services at 20%. (2009 - 20%)

NDB Investment Bank Ltd is liable to taxation at 35%. (2009 - 35%)

Ayojana Fund (Pvt) Ltd is liable to taxation at 20% (2009 - 20%)

NDB Stock Brokers (Pvt) Ltd is liable to taxation at 35% (2009- 35%).

The profits earned by Capital Development and Investment Co PLC is liable to taxation at 35%. (2009- 35%).

Profits earned by Development Holdings (Pvt) Ltd, through the business of construction and operation of an office complex was exempt from tax for a period of seven years commencing from 1997 under an agreement with the Board of Investment of Sri Lanka. With effect from 2004, the company is liable to tax at 2% of its turnover of such business for a period of fifteen years. The company is liable to tax on other income at 35% (2009 - 35%).

NDB Aviva Wealth Management Ltd is liable to taxation at 35% (2009- 35%).

NDB Capital Ltd is a company based in Bangladesh and is subject to taxation at 45% (2009-45%).

Aviva NDB Finance Lanka (Pvt) Ltd is liable to income tax at 35% (2009 - 35%). The tax charge for the year consists wholly of dividend tax paid at source. However, no tax provision has been made for the current year due to the tax losses incurred by the company.

Profits earned through the business of venture capital by NDB Venture Investments (Pvt) Ltd is taxed at 20% (2009-20%).

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

12. EARNINGS PER SHARE

The basic earnings per share for 2010 and 2009 have been calculated by dividing the profit attributable to equity holders by the weighted average ordinary shares outstanding as at year end as required by the Sri Lanka Accounting Standard No.34 on Earnings Per Share.

	NDB GROUP	
	2010	2009
Profit attributed to ordinary shareholders (Rs'000)	2,149,529	2,084,758
Ordinary shares in issue for basic EPS calculation	81,855,385	81,855,385
Shares issued as a grant under the Equity Linked Compansation Plan	245,566	-
Number of ordinary shares as at the Balance Sheet date	82,100,951	81,855,385
Weighted average number of ordinary shares as at the Balance Sheet date for Basic EPS calculation	81,978,168	81,855,385
Weighted Average Basic Earnings Per Share (Rs.)	26.22	25.47
Weighted average number of ordinary shares as at the Balance Sheet date for Basic EPS calculation	81,978,168	81,855,385
Effect of outstanding shares under the share option scheme	73,424	-
Number of ordinary shares including effect of share option scheme	82,051,592	81,855,385
Weighted average number of ordinary shares as at the Balance Sheet date for Diluted EPS calculation	82,051,592	81,855,385
Weighted Average Diluted Earnings Per Share (Rs.)	26.20	25.47

Notes to the Financial Statements

13. DIVIDENDS PAID

The Bank paid a first and final dividend of Rs 8.00 per share for the year ended 31 December 2009 and an interim dividend of Rs 4.00 per share for the year ended 31 December 2010, during the year. (2009 - Rs. 6.75)

	NDB BANK		NDB GROUP	
	2010	2009	2010	2009
	Rs '000	Rs '000	Rs '000	Rs '000
Cash in hand	241,385	382,584	241,448	382,616
Dues from Banks and other financial institutions	1,950,046	5,209,380	2,233,995	5,458,368
	2,191,431	5,591,964	2,475,443	5,840,984

14. CASH AND SHORT-TERM FUNDS

15. BALANCES WITH CENTRAL BANK

Balances with Central Bank includes the cash balance that is required as per the provisions of section 93 of the Monetary Law Act and contains the effects of cheques pending realisation. The minimum cash reserve requirement was 7.0% of the rupee deposit liabilities as at 31 December 2010 (7.0% as at 31 December 2009). This reserve requirement is not applicable to the foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Foreign Currency Banking Unit.

	NDB BANK		NDB GROUP	
	2010	2009	2010	2009
	Rs '000	Rs '000	Rs '000	Rs '000
Treasury bills	3,404,406	8,237,363	3,629,755	8,237,363
Treasury bonds	4,378,181	3,148,576	4,378,181	3,148,576
	7,782,587	11,385,939	8,007,936	11,385,939

16. INVESTMENTS HELD FOR TRADING

Investments in treasury bills and bonds, both held for maturity as well as held for trading include securities kept as collateral for borrowings under repurchase agreements having a face value of Rs. 12.5 Bn (2009 - Rs 11.3 Bn).

	NDB BANK				NDB GROUP			
	2010	2010	2009	2009	2010	2010	2009	2009
	Market Value/ Directors' Valuation							
	Rs '000							
Treasury bonds	5,482,455	5,838,229	7,535,665	7,975,822	5,788,797	6,776,074	9,397,951	9,762,178
Treasury Bills	2,334,613	2,339,150	323,540	327,299	2,334,613	2,339,150	323,540	327,299
Central Bank securities	6,847,257	6,847,257	8,390,202	8,390,202	6,847,257	6,847,257	8,390,202	8,390,202
Debenture	-	-	-	-	100,000	100,000	-	-
Tradable corporate securities	-	-	21,038	21,038	-	-	21,038	21,038
Investment securities (note 17.1)	524,790	593,182	582,289	637,693	1,636,331	1,687,584	728,715	784,119
Investments in Sinking Fund (note 17.3)	33,028	33,028	26,327	26,327	33,028	33,028	26,327	26,327
	15,222,143	15,650,846	16,879,061	17,378,381	16,740,026	17,783,093	18,887,773	19,311,163

17. INVESTMENTS HELD TO MATURITY

	NDB BANK		NDB GROUP	
	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000
17.1 Investment Securities				
Non-quoted shares (note 17.2)	524,790	582,289	1,636,331	728,715
	524,790	582,289	1,636,331	728,715

	2010		2009			
	Number of Shares	Cost Rs '000	Directors' Valuation Rs '000	Number of Shares	Cost Rs '000	Directors' Valuation Rs '000

17.2 Non-quoted Shares

A. Ordinary Shares

Credit Information Bureau of Sri Lanka	30,395	3,040	71,170	30,395	3,039	58,972
Fitch Ratings Lanka Ltd	62,500	625	887	62,500	625	96
Mahaweli Livestock Enterprises Ltd		-	-	600,000	6,000	-
Suntel Ltd		-	-	11,729,794	117,297	-
Lanka Financial Services Bureau Ltd	112,500	1,125	1,125	112,500	1,125	1,125
Sub-total		4,790	73,182		128,086	60,193

	2010		2009			
	Number of Shares	Cost Rs '000	Directors' Valuation Rs '000	Number of Shares	Cost Rs '000	Directors' Valuation Rs '000

B. Redeemable Cumulative Preference Shares

Hemas Power Co Ltd	-	135,000	135,000	-	-	-
Dialog Axiata PLC	385,000,000	385,000	385,000	577,500,000	577,500	577,500
Total		524,790	593,182		705,586	637,693
Less : Provision for losses		-	-		(123,297)	-
Total as at 31 December - Bank		524,790	593,182		582,289	637,693

A. Ordinary Shares

Lanka Communication Services (Pvt) Ltd	2,856,670	28,565	11,426	2,856,670	28,565	11,426
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B. Preference Shares

Dialog Axiata PLC	90,000	90,000	90,000	135,000	135,000	135,000
Eagle Gilt Edged Fund		1,019,557	992,976		-	-
Less: Provision for Losses		(26,581)	-		(17,139)	-
Total as at 31 December - Group		1,636,331	1,687,584		728,715	784,119

The directors' valuation of non quoted shares is based on the net asset value of these investments at 31 December 2010 and 31 December 2009.

Notes to the Financial Statements

17.3 Sinking Fund - Treasury Bills and Bonds

The balance in the Sinking Fund represents a fund created to pay a credit line obtained by the former NDB Housing Bank Ltd for housing loans. This loan is due to be settled in 2020.

	NDB BANK		NDB GROUP	
	2010	2009	2010	2009
	Rs '000	Rs '000	Rs '000	Rs '000
Quoted shares (note 18.1)	368,650	22,140	832,427	42,683
	368,650	22,140	832,427	42,683

18. DEALING SECURITIES

	2010			2009		
	Number of Ordinary Shares	Cost Rs '000	Market Value Rs '000	Number of Ordinary Shares	Cost Rs '000	Market Value Rs '000

18.1 Quoted Ordinary Shares

Banks and Finance

DFCC Bank PLC	504,400	64,946	100,980	299,997	22,140	50,099
Lanka Orix Leasing Company PLC	103,000	13,436	13,163			
Seylan Bank PLC	35,200	3,523	3,443			
		81,905	117,586		22,140	50,099

Diversified Holdings

John Keels Holdings PLC	506,400	162,973	151,110			
		162,973	151,110		-	-

Beverage Food and Tobacco

The Lion Brewery Ceylon PLC	540,000	100,412	99,954			
		100,412	99,954	-	-	-

Total as at 31 December - Bank 345,290 368,650 22,140 50,099

A. Investments in quoted shares by subsidiaries at cost

Hemas Power PLC		-	-	964,100	19,282	18,800
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B. Investments in quoted shares by subsidiaries at market value

Lanka Orix Leasing Co. PLC	1,091,000	145,884	139,430	-	-	-
John Keels Holdings PLC	618,600	200,826	184,590	-	-	-
The Lion Brewery Ceylon PLC	560,000	104,349	103,656	-	-	-
DFCC Bank PLC	10,000	2,300	2,002	-	-	-
Sampath Bank PLC	16,600	4,380	4,514	-	-	-
Richard Pieris & Co. PLC	50,000	539	525	-	-	-
Cargills (Ceylon) PLC	14,400	2,984	2,814	-	-	-
Asian Hotels & Properties PLC	20,400	4,064	3,958	-	-	-
Dialog Axiata PLC	350,000	4,243	4,130	-	-	-
Tokyo Cement (Lanka) PLC	150,000	8,126	8,250	-	-	-
Brown & Co PLC	10,000	2,604	2,469	-	-	-
Singer Finance PLC	39,500	593	593	-	-	-
Other Quoted Investments in aggregate	5,020	7,266	6,846	173,910	1,261	-
Total as at 31 December - Group		833,448	832,427		42,683	68,899

