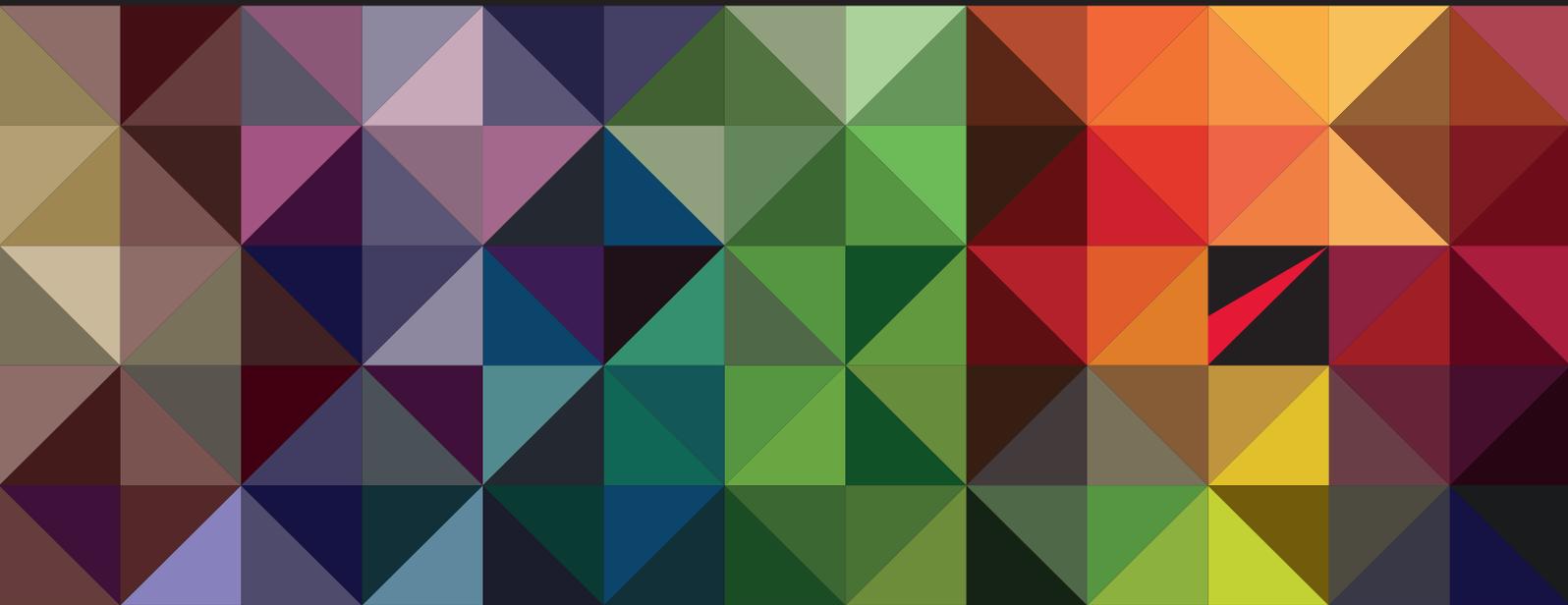