	NDB BANK		NDB GROUP	
	2010	2009	2010	2009
	Rs '000	Rs '000	Rs '000	Rs '000
19. BILLS OF EXCHANGE				
Export Bills	3,214,989	2,477,846	3,214,989	2,477,846
Import Bills	51,472	61,556	51,472	61,556
Total	3,266,461	2,539,402	3,266,461	2,539,402

	NDB BANK		NDB GROUP	
	2010	2009	2010	2009
	Rs '000	Rs '000	Rs '000	Rs '000
20. LOANS AND ADVANCES				
Long term loans	14,110,533	11,531,559	15,101,434	11,531,559
Medium and Short term loans	11,179,090	10,454,992	11,179,090	10,454,992
Overdrafts	8,775,492	7,839,894	8,775,408	7,839,894
Trade Finance loans	16,611,138	11,106,864	16,611,138	11,106,864
PCI loans	1,816,744	2,192,354	1,816,744	2,192,354
Consumer loans	7,654,032	4,264,712	7,654,032	4,264,712
Housing loans	4,497,903	3,873,496	4,497,903	3,873,496
Pawning	1,122,657	462,176	1,122,657	462,176
Staff loans	831,484	784,386	864,533	808,778
	66,599,073	52,510,433	67,622,939	52,534,825
Less : Provision for bad and doubtful loans (note 20.1 and 20.2)	1,787,519	1,947,598	1,787,519	1,947,598
Less : Interest in suspense (note 21)	910,292	883,505	910,292	883,505
Net loans and advances	63,901,262	49,679,330	64,925,128	49,703,722

	Specific	General	2010 Total	2009 Total
	Rs '000	Rs '000	Rs '000	Rs '000

20.1 Movement in the Provision for Bad and Doubtful Loans - Bank

At the beginning of the year	1,473,975	473,623	1,947,598	1,859,504
Amounts recovered / provisions written back	(504,936)	-	(504,936)	(477,759)
Amounts written off	(1,911)	-	(1,911)	(189,932)
Provision made during the year	267,450	79,318	346,768	755,785
At the end of the year	1,234,578	552,941	1,787,519	1,947,598

Notes to the Financial Statements

	Specific	General	2010 Total	2009 Total
	Rs '000	Rs '000	Rs '000	Rs '000
20.2 Movement in the Provision for Bad and Doubtful Loans - Group				
At the beginning of the year	1,473,975	473,623	1,947,598	1,859,504
Amounts recovered / provisions written back	(504,936)	-	(504,936)	(477,759)
Amounts written off	(1,911)	-	(1,911)	(189,932)
Provision made during the year	267,450	79,318	346,768	755,785
At the end of the year	1,234,578	552,941	1,787,519	1,947,598

	NDB BANK		NDB GROUP	
	2010	2009	2010	2009
	Total	Total	Total	Total
	Rs '000	Rs '000	Rs '000	Rs '000

20.3 Break up of the Provision for Bad and Doubtful Loans

Provision as per CBSL rules	886,256	704,467	886,256	704,467
Specific provision against debts judgmentally classified as doubtful	348,322	769,508	348,322	769,508
General provision	552,941	473,623	552,941	473,623
	1,787,519	1,947,598	1,787,519	1,947,598

	NDB BANK		NDB GROUP	
	2010	2009	2010	2009
	Rs '000	Rs '000	Rs '000	Rs '000

21. INTEREST IN SUSPENSE

At the beginning of the year	883,505	745,296	883,505	745,296
Amounts written back to profit	(161,034)	(125,144)	(161,034)	(125,144)
Amounts written off	(172,146)	(159,433)	(172,146)	(159,433)
Transfer to interest in suspense	359,967	422,786	359,967	422,786
At the end of the year	910,292	883,505	910,292	883,505

	NDB BANK		NDB GROUP	
	2010	2009	2010	2009
	Rs '000	Rs '000	Rs '000	Rs '000

22. LEASE RENTALS RECEIVABLE

Total rentals receivable	3,137,659	2,641,837	3,137,659	2,641,837
Less : Provision for doubtful recoveries (note 22.1)	82,477	86,055	82,477	86,055
Interest in suspense (note 22.3)	19,605	17,950	19,605	17,950
Unearned income	708,588	674,470	708,588	674,470
Net rentals receivable	2,326,989	1,863,362	2,326,989	1,863,362

	NDB BANK		NDB GROUP	
	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000
22.1 Provision for Bad and Doubtful Recoveries				
At the beginning of the year	86,055	86,731	86,055	86,731
Amounts recovered / provisions written back	(40,487)	(37,074)	(40,487)	(37,074)
Amounts written off	(304)	(14,162)	(304)	(14,162)
Provision made during the year	37,213	50,560	37,213	50,560
	82,477	86,055	82,477	86,055
			2010 Total Rs '000	2009 Total Rs '000

22.2 Provision for Bad and Doubtful Recoveries

Provision as per CBSL rules			47,964	31,812
Specific provision against debts judgmentally classified as doubtful			14,066	36,107
General provision			20,447	18,136
			82,477	86,055

	NDB BANK		NDB GROUP	
	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000
22.3 Interest in Suspense				
At the beginning of the year	17,950	20,635	17,950	20,635
Amounts written back to profit	(23,374)	(37,049)	(23,374)	(37,049)
Amounts written off	(1,866)	(10,219)	(1,866)	(10,219)
Transfer to interest in suspense	26,895	44,583	26,895	44,583
At the end of the year	19,605	17,950	19,605	17,950
	Upto 1 year Rs '000	1 to 5 years Rs '000	More than 5 years Rs '000	Total Rs '000

22.4 Maturity of Lease Rentals Receivable of the Bank

Total rentals receivable	201,316	2,879,881	56,462	3,137,659
Provision for doubtful recoveries	(21,350)	(60,736)	(391)	(82,477)
Interest in suspense	(19,605)	-	-	(19,605)
Unearned income	(45,465)	(650,373)	(12,750)	(708,588)
Net rentals receivable	114,896	2,168,772	43,321	2,326,989

Notes to the Financial Statements

	NDB BANK				NDB GROUP			
	2010	2010	2009	2009	2010	2010	2009	2009
	Loan Loss	Interest in						
	Provision	Suspense	Provision	Suspense	Provision	Suspense	Provision	Suspense
	Rs '000	Rs '000						
23. ANALYSIS OF PROVISION FOR LOAN LOSSES AND INTEREST IN SUSPENSE								
Loans and advances	1,787,519	910,292	1,947,598	883,505	1,787,519	910,292	1,947,598	883,505
Lease rentals receivable	82,477	19,605	86,055	17,950	82,477	19,605	86,055	17,950
	1,869,996	929,897	2,033,653	901,455	1,869,996	929,897	2,033,653	901,455

24. ASSET QUALITY INFORMATION

24.1 Concentration of credit risk

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

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

	2010		2009	
	Rs mn	%	Rs mn	%
Food, beverages and tobacco	2,654	3.6	4,798	8.3
Agriculture, agro-business and fisheries	11,329	15.5	9,557	16.6
Textiles and garments	8,500	11.6	5,474	9.5
Wood and paper products	592	0.8	776	1.3
Rubber and leather products	6,519	8.9	4,162	7.2
Metals, chemicals and engineering	8,456	11.6	5,892	10.2
Hotels & Tourism	361	0.5	332	0.6
Utilities	545	0.7	1,173	2.0
Housing Finance	4,721	6.5	4,098	7.1
Services	12,821	17.6	10,169	17.6
Transport	1,678	2.3	1,484	2.6
Consumer	14,271	19.5	8,447	14.6
Others	555	0.8	1,330	2.3
	73,002	100.0	57,692	100.0

These concentrated exposures, direct and indirect, have been considered in setting the level of specific and general provisions for bad and doubtful loans, advances and lease receivables.

24.2 Non-performing loans, advances and leases

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

	NDB BANK		NDB GROUP	
	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000
Loans and advances	1,172,009	1,225,594	1,172,009	1,225,594
Overdrafts	96,117	88,324	96,117	88,324
Leases	87,046	133,978	87,046	133,978
	1,355,172	1,447,896	1,355,172	1,447,896

24.2 (a) Asset quality

The capital balance outstanding on non-performing accounts are as follows -

Bank	Loans and Advances Rs '000	Lease capital Rs '000	2010 Total Rs '000	2009 Total Rs '000
Gross	1,279,059	76,114	1,355,173	1,447,896
Net of tangible securities and Central Bank mandated specific provisions	328,804	28,149	356,953	431,379

	Percentage Holding	2010 Cost Rs '000	2010 Directors' Valuation/ Market Value Rs '000	Percentage Holding	2009 Cost Rs '000	2009 Directors' Valuation/ Market Value Rs '000

25. INVESTMENTS IN SUBSIDIARY COMPANIES

Capital Development and Investment Company PLC (Quoted)	99.66%	2,330,855	6,971,684	99.66%	2,330,783	5,386,911
Development Holdings (Pvt) Ltd	58.61%	228,150	817,438	58.61%	228,150	784,232
NDB Investment Bank Ltd	100.00%	53,922	147,650	80.10%	32,040	73,808
NDB Stock Brokers (Pvt) Ltd	100.00%	26,940	237,661	100.00%	26,940	163,788
NDB Capital Limited	77.80%	130,673	94,207	77.80%	130,673	130,673
		2,770,540	8,268,640		2,748,586	6,539,412

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

The Bank increased its shoreholding in NDB Investment Bank Limited from 80.1% to 100% on 11 June 2010 by acquiring the balance shares (19.9% share holding) previously held by Citi Bank Overseas Investment Corporation.

The Directors valuation of Investments in subsidiary companies has been based on the Net Assets value of the companies as at 31 December 2010 and 31 December 2009.

Notes to the Financial Statements

	Percentage Holding	2010 Cost Rs '000	2010 Directors' Valuation Rs '000	Percentage Holding	2009 Cost Rs '000	2009 Directors' Valuation Rs '000
26. INVESTMENTS IN ASSOCIATE COMPANIES						
(a) NDB Bank						
Ayojana Fund (Pvt) Ltd	50.00%	100	-	50.00%	100	15,062
Maldives Finance Leasing Co (Pvt) Ltd	35.00%	165,462	145,300	35.00%	165,462	227,372
NDB Venture Investments (Pvt) Ltd	50.00%	18,525	29,124	50.00%	18,525	28,317
Aviva NDB Insurance PLC	5.00%	268,373	420,000	5.00%	268,373	267,000
		452,460	594,424		452,460	537,751

	As at 1.1.2010 Rs '000	Change in Investments Rs'000	Exchange gain on valuation Rs '000	Profit net of Dividend Received Rs '000	As at 31.12.2010 Rs '000
(b) NDB Group					
Ayojana Fund (Pvt) Ltd	15,062	(14,657)	-	(405)	-
Maldives Finance Leasing Co (Pvt) Ltd	227,371	-	(6,269)	(75,803)	145,299
NDB Venture Investments (Pvt) Ltd	28,317	-	-	807	29,124
Aviva NDB Insurance PLC	1,061,197	-	-	135,830	1,197,027
Aviva NDB Finance Lanka (Pvt) Ltd	391,862	-	-	(723)	391,139
	1,723,809	(14,657)	(6,269)	59,706	1,762,589

27. SUMMARISE FINANCIAL INFORMATION OF THE NDB GROUP'S INVESTMENT IN ITS ASSOCIATES

	2010 Rs'000	2009 Rs'000
Total Assets	13,918,595	11,302,147
Total Liabilities	12,541,906	9,947,188
Net Assets	1,376,689	1,354,958
Revenue	6,406,529	4,278,017
Profits	294,784	525,818

	NDB BANK		NDB GROUP	
	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000
Sundry Receivables	497,323	546,476	850,745	738,386
Payments in advance	114,650	176,453	135,658	196,169
Employees Share ownership Plan (ESOP)	103,121	114,579	103,121	114,579
Group Balance Receivable	2,359	1,373	-	1,373
	717,453	838,881	1,089,524	1,050,507

28. OTHER ASSETS

Sundry Receivables	497,323	546,476	850,745	738,386
Payments in advance	114,650	176,453	135,658	196,169
Employees Share ownership Plan (ESOP)	103,121	114,579	103,121	114,579
Group Balance Receivable	2,359	1,373	-	1,373
	717,453	838,881	1,089,524	1,050,507

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

	NDB BANK		NDB GROUP	
	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000
29. INTANGIBLE ASSETS				
29.1 Computer Software and Copyrights				
Cost / Valuation				
As at 1 January	338,859	320,529	350,960	320,529
Additions during the year	46,282	18,330	49,690	18,330
On disposals	-	-	(11,465)	-
As at 31 December	385,141	338,859	389,185	338,859
Depreciation / Amortisation				
As at 1 January	245,726	210,656	257,233	210,656
Charge for the year	35,930	35,070	36,352	35,070
On disposals	-	-	(11,465)	-
As at 31 December	281,656	245,726	282,120	245,726
Written down value as at				
31 December 2010	103,485	93,133	107,065	93,133
29.2 Software Under Development				
Cost / Valuation				
As at 1 January	54,250	13,142	54,250	13,142
Additions during the year	50,294	50,952	50,294	50,952
Transfers / Adjustments	(1,309)	(9,844)	(1,309)	(9,844)
As at 31 December	103,235	54,250	103,235	54,250
Net Book Value of total Intangible Assets	206,720	147,383	210,300	147,383

Notes to the Financial Statements

	Land and Buildings Rs '000	Motor Vehicles Rs '000	Furniture and Equipment Rs '000	Work in Progress Rs '000	Total Rs '000
30. PROPERTY, PLANT & EQUIPMENT					
30.1 NDB Bank					
(a) Cost					
Freehold Assets (Note 30.1.1)					
As at 1 January 2010	660,325	289,303	687,986	11,841	1,649,455
Additions during the year	40,417	40,721	110,238	19,872	211,248
Disposals during the year	-	(8,109)	(13,046)	-	(21,155)
Transfers / Adjustments	-	-	-	(17,149)	(17,149)
As at 31 December 2010	700,742	321,915	785,178	14,564	1,822,399
(b) Depreciation / Amortisation					
Freehold Assets					
As at 1 January 2010	285,277	269,313	483,584	-	1,038,174
Charge for the year	37,746	19,547	97,579	-	154,872
On disposals	-	(8,109)	(12,971)	-	(21,080)
As at 31 December 2010	323,023	280,751	568,192	-	1,171,966
Written down value as at 31 December 2010 (a) - (b)	377,719	41,164	216,986	14,564	650,433
Written down value as at 31 December 2009	375,048	19,990	204,402	11,841	611,281

30.1.1 Freehold land and Building

Location	Extent (perches)	Cost or Revaluation of Land Rs. '000	Buildings (Square Feet)	Cost or Revaluation of Buildings Rs. '000	Total Value Rs. '000	Accumulated Depreciation Rs. '000	Written Down Value Rs. '000	As a % of Total Cost
Head Office - Dharmapala Mawatha No 103A, Dharmapala Mawatha, Colombo 07	20	164,857	3,766	8,866	173,723	924	172,799	52.7
Head Office - Navam Mawatha No 40, Navam Mawatha, Colombo 02	1.43	159 165,016	8,842	361,297 370,163	361,456 535,179	206,341 207,265	155,115 327,914	47.3
Add: Improvements to buildings of the NDB Bank branches					165,563	115,758	49,805	
Total as at 31 December 2010					700,742	323,023	377,719	

	Land and Buildings Rs '000	Motor Vehicles Rs '000	Furniture and Equipment Rs '000	Work in Progress Rs '000	Total Rs '000
30.2 NDB Group					
(a) Cost					
Freehold Assets					
As at 1 January 2010	660,325	315,607	834,833	11841	1,822,606
Additions during the year	40,417	53,573	121,214	19872	235,076
Disposals during the year	-	(8,109)	(13,077)	-	(21,186)
Transfers / Adjustments	-	-	-	(17,149)	(17,149)
As at 31 December 2010	700,742	361,071	942,970	14,564	2,019,347
(b) Depreciation / Amortisation					
Freehold Assets					
As at 1 January 2010	285,277	282,072	597,158	-	1,164,507
Acquisition of group companies	-	-	-	-	-
Charge for the year	37,746	22,472	107,975	-	168,193
On disposals	-	(8,109)	(12,971)	-	(21,080)
As at 31 December 2010	323,023	296,435	692,162	-	1,311,620
Written down value as at					
31 December 2010 (a) - (b)	377,719	64,636	250,808	14,564	707,727
Written down value as at 31 December 2009	375,048	33,535	237,675	11,841	658,099

NDB GROUP	
2010	2009
Rs '000	Rs '000

31. INVESTMENT PROPERTIES

Balance as at 1 January	1,200,000	1,200,000
Change in the fair value during the year	-	-
Balance as at 31 December	1,200,000	1,200,000

Development Holdings (Private) Limited, a subsidiary of NDB Bank, whose principal activity is renting out premises for commercial use.

Investment Properties are stated at fair value, which has been determined based on valuations performed by a professional valuer on the basis of an open market value, supported by market evidence.

NDB GROUP	
2010	2009
Rs '000	Rs '000

32. GOODWILL

Net assets of subsidiary companies acquired	19,459	19,459
Purchase consideration	23,789	23,789
Goodwill on acquisition	4,330	4,330

- Goodwill on consolidation was amortised to the income statement upto 31 May 2005. With effect from 1 June 2005, goodwill on consolidation as at date is tested for impairment annually and any resulting amount of impairment loss will be recognised in the Income Statement accordingly.
- A full provision has been made against equity for the goodwill arising from the transfer of assets and liabilities of NDB Bank Limited on 1 August 2005 to be in line with the provisions contained under section 22 of the Banking Act to declare dividends.

Notes to the Financial Statements

33. DEPOSITS

	NDB BANK		NDB GROUP	
	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000
Savings deposits	10,094,596	6,541,041	10,094,596	6,541,041
Time deposits	41,743,706	38,333,002	41,743,706	38,333,002
Demand deposits	7,301,268	4,767,256	7,301,268	4,767,256
Margins	189,676	257,194	189,676	257,194
Certificate of deposits	34,414	49,096	34,414	49,096
	59,363,660	49,947,589	59,363,660	49,947,589
			2010 Rs '000	2009 Rs '000

34. BORROWINGS

(a) NDB Bank

Government of Sri Lanka loans under ADB, IDA, KfW and JBIC credit lines			10,448,805	11,444,138
Other Government of Sri Lanka loans			1,406,882	1,433,379
Foreign borrowings			3,667,750	4,617,450
Local borrowings			1,329,403	2,188,887
Listed Debentures			-	250,000
Amounts due to foreign banks			84,982	303,026
			16,937,822	20,236,880

(a.1) Maturity of Borrowings

	Upto 1 year Rs '000	1 to 5 years Rs '000	More than 5 years Rs '000	Total Rs '000
Government of Sri Lanka loans under ADB, IDA, KfW and JBIC credit lines	1,808,097	5,561,495	3,079,213	10,448,805
Other Government of Sri Lanka loans	209,818	1,017,590	179,474	1,406,882
Foreign borrowings	1,294,450	2,046,600	326,700	3,667,750
Other local borrowings	889,385	25,000	500,000	1,414,385
	4,201,750	8,650,685	4,085,387	16,937,822
			2010 Rs '000	2009 Rs '000

(b) NDB Group

Government of Sri Lanka loans under ADB, IDA, KfW and JBIC credit lines			10,448,805	11,444,138
Other Government of Sri Lanka loans			1,406,882	1,433,379
Foreign borrowings			3,667,750	4,617,450
Local borrowings			453,041	711,848
Debentures			-	250,000
Amounts due to foreign banks			84,982	303,026
			16,061,460	18,759,841

	Upto 1 year Rs '000	1 to 5 years Rs '000	More than 5 years Rs '000	Total Rs '000
(b.1) Maturity of Borrowings				
Government of Sri Lanka loans under ADB, IDA, KfW and JBIC credit lines	1,808,097	5,561,495	3,079,213	10,448,805
Sri Lanka loans	209,818	1,017,590	179,474	1,406,882
Foreign borrowings	1,294,450	2,046,600	326,700	3,667,750
Local borrowings	13,023	25,000	500,000	538,023
	3,325,388	8,650,685	4,085,387	16,061,460

	NDB BANK		NDB GROUP	
	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000
35. OTHER LIABILITIES				
Interest payable	1,619,224	2,033,767	1,619,265	2,033,767
Accrued expenses	290,156	351,265	345,317	368,794
Retirement benefit liability (Note 35.1)	55,702	43,396	98,486	59,053
Other liabilities	1,857,663	1,471,401	1,916,066	1,528,132
	3,822,745	3,899,829	3,979,134	3,989,746

35.1 The movement in the retirement benefit liability of NDB Bank is given below.

	2010 Rs '000	2009 Rs '000
Present value of defined benefit obligation	139,879	86,787
Outstanding Balance of Transition (Liability)/Asset	(7,682)	(11,523)
Unrecognised Net (Loss) or gain	(76,495)	(31,868)
Retirement benefit liability as at 31 December	55,702	43,396

(a) M/s Piyal S Goonethilleke and Associates, a firm of professional Actuaries has carried out an independent actuarial valuation of the defined benefit Plan - Gratuity and accordingly compatible assumptions have been used in determining the cost of retirement benefits.

(b) The key assumptions used by the Actuary include the following:

	2010	2009
Rate of interest	- 10%	12%
Rate of salary increase	- 12%	12%
Retirement age	- 55-60 years	55-60 years

(c) The transitional liability of Rs 19 Mn on the adoption of SLAS 16 (Employee benefits) is expensed on a straight line basis over five years from the date of adoption.

36. DEFERRED TAXATION

	Balance sheet				Income Statement			
	BANK		GROUP		BANK		GROUP	
	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000
Deferred tax liabilities								
Accelerated Depreciation for tax purposes	27,730	26,762	31,402	25,326	969	(4,278)	6,076	(4,278)
Finance Leases	149,536	144,216	149,536	144,216	5,320	66,481	5,320	66,662
	177,266	170,978	180,938	169,542	6,289	62,203	11,396	62,384
Deferred tax assets								
Defined benefit plans	19,496	15,189	22,671	15,189	(4,307)	(7,771)	(7,481)	(7,771)
Provision for bad and doubtful debts	98,514	179,094	98,514	179,094	80,580	(86,002)	80,580	(86,002)
	118,010	194,283	121,185	194,283	76,273	(93,773)	73,099	(93,773)
					82,562	(31,570)	84,495	(31,389)
Net deferred tax liability/(asset)	59,256	(23,305)	59,753	(24,741)				

Notes to the Financial Statements

	Number	2010 Rs '000	Number	2009 Rs '000
37. STATED CAPITAL				
Issued and fully paid				
Balance as at 1 January	81,855,385	1,032,931	81,855,385	1,032,931
issue of shares under the Equity Linked Compensation Plan (Note 37.1)	245,566	60,164	-	-
Balance as at 31 December	82,100,951	1,093,095	81,855,385	1,032,931

37.1 Equity Linked Compensation Plan (ELCP)

NDB Bank obtained approval of the shareholders at an Extra Ordinary General Meeting held in March 2010, to enable the management staff in the rank of Assistant Vice President and above of NDB Bank to take part as the ordinary share holders of the NDB Bank, subject to certain limits, terms and conditions. Accordingly, a maximum of 3% of the ordinary voting shares, half of which are to be awarded as share options and the other half as share grants in equal proportions shall be issued in five (05) tranches over five (05) years commencing July 2010. Each of the five tranches would amount to a maximum of 0.6% the voting shares.

Accordingly in July 2010, 245,566 shares were issued to the Trustees of the ELCP, being the first tranche under the share grant scheme. This share issue resulted in the increase of the stated capital of the NDB Bank from Rs. 1,032.9 Mn to Rs. 1,093.1 Mn and the number of shares from 81,855,385 to 82,100,951.

38. STATUTORY RESERVE FUND

The Statutory Reserve Fund was created out of revenue reserves to comply with a direction issued to Licensed Specialised Banks by the Monetary Board of the Central Bank of Sri Lanka under Section 76J(1) of the Banking Act No 30 of 1988.

	NDB BANK		NDB GROUP	
	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000
Balance as at 1 January	818,554	818,554	818,554	818,554
Transfer from Revenue Reserves	60,164	-	60,164	-
Balance as at 31 December	878,718	818,554	878,718	818,554
		General Reserves Rs '000	Retained Profit Rs '000	Total Rs '000

39. REVENUE RESERVES

(a) Bank

As at 1 January 2010	5,805,707	3,437,432	9,243,139
Profit after taxation	-	1,576,297	1,576,297
Transfer to Statutory Reserve Fund	-	(60,164)	(60,164)
Exchange equalisation reserve	-	(55,320)	(55,320)
Dividends paid	-	(983,247)	(983,247)
As at 31 December 2010	5,805,707	3,914,998	9,720,705

(b) Group

As at 1 January 2010	5,805,707	6,539,509	12,345,216
Transfer to Statutory Reserve Fund	-	(60,164)	(60,164)
Profit after taxation	-	2,149,529	2,149,529
Exchange equalisation reserve	-	(55,321)	(55,321)
Exchange gain from valuation of foreign associates and subsidiaries	-	(6,351)	(6,351)
Adjustment for subsidiaries	-	5,332	5,332
Dividends paid	-	(983,247)	(983,247)
As at 31 December 2010	5,805,707	7,589,287	13,394,994

40. MATURITY ANALYSIS

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

	Upto 3 months Rs '000	3 to 12 months Rs '000	1 to 3 years Rs '000	3 to 5 years Rs '000	More than 5 years Rs '000	Total Rs '000
Interest Earning Assets						
Cash and short term funds	178,686	-	-	-	-	178,686
Investments held for trading	7,782,587	-	-	-	-	7,782,587
Investments held to maturity	9,085,569	1,821,289	3,757,467	-	33,028	14,697,353
Securities purchased under resale agreements	1,984,200	-	-	-	-	1,984,200
Bills of Exchange	3,214,870	51,591	-	-	-	3,266,461
Loans and advances	33,548,472	6,273,804	6,791,534	7,639,792	9,647,660	63,901,262
Lease rentals receivable	39,034	89,271	747,755	1,407,609	43,321	2,326,989
	55,833,418	8,235,955	11,296,756	9,047,401	9,724,010	94,137,539
Non-Interest Earning Assets						
Cash and short term funds	2,012,745	-	-	-	-	2,012,745
Balances with Central Bank	3,077,406	-	-	-	-	3,077,406
Investments Held to maturity	-	192,500	192,500	135,000	4,790	524,790
Dealing securities	368,650	-	-	-	-	368,650
Investments in Subsidiaries & Associates	-	-	-	-	3,223,000	3,223,000
Group balances/Other assets	717,453	-	-	-	-	717,453
Intangible Assets	-	-	-	-	206,720	206,720
Property, plant and equipment	-	-	-	-	650,433	650,433
As at 31 December 2010	6,176,254	192,500	192,500	135,000	4,084,943	10,781,197
As at 31 December 2010	62,009,672	8,428,455	11,489,256	9,182,400	13,808,953	104,918,735
As at 31 December 2009	60,305,598	8,559,502	9,052,280	7,474,920	11,455,160	96,847,460
Interest Bearing Liabilities						
Deposits	34,846,874	20,633,471	2,234,630	1,648,684	-	59,363,660
Borrowings	1,417,964	2,783,786	6,235,322	2,415,362	4,085,388	16,937,822
Securities sold under repurchase agreements	10,153,666	2,019,634	992	-	-	12,174,293
	46,418,504	25,436,891	8,470,945	4,064,046	4,085,388	88,475,775
Non-Interest Bearing Liabilities						
Other Liabilities	2,809,349	-	-	-	1,013,396	3,822,745
Taxation	215,084	202,564	-	-	-	417,648
Deferred Tax	-	-	-	-	59,256	59,256
Dividends payable	450,793	-	-	-	-	450,793
Stated Capital	-	-	-	-	1,093,095	1,093,095
Statutory Reserve Fund	-	-	-	-	878,718	878,718
Revenue Reserves	-	-	-	-	9,720,705	9,720,705
	3,475,226	202,564	-	-	12,765,169	16,442,960
As at 31 December 2010	49,893,731	25,639,455	8,470,945	4,064,046	16,850,557	104,918,735
As at 31 December 2009	46,443,822	22,738,728	8,692,199	3,672,705	15,300,006	96,847,460

Notes to the Financial Statements

41. COMMITMENT AND CONTINGENCIES

41.1 Business Commitments

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

	NDB BANK		NDB GROUP	
	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000
Undisbursed financing commitments	21,495,867	17,237,431	21,495,867	17,237,431
Guarantees	7,919,207	9,005,965	7,919,207	9,005,965
Commitments on account of letters of credit	6,197,540	4,003,292	6,197,540	4,003,292
Forward exchange contracts	56,226,251	41,493,495	56,226,251	41,493,495
Acceptances	3,865,223	3,125,732	3,865,223	3,125,732
Travellers cheques	5	309	5	309
	95,704,093	74,866,224	95,704,093	74,866,224

41.2 The following interest rate SWAP agreement is outstanding as at 31 December 2010

Year of agreement	Notional Value (Rs'000)	Year of Maturity
2008	250,000	2012

41.3 Litigation against NDB Bank

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

42. POST BALANCE SHEET EVENTS

On 11 February 2011, NDB Bank resolved to increase the number of existing ordinary shares amounting to 82,100,951 by subdividing the said existing ordinary shares in the proportion of one share for every ordinary share in issue so that the number of ordinary shares representing the Stated capital of NDB Bank shall be increased to 164,201,901 subject to share holders approval at the Annual General Meeting. There have been no other events subsequent to the end of the reporting period that require disclosure.

43. SEGMENTAL ANALYSIS - GROUP

For the year ended 31 December

	Banking Income		Equity Income		Property Investment		Insurance		Others		Consolidated	
	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000	2010 Rs '000	2009 Rs '000
Revenue												
External income	11,399,917	13,131,533	578,088	266,752	136,629	156,679	-	-	623,178	611,899	12,737,812	14,166,864
Inter-segment income	-	-	-	-	28,384	26,955	-	-	209,412	145,468	237,796	172,423
Total income	11,399,917	13,131,533	578,088	266,752	165,013	183,634	-	-	832,590	757,367	12,975,608	14,339,287
Segment expenses	(8,190,028)	(10,096,716)	-	(94,183)	(64,507)	(78,929)	-	-	(560,515)	(319,698)	(8,815,049)	(10,589,526)
Segment results	3,209,889	3,034,817	578,088	172,569	100,506	104,705	-	-	272,075	437,669	4,160,559	3,749,761
Share of associate companies												
profit before taxation	(75,803)	(34,007)	402	138,346	-	-	367,691	421,479	2,493	-	294,784	525,818
Taxation											(1,406,931)	(1,307,084)
VAT on financial services											(825,464)	(847,168)
Profit after taxation											2,222,949	2,121,327
Other information												
Segment assets	99,293,618	91,767,895	1,357,218	624,973	1,246,671	1,257,438	-	-	5,051,452	3,869,002	106,948,958	97,519,309
Investment in associates	145,300	227,372	29,124	43,380	-	-	1,197,027	1,495,963	391,139	-	1,762,591	1,766,714
Consolidated total assets											108,711,549	99,286,023
Segment liabilities	92,350,351	84,275,797	-	-	31,338	55,717	-	-	245,970	71,185	92,627,659	84,402,700
Consolidated total liabilities											92,627,659	84,402,700
Segmental Cash flows												
Cash flows from												
operating activities	(3,848,138)	20,764,223	197,284	394,661	63,202	102,645	-	-	269,980	147,305	(3,317,673)	21,408,834
Cash flows from												
investing activities	5,644,176	(12,330,185)	(542,953)	233,222	(44,813)	(88,852)	-	-	(230,843)	(520,206)	4,825,568	(12,706,021)
Cash flows from												
financing activities	(4,175,668)	(6,323,106)	-	-	(18,389)	(13,793)	-	-	(4,146)	(5,764)	(4,198,202)	(6,342,663)

Notes to the Financial Statements

44. Related Party Disclosures

44.1 Parent and ultimate control party

The Bank does not have an identifiable parent of its own.

44.2 Transactions with key management and their close family members

Related parties include key management personnel defined as persons having authority and responsibility for planning, directing and controlling the activities of the Bank and its subsidiaries.

Key management personnel include the members of the Board of Directors of the Bank, key employees who are holding directorships in subsidiary companies and other key employees who meet the criteria mentioned above. The bank carries out transactions with key management and their related concerns in the ordinary course of its business on an arms length basis at commercial rates except the loans that the key management have availed under the loan schemes uniformly applicable to all the staff at concessionary rates.

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

	Balances as at end of year	
	2010 Rs'000	2009 Rs'000
Deposits placed	91,178	98,569
Loans and advances	36,947	24,609

44.2.2 Compensation of key management personnel

	2010 Rs'000	2009 Rs'000
Short term employee benefits	105,628	114,170
Post employment benefits	1,116	1,030
	106,744	115,200

44.2.3 Direct and Indirect Accomodation

Direct and indirect accomodation as a % of the Bank's regulatory capital	0.32%	0.22%
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44.3 Share Based Payments to Key Management Personnel

	2010	2009
Share Grant		
No of ordinary shares held	104,924	-
Dividends paid (Rs'000)	939	-
No of cumulative grants allocated under the Equity Linked Compensation Plan (ELCP) Tranch 1 (1 July 2010)	104,924	-

Share Option

As at 31 December 2010, the eligible members of the staff were allocated share options as follows.

104,924 Ordinary Shares at a price of Rs. 248.42 each, to be vested on 1 July 2011 and exercisable before 30.06.2014

44.4 Transactions with Related Companies

44.4.1 The Bank had the under mentioned financial dealings during the year with the following Subsidiaries and Associates of the Bank.

	Subsidiaries of the Group *				Associates of the Group*			
	Balances as at end of year		Average balance during the year		Balances as at end of year		Average balance during the year	
	2010 Rs'000	2009 Rs'000	2010 Rs'000	2009 Rs'000	2010 Rs'000	2009 Rs'000	2010 Rs'000	2009 Rs'000
Balance sheet								
Assets								
Loans and advances	84	24,507	12,296	14,093	15,484	46,293	30,889	78,983
Group company receivables	-	-	-	1,019	1,356	1,373	1,365	860
Liabilities								
Deposits placed	975,856	3,263,829	2,119,843	2,902,105	383,198	711,361	547,280	676,683
Other payables	9,134	4,761	6,948	2,776	-	-	-	-
Equity								
Investment in ordinary shares	2,770,540	2,748,658	2,759,599	2,683,467	452,460	452,460	452,460	452,460

	During the year		During the year	
	2010 Rs'000	2009 Rs'000	2010 Rs'000	2009 Rs'000
Income Statement				
Interest received/(paid) - net	(181,152)	(349,728)	(57,582)	(80,883)
Rent and utilities received	3,831	6,542	-	-
Rent and utilities paid	(10,633)	(10,268)	-	-
Management fees received	29,385	11,086	-	-
Front end fees	1,339	-	-	-
Bancassurance Income	-	-	73,613	19,260
Insurance paid	-	-	(73,488)	(58,105)
Claims received	-	-	30,665	26,284
Water	13	13	-	-
Electricity	2,788	2,404	-	-
Janitorial	108	-	-	-
Capital Gains	-	-	800	-
Dividends paid	118,869	155,102	12,991	78,718

*Refer Note 25 and note 26 for details of subsidiary and associate companies.

44.4.2 NDB Bank had the under mentioned financial dealings during the year with NDB Provident Fund

	2010 Rs'000	2009 Rs'000
Deposits with NDB Bank	8,826	31,453
Interest paid on deposits during the year	1,487	4,765
Contribution made by the Bank	92,052	73,126
Investments in Government Securities	140,000	85,057

44.4.3 Aviva NDB Wealth Management Limited, a subsidiary of NDB Bank had the under mentioned financial dealings with NDB Provident Fund

	2010 Rs'000	2009 Rs'000
Portfolio balance as at 31 December managed on behalf of NDB Provident Fund	779,251	616,022

44.4.4 Direct and indirect accomodation

Direct and indirect accomodation of subsidiaries

& associates companies as a % of the Bank's regulatory capital

0.14% 0.64%

Capital Adequacy

This term is used to describe the adequacy of Bank's aggregate capital in relation to the risks which arise from its assets and its off balance sheet transactions, its dealing operations and its human activities, technology and natural incidents. Central Bank of Sri Lanka has prescribed the minimum risk sensitive capital and effective from 1 January 2008 required the Bank to compute the minimum capital in accordance with the "International Convergence of Capital Measurement and Capital Standards - a Revised Framework" (BASEL 11). The aim is to ensure minimum capital, commensurate with risks assumed by the Bank, is maintained as a buffer to absorb foreseeable future credit, market & operational losses.

Basis of Computation

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

Capital Base as at 31 December	NDB Bank	
	2010 Rs 000	2009 Rs 000
Tier I : Core Capital		
Stated Capital	1,093,094	1,032,931
Statutory Reserve fund	878,718	818,554
Published retained profits	3,914,997	3,437,432
General & other reserves	5,805,707	5,805,707
Minority interests	-	-
	11,692,516	11,094,624
Deductions - Tier I		
Net deferred tax assets	-	23,305
Intangible assets	206,720	147,383
50% Investments in unconsolidated banking & financial subsidiaries	1,271,195	1,260,218
50% Investments in capital of other banks & financial institutions	285,024	237,301
Total Tier I Capital	9,929,577	9,426,417
Tier II : Supplementary Capital		
General Provision	573,387	491,759
Approved Subordinated term debt	2,558,250	2,558,250
	3,131,637	3,050,009
Deductions - Tier II		
50% Investments in unconsolidated banking & financial subsidiaries	1,271,195	1,260,218
50% Investments in capital of other banks & financial institutions	285,024	237,301
	1,556,219	1,497,519
Eligible Tier II Capital	1,575,418	1,552,490
Capital Base	11,504,995	10,978,907

Risk Weighted Assets and Off Balance Sheet Exposure

	Principal Amount of On-Balance Sheet Items		NDB Bank Risk weights	Risk weighted Asset Amount	
	2010	2009	%	2010	2009
	Rs 000	Rs 000		Rs 000	Rs 000
Cash, treasury bills & other securities with Central Bank	18,459,433	20,715,070	0%	-	-
Loans secured against Sri Lanka Government guarantees	-	12,902	0%	-	-
Loans against cash deposits & gold	6,279,433	4,758,803	0%	-	-
Loans guaranteed by foreign sovereign	-	33,332	0%	-	-
Claims on Banks	4,231,876	7,570,970	20-100%	1,262,611	1,773,530
Claims on Financial Institutions	3,852,690	2,397,616	50-100%	2,315,984	1,521,871
Loans secured by Primary Mortgage	4,788,982	4,098,462	50-55%	2,394,491	2,049,231
Other Claims	53,559,546	41,836,624	20-150%	50,977,241	40,149,412
Property and equipment	650,431	611,281	100%	650,431	611,281
Other receivables	614,332	724,303	100%	614,332	724,303
Total Assets considered for credit risk	92,436,723	82,759,363		58,215,090	46,829,629

Off -Balance Sheet Exposure

	Principal Amount of off-Balance Sheet Items		Credit Conversion Factor, %	Credit equivalent off-Balance Sheet Items	
	2010	2009		2010	2009
	Rs 000	Rs 000		Rs 000	Rs 000
General guarantees of indebtedness	4,308,560	6,323,011	100	4,308,560	6,323,011
Stand by LCs relating to particular transactions	536,829	570,290	50	268,414	285,145
Performance Bonds, Bid Bonds	2,214,066	1,262,311	50	1,107,033	631,156
Trade Related Acceptances	3,865,223	3,125,732	20	773,045	625,146
Shipping guarantees	465,527	473,548	20	93,105	94,710
Documentary letter of credit	5,660,711	3,433,002	20	1,132,142	686,600
Undrawn term loans	1,301,925	1,052,603	0,20 & 50	332,135	310,698
Foreign Exchange contracts	45,858,255	30,241,652	2 & 5	948,668	604,833
Undrawn Overdrafts	4,480,467	3,105,030	-	-	-
Other unutilised facilities	15,713,479	13,080,107	0,20 & 50	255,814	209,130
Total off balance sheet exposure	84,405,041	62,667,287		9,218,916	9,770,429

Capital Charge for Market Risk

Capital Charge for Interest Rate Risk	167,957	161,628
Capital Charge for Equity	42,657	-
Capital Charge for Foreign Exchange & Gold	30,322	42,307
Total Capital charge for Market Risk	240,936	203,935
Total risk weighted assets equivalent for Market Risk	2,409,360	2,039,350

Capital Charge for Operational Risk

Gross Income		
Year 1	4,759,698	4,123,009
Year 2	5,392,961	4,759,698
Year 3	5,435,434	5,392,961
Average Gross Income	5,196,031	4,758,556
Total Capital Charge for Operational Risk - 15%	779,405	713,783
Total risk weighted assets equivalent for Operational Risk	7,794,047	7,137,834
Total Risk Weighted Assets and Off Balance Sheet Exposure	77,637,413	65,777,243

Risk Weighted Capital Ratios

Tier 1 (Required statutory minimum ratio is 5%)	12.79	14.33
Tier 1 & Tier 2 (Required statutory minimum ratio is 10%)	14.82	16.69

Capital Adequacy

Capital Base as at 31 December	NDB Group	
	2010 Rs 000	2009 Rs 000
Tier 1 : Core Capital		
Stated Capital	1,093,094	1,032,931
Statutory Reserve fund	878,718	818,554
Published retained profits	7,589,288	6,539,509
General & other reserves	5,805,707	5,805,707
Minority interests	717,084	686,622
	16,083,891	14,883,323
Deductions - Tier 1		
Goodwill	4,330	4,330
Net deferred tax assets	-	24,741
Intangible assets	210,300	147,383
50% investments in the capital of other banks and financial institutions	1,064,801	872,976
Total Tier 1 Capital	14,804,460	13,833,893
Tier 2 : Supplementary Capital		
General Provision	573,387	491,759
Approved Subordinated term debt	2,558,250	2,558,250
	3,131,637	3,050,009
Deductions - Tier 11		
50% investments in the capital of other banks and financial institutions	1,064,801	872,976
Capital Base	16,871,296	16,010,926

Risk Weighted Assets and Off Balance Sheet Exposure

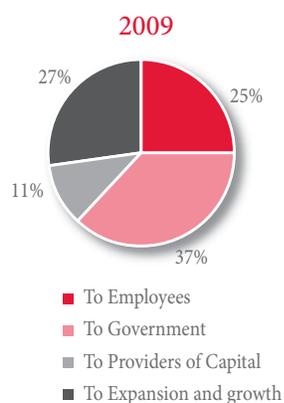
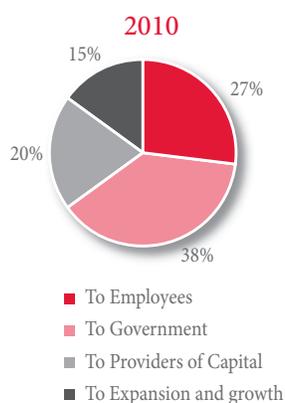
	Principal Amount of On-Balance Sheet Items		NDB Group Risk weights %	Risk weighted Asset Amount	
	2010	2009		2010	2009
	Rs 000	Rs 000		Rs 000	Rs 000
Cash, treasury bills & other securities with Central Bank	18,866,902	22,577,388	0%	-	-
Loans secured against Sri Lanka Government guarantee	-	12,902	0%	-	-
Loans against cash deposits & gold	6,279,433	4,758,803	0%	-	-
Loans guaranteed by foreign sovereign	-	33,332	0%	-	-
Claims on Banks	4,465,965	7,819,955	20-100%	1,336,209	1,823,327
Claims on Financial Institutions	4,843,590	2,397,616	20-100%	2,831,434	1,521,871
Loans secured by Primary Mortgage	4,788,982	4,098,462	50-55%	2,394,491	2,049,231
Other Claims	54,525,761	41,928,215	20-150%	51,871,456	40,133,003
Property and equipment	1,907,726	1,855,691	100%	1,907,726	1,855,691
Other receivables	986,401	938,335	100%	986,401	938,335
Total Assets considered for credit risk	96,664,760	86,420,699		61,327,716	48,321,458

Off -Balance Sheet Exposure

	Principal Amount of off-Balance Sheet Items		Credit Conversion Factor, %	Credit equivalent off-Balance Sheet Items	
	2010	2009		2010	2009
	Rs 000	Rs 000		Rs 000	Rs 000
General guarantees of indebtedness	4,308,560	6,323,011	100	4,308,560	6,323,011
Stand by LCs relating to particular transactions	536,829	570,290	50	268,414	285,145
Performance Bonds, Bid Bonds	2,214,066	1,262,311	50	1,107,033	631,156
Trade Related Acceptances	3,865,223	3,125,732	20	773,045	625,146
Shipping guarantees	465,527	473,548	20	93,105	94,710
Documentary letter of credit	5,660,711	3,433,002	20	1,132,142	686,600
Undrawn term loans	1,301,925	1,052,603	0, 20 & 50	332,135	310,698
Foreign Exchange contracts	45,858,255	30,241,652	2 & 5	948,668	604,833
Undrawn Overdrafts	4,480,467	3,105,030	0	-	-
Other unutilised facilities	15,713,479	13,080,107	0, 20 & 50	255,814	209,130
Total off balance sheet exposure	84,405,041	62,667,287		9,218,916	9,770,429
Capital Charge for Market Risk					
Capital Charge for Interest Rate Risk				217,025	161,628
Capital Charge for Equity				95,744	4,046
Capital Charge for Foreign Exchange & Gold				30,322	42,307
Total Capital charge for Market Risk				343,091	207,981
Total risk weighted assets equivalent for Market Risk				3,430,910	2,079,810
Capital Charge for Operational Risk					
Gross Income					
Year 1				5,483,189	4,801,861
Year 2				5,977,860	5,483,189
Year 3				6,526,279	5,977,860
Average Gross Income				5,995,776	5,420,970
Total Capital Charge for Operational Risk - 15%				899,366	813,146
Total risk weighted assets equivalent for Operational Risk				8,993,664	8,131,455
Total risk weighted assets and off Balance Sheet exposure				82,971,207	68,303,153
Risk Weighted Capital Ratios					
Tier 1 (Required statutory minimum ratio is 5%)				17.84	20.25
Tier 1 & Tier 2 (Required statutory minimum ratio is 10%)				20.33	23.44

Statement of Value Added

	2010	%	2009	%
VALUE ADDED				
Gross Income	11,824,324		13,821,072	
Cost of Borrowings and Services	(7,021,652)		(8,558,258)	
Provision for losses	171,541		(373,495)	
	4,974,213		4,889,319	
DISTRIBUTION OF VALUE ADDED				
To Employees				
Remuneration and benefits	1,325,673	27	1,204,978	25
To Government				
Income tax	1,881,442	38	1,810,063	37
To Providers of Capital				
Dividend to shareholders	983,246	20	552,523	11
Retained in the Business				
Retained profit	593,050	11	1,129,930	23
Depreciation	190,802	4	191,825	4
	783,852	15	1,321,755	27
	4,974,213	100	4,889,319	100



Investor Information

1. Stock Exchange

The consolidated Income Statement for the year ended 31 December 2010 and the Balance Sheet of the Bank and the Group as at that date have been submitted to the Colombo Stock Exchange within two (02) months of the Balance Sheet date.

2. Ordinary Shareholders as at 31 December 2010

Individuals

No. of Shares	No.	Resident		Non-Residents			Total		
		Shares	%	No.	Shares	%	No.	Shares	%
1 - 1,000	5,974	1,731,434	2.11	67	24,509	0.03	6,041	1,755,943	2.14
1,001 - 10,000	1,186	3,258,416	3.97	34	144,330	0.17	1,220	3,402,746	4.15
10,001 - 100,000	122	2,811,373	3.43	7	149,323	0.18	129	2,960,696	3.61
100,001 - 1,000,000	5	1,335,562	1.63	-	-	0.00	5	1,335,562	1.63
1,000,001 - Over	-	-	0.00	4	12,088,750	14.72	4	12,088,750	14.72
SUB TOTAL	7,287	9,136,785	11.13	112	12,406,912	15.11	7,399	21,543,697	26.24

Corporate

1 - 1,000	197	65,607	0.08	3	1,084	0.00	200	66,691	0.08
1,001 - 10,000	132	518,406	0.63	6	31,200	0.04	138	549,606	0.67
10,001 - 100,000	75	2,692,485	3.27	14	658,882	0.80	89	3,351,367	4.07
100,001 - 1,000,000	18	4,981,273	6.07	14	5,277,904	6.43	32	10,259,177	12.50
1,000,001 - Over	6	27,579,558	33.59	6	10,896,605	13.27	12	38,476,163	46.86
SUB TOTAL	428	35,837,329	43.65	43	16,865,675	20.54	471	52,703,004	64.19
TOTAL	7,715	44,974,114	54.78	155	29,272,587	35.65	7,870	74,246,701	90.43

Note on the unregistered/unallotted shares

Out of the 82,100,951 shares in issue, 7,854,250 representing 9.57% which were issued in 2006 are not allotted.

3 Share Valuation

The market value of the National Development Bank PLC ordinary shares on 31 December 2010 was Rs. 349.50 per share. The highest and lowest values recorded during this 12 month period were Rs. 410.00 on 1 October 2010 and Rs. 202.00 on 21 and 22 January 2010 respectively.

4 Directors Interest in Shares of NDB as at 31 December 2010

Name	No of Shares as at 31 December 2010	Name	No of Shares as at 31 December 2009
P M Nagahawatte	-	P M Nagahawatte	-
H D S Amarasuriya	9,075	H D S Amarasuriya	9,075
R Vokes	-	A R Gunasekara	883
T L F W Jayasekera	-	G C B Wijeyesinghe	-
N I R De Mel (CEO)	3,558	Lal De Mel	15,541
D S P Wikramanayake	-	R B Thambiyah	-
Ms K Fernando	-	E Wickramaratne (CEO)	-
H A Siriwardena	-	R Vokes	-
		Dr. S Yaddehige	4,234,500

Investor Information

5. Twenty Largest Registered Shareholders as at 31 December 2010

Name	2010		2009	
	No of Shares	%	No of Shares	%
1 Bank of Ceylon A/C 1	8,185,538	9.97	8,185,538	10
2 Employees Provident Fund	7,204,200	8.77	3,762,900	4.6
3 Sri Lanka Insurance Corporation Limited - General Fund	4,694,244	5.72	4,435,538	5.42
4 Dr. S Yaddhegige	4,234,500	5.16	4,234,500	5.17
5 Sri Lanka Insurance Corporation Limited - Life Fund	3,902,713	4.75	3,750,000	4.58
6 Pershing LLC S/A Averbach Grauson & Co	3,432,000	4.18	3,263,900	3.99
7 HSBC Intl Nominees Ltd-BPSS LUX - Aberdeen Global Asia Pacific Equity Fund	2,857,725	3.48	2,857,725	3.49
8 FI-CIBLUX S/A Batterymarch Global Emerging Market Fund	2,853,900	3.48	2,853,900	3.49
9 HSBC International Nominees Limited-MSNY-Bay Pond Partners LP	2,250,600	2.74	71800	0.08
10 HSBC Intl Nom Ltd-BPSS LDN-Aberdeen Asia Pacific Fund	2,147,400	2.62	2,147,400	2.62
11 NDB-ESOP	2,066,863	2.52	2,066,863	2.53
12 Employees Trust Fund Board	1,526,000	1.86	1,485,400	1.81
13 BNY-CF Ruffer Investment Funds : CF Ruffer Pacific Fund	1,500,000	1.83	-	-
14 HSBC INTL Nom Ltd - SNFE-NTAsian Discovery Master Fund	1,485,000	1.81		
15 HSBC Intl Nom Ltd - SSBT - The RBS as Dep of FS India Subcontinent Fund as S/F of First State Investments ICVC	1,201,630	1.46	1,201,630	1.47
16 HSBC International Nomenees Limited-MSNY-Bay Pond Investors (Bermuda) LP	1,022,600	1.25	23600	0.02
17 DFCC Bank A/C 1	1,000,000	1.22	83200	0.1
18 National Savings Bank	831,000	1.01	-	-
19 Mr. Y S H I K Silva	769,475	0.94	224,075	0.27
20 Mellon Bank NA Florida Retirement System	741,257	0.90	1,181,030	1.44
Total	53,906,645	65.67		

Percentage of Shares held by the Public

87.25%

6 Debenture Information

Date of issue - 24 December 2007

Issue price - Rs. 1,000/- per debenture

Total no. of debentures issued - 250,000

Highest price per debenture for the period - not traded

Lowest price per debenture for the period - not traded

Interest rate of Comparable Government Security - 7.10%

Debt equity ratio (times) - 7.57

Liquidity ratio (%) - DBU 26.18

- FCBU 26.31

Interest cover (times) 1.66

Interest yield as at date of last trade - not applicable

Yeild to maturity and trade done - not applicable

Redeemed on - 27 November 2010

Ten Year Summary

Group Income Statement

Rs mn	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Income										
Interest Income	5,810.3	5,041.3	4,666.5	4,397.9	5,035.3	6,075.6	8,598.6	10,860.2	11,606.9	9,952.7
Interest Expenses	4,369.7	3,380.6	2,465.4	2,151.8	2,342.0	3,223.0	5,076.2	7,073.0	7,373.7	5,685.9
Net Interest Income	1,440.6	1,660.7	2,201.1	2,246.1	2,693.3	2,852.6	3,522.4	3,787.2	4,233.2	4,266.8
Other Income	715.2	930.0	1,404.5	1,471.0	2,080.7	2,133.2	1,474.3	1,661.9	2,560.0	2,785.10
Net Income	2,155.8	2,590.7	3,605.6	3,717.1	4,774.0	4,985.8	4,996.7	5,449.2	6,793.2	7,051.9
Less Operating Expenses										
Personnel Costs	382.1	412.7	588.0	916.3	1,131.5	830.0	949.3	1,151.1	1,299.8	1,566.7
Provision for Bad & Doubtful Debts and Fall in Value of Investments	526.8	476.8	787.0	278.6	153.5	13.4	65.1	115.7	373.5	(171.5)
Other Administrative & General Expenses	534.4	520.9	817.6	1,266.9	1,473.3	929.5	1,103.5	1,237.2	1,370.1	1,496.1
Total Operating Expenses	1,443.3	1,410.5	2,192.5	2,461.8	2,758.3	1,772.9	2,117.9	2,504.0	3,043.4	2,891.4
Less: Exceptional Items	-	-	-	-	171.8	-	-	-	-	-
Operating Profit	712.4	1,180.2	1,413.1	1,255.4	1,843.9	3,212.9	2,878.8	2,945.1	3,749.8	4,160.6
Share of Associate Co's Profit	72.4	113.7	113.2	31.3	21.7	214.5	179.4	172.4	525.8	294.8
Profit Before Taxation	784.8	1,293.9	1,526.3	1,286.6	1,865.6	3,427.4	3,058.2	3,117.6	4,275.6	4,455.3
Taxation	(226.2)	(251.0)	(305.2)	(481.1)	(593.0)	(1,220.4)	(1,421.4)	(1,409.4)	(2,154.3)	(2,232.4)
Profit After Taxation	558.6	1,042.9	1,221.1	805.5	1,272.6	2,206.9	1,636.8	1,708.2	2,121.3	2,223
Minority Interest	40.1	(112.3)	(98.0)	(102.4)	(236.6)	(176.4)	(115.4)	(103.4)	(36.6)	(73.4)
Profit Attributable to Group	598.7	930.6	1,123.1	703.0	1,036.0	2,030.5	1,521.4	1,604.8	2,084.8	2,149.6
Weighted Average Basic										
Earnings per share	11.1	17.3	20.9	13.1	22.4	24.8	18.6	19.6	25.5	26.2
Final Dividends (Rs mn)										
- Proposed/paid	456.9	295.6	309.1	309.1	322.5	327.4	409.3	491.1	552.5	983.2
Final Dividends per share										
- Proposed/paid	8.50	5.50	5.75	5.75	6.00	4.00	5.00	6.00	6.75	8.00
Interim Dividends per share										
- Proposed/paid	-	-	-	-	-	-	-	-	-	4.00
Dividend cover	1.3	3.1	3.6	2.3	3.2	6.2	3.7	3.3	3.8	2.2

Ten Year Summary

Group Balance Sheet

Rs mn	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Assets										
Cash & Short Term funds	3,037.7	5,937.7	12,440.7	14,101.5	2,098.8	4,467.2	6,056.1	4,250.1	5,841.0	2,475.4
Balances with Central Bank	-	-	-	-	818.7	1,575.3	1,692.2	1,632.9	2,402.2	3,077.4
Investments	5,016.0	3,828.6	5,726.0	5,633.6	19,078.0	12,170.2	14,700.9	18,509.3	32,127.5	27,665.7
Bills of Exchange	-	-	-	943.4	970.8	1,591.9	2,121.5	2,247.3	2,539.4	3,266.5
Loans & Advances	27,035.4	24,364.4	20,783.2	31,833.4	35,274.5	39,377.2	45,877.2	50,431.3	49,703.7	64,925.1
Lease Rentals & Receivables	3,504.3	2,884.7	573.3	609.4	731.3	1,449.1	1,820.0	1,910.4	1,863.4	2,327.0
Investments in										
Associate Companies	454.0	798.6	413.1	225.1	241.2	1,179.0	1,209.9	1,392.9	1,723.8	1,762.6
Property & Equipment	1,747.1	1,667.8	1,166.5	1,658.0	1,162.0	691.5	804.4	780.6	805.5	918.0
Investment Property	-	-	-	-	1,040.9	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0
Other Assets	1,815.7	889.0	1,865.4	2,445.6	3,006.3	1,276.2	660.8	925.4	1,075.2	1,089.5
Goodwill	(43.6)	2.9	904.9	1,535.1	872.7	-	-	-	4.3	4.3
Total Assets	42,566.5	40,373.7	43,873.1	58,985.0	65,295.2	64,977.5	76,142.5	83,280.2	99,286.0	108,711.50
LIABILITIES										
Borrowings	32,506.0	30,250.4	25,847.6	26,881.2	27,798.9	29,203.5	34,147.4	34,992.7	29,561.1	28,235.8
Deposits with customers	-	-	-	11,085.1	13,953.7	21,161.1	25,623.7	31,091.4	49,947.6	59,363.7
Non life insurance reserves	-	-	420.8	485.8	858.8	-	-	-	-	-
Longterm Insurance Fund	-	-	6,612.8	7,985.4	9,238.2	-	-	-	-	-
Taxation	401.0	550.1	350.8	300.1	220.4	640.4	521.6	351.7	560.1	598.3
Other Liabilities	2,259.6	1,397.2	1,997.5	2,770.1	2,846.9	1,983.7	2,580.5	3,364.1	3,989.7	3,979.1
Dividend Payable	245.8	300.2	4.6	7.5	8.0	107.9	170.1	249.9	344.2	450.8
Total Liabilities	35,412.4	32,498.0	35,234.1	49,515.2	54,924.9	53,096.6	63,043.2	70,049.8	84,402.7	92,627.7
SHAREHOLDERS' FUNDS										
Stated Capital	629.2	629.2	629.2	629.2	760.1	1,032.9	1,032.9	1,032.9	1,032.9	1,093.1
Statutory Reserves	537.5	537.5	537.5	546.5	545.7	818.6	818.6	818.6	818.6	878.7
Revaluation Reserve	131.7	131.7	-	86.2	-	-	-	-	-	-
Revenue Reserves	4,839.7	5,524.8	6,730.5	7,114.7	7,849.7	8,715.2	9,833.4	10,810.5	12,345.2	13,395.0
Total Shareholders' Funds	6,138.1	6,823.2	7,897.2	8,376.5	9,155.5	10,566.6	11,684.9	12,662.0	14,196.7	15,366.8
Minority Interest	1,016.0	1,052.6	741.9	1,093.2	1,214.9	1,314.2	1,414.8	568.4	686.6	717.1
Total Funds Employed	7,154.1	7,875.8	8,639.1	9,469.8	10,370.3	11,880.9	13,099.7	13,230.4	14,883.3	16,083.9
Total Liabilities & Funds Employed	42,566.5	40,373.8	43,873.1	58,985.0	65,295.2	64,977.5	76,142.9	83,280.2	99,286.0	108,711.5
Return on average assets (%)	1.3	2.5	3.2	1.6	2.0	3.1	2.2	2.0	2.3	2.07
Return on equity (%)	10.0	14.4	15.3	8.6	14.3	21.0	13.7	13.2	15.5	14.5
Return on equity (%)										
(exclu. Exceptional items)	10.0	14.4	15.3	8.6	14.3	10.5	13.7	13.2	15.5	14.5
Book value per share	114.20	126.94	146.92	155.84	159.60	129.09	142.75	154.69	173.44	187.17
Book value per share										
(exclu. Exceptional items)	114.20	126.94	146.92	155.84	159.60	116.68	142.75	154.69	173.44	187.73

Corporate Information

Name

National Development Bank PLC. (The Bank was registered under the Companies Act No. 17 of 1982 and subsequently re-registered under the Companies Act No 7 of 2007 on 4th July 2007).

Registered No

PQ 27

Legal Form

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

Head Office/Registered Office

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

Board of Directors

P M Nagahawatte
H D S Amarasuriya
Dr. R W A Vokes
T L F W Jayasekara (Appointed w.e.f. 10.02.2010)
D S P Wikramanayake (Appointed w.e.f. 04.06.2010)
Mrs. K Fernando (Appointed w.e.f. 04.06.2010)
H A Siriwardena (Appointed w.e.f. 04.06.2010)
Ms. G D C Ekanayake (Appointed w.e.f. 07.02.2011)
A K Pathirage (Appointed w.e.f. 18.02.2011)
S Rajapakse (Appointed w.e.f. 23.02.2011)
R B Thambiyah (Resigned w.e.f. 21.01.2010)
Lal De Mel (Resigned w.e.f. 24.03.2010)
Dr. G C B Wijeyesinghe (Resigned w.e.f. 25.03.2010)
N S Welikala (Resigned w.e.f. 25.03.2010)
E Wickramaratne (Resigned w.e.f. 26.03.2010)
Dr S Yaddhige (Resigned w.e.f. 23.11.2010)
A R Gunasekara (Resigned w.e.f. 01.12.2010)

Integrated Risk Management Committee

D S P Wikramanayake (Chairman)
(Appointed w.e.f. 22.06.2010)
T L F W Jayasekara (Appointed w.e.f. 10.02.2010)
N I R De Mel (Appointed w.e.f. 26.03.2010)
H D S Amarasuriya (Appointed w.e.f. 11.02.2010)
Mrs. Nirmala Rayen (Appointed w.e.f. 22.06.2010)
R B Thambiyah (Resigned w.e.f. 21.01.2010)
Lal de Mel (Chairman) (Resigned w.e.f. 24.03.2010)
N S Welikala (Resigned w.e.f. 25.03.2010)
Dr. S Yaddhige (Resigned w.e.f. 23.11.2010)
A R Gunasekera (Chairman) (Resigned w.e.f. 01.12.2010)

Audit Committee

T L F W Jayasekara (Chairman)
(Appointed w.e.f. 10.02.2010)
Dr. R Vokes
D S P Wikramanayake (Appointed w.e.f. 04.06.2010)
Lal de Mel (Resigned w.e.f. 24.03.2010)
Dr. G C B Wijeyesinghe (Resigned w.e.f. 25.03.2010)
A R Gunasekara (Chairman) (Resigned w.e.f. 01.12.2010)

Strategic Issues Committee

P M Nagahawatte (Chairman)
Dr. R Vokes
H D S Amarasuriya
Mrs. K Fernando (Appointed w.e.f. 22.06.2010)
T L F W Jayasekara (Appointed w.e.f. 10.02.2010)
Dr. G C B Wijeyesinghe (Resigned w.e.f. 25.03.2010)
N S Welikala (Resigned w.e.f. 25.03.2010)
A R Gunasekara (Resigned w.e.f. 01.12.2010)

Remuneration & Human Resources Committee

H D S Amarasuriya (Chairman)
Dr. R Vokes
T L F W Jayasekara (Appointed w.e.f. 10.02.2010)
Mrs. K Fernando (Appointed w.e.f. 22.06.2010)
H A Siriwardena (Appointed w.e.f. 04.06.2010)
R B Thambiyah (Resigned w.e.f. 21.01.2010)
Dr. G C B Wijeyesinghe (Resigned w.e.f. 25.03.2010)

Nominations Committee

P M Nagahawatte (Chairman)
H D S Amarasuriya
T L F W Jayasekara (Appointed w.e.f. 10.02.2010)
Dr. R Vokes (Appointed w.e.f. 22.06.2010)
Lal de Mel (Resigned w.e.f. 24.03.2010)
A R Gunasekara (Resigned w.e.f. 01.12.2010)

Corporate Governance & Legal Affairs Committee

P M Nagahawatte
Mrs. K Fernando (Appointed w.e.f. 22.06.2010)
D S P Wikramanayake (Appointed w.e.f. 22.06.2010)
H A Siriwardena (Appointed w.e.f. 22.06.2010)
Dr. R Vokes (Resigned w.e.f. 22.06.2010)
Lal de Mel (Chairman) (Resigned w.e.f. 24.03.2010)
N S Welikala (Resigned w.e.f. 25.03.2010)
A R Gunasekara (Resigned w.e.f. 01.12.2010)

Subsidiary Companies as at 31.12.2010

Capital Development & Investment Co. PLC
Development Holdings (Pvt) Ltd
NDB Industrial Estates (Pvt) Ltd
NDB Stockbrokers (Pvt) Ltd
NDB Investment Bank Limited
NDB Capital Ltd (Bangladesh)
NDB Aviva Wealth Management Ltd

Associate Companies as at 31.12.2010

Ayojana Fund (Pvt) Ltd
Maldives Finance Leasing Co. Pvt. Ltd
NDB Venture Investments (Pvt) Ltd
AVIVA NDB Finance Lanka (Pvt) Ltd
AVIVA NDB Insurance PLC

Stock Exchange Listing

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

Company Secretary

C L Jayawardena
Attorney at Law

Auditors

Ernst & Young
201 De Saram Place, Colombo 10

Bankers

Hongkong & Shanghai Banking Corporation PLC
Citibank
Deutsche Bank AG
Standard Chartered Bank
ANZ
ICICI Bank
Uni Credit Bank AG
Nordea Bank Norge ASA
Bank of New Zealand
Commerz Bank AG

BANK'S HISTORY

In January 1979, an Act of Parliament, originally set up the predecessor of National Development Bank PLC, National Development Bank of Sri Lanka, as a wholly state-owned institution. Following a change of ownership structure in 1993, 61% of the share capital of the Bank was transferred to private ownership. In 1997 the Bank was privatised further by the early conversion of its convertible debentures and the disposal of the resulting shares. This reduced the Government's direct shareholding to 12.2%. Thereafter, a further 2.56% was allocated for the Employee Share Option Scheme. In April 2000 the Bank issued a further 17,916,667 shares in the ratio of 1:2 as Bonus Shares thereby increasing its total issued share capital to 53,750,000 shares.

In 2005, pursuant to the provisions of the National Development Bank of Sri Lanka (Consequential

Provisions) Act No 1 of 2005 a company by the name "National Development Bank Limited" was incorporated for the purposes of taking over the business of National Development Bank of Sri Lanka. Accordingly, on the 15th of June 2005, the National Development Bank Limited was incorporated and with effect from that date the National Development Bank of Sri Lanka Act No 2 of 1979 was repealed save and except for certain provisions contained therein.

On the 1st of August 2005 the Central Bank of Sri Lanka granted a commercial banking license to the new Company whilst withdrawing the specialized banking license that was held by it and on the same day the business operations of NDB Bank Limited was taken over by National Development Bank Limited. In view of this the shareholders of NDB Bank Limited were issued with shares of National Development Bank Limited at

the ratio of 1 National Development Bank Limited share for every 5.6 shares of NDB Bank Limited held by them. This resulted in the increase of the issued capital to 54,570,257 shares. In 2006 the Bank approved a bonus share issue at the ratio of 1 new share for every 2 shares held by the shareholders and accordingly the capital of the Bank was further increased by another 27,285,128 shares. In July 2010, as per the Equity Linked Compensation Plan of the Bank, 245,566 ordinary shares were issued. The present stated capital of the Bank is Rs. 1,093,094,670/- and the number of shares issued are 82,100,951. The shares of the Bank are continuously quoted on the Colombo Stock Exchange.

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

Changing lives everyday



Customer Service Hotline +94 11 2448888

www.ndbbank.com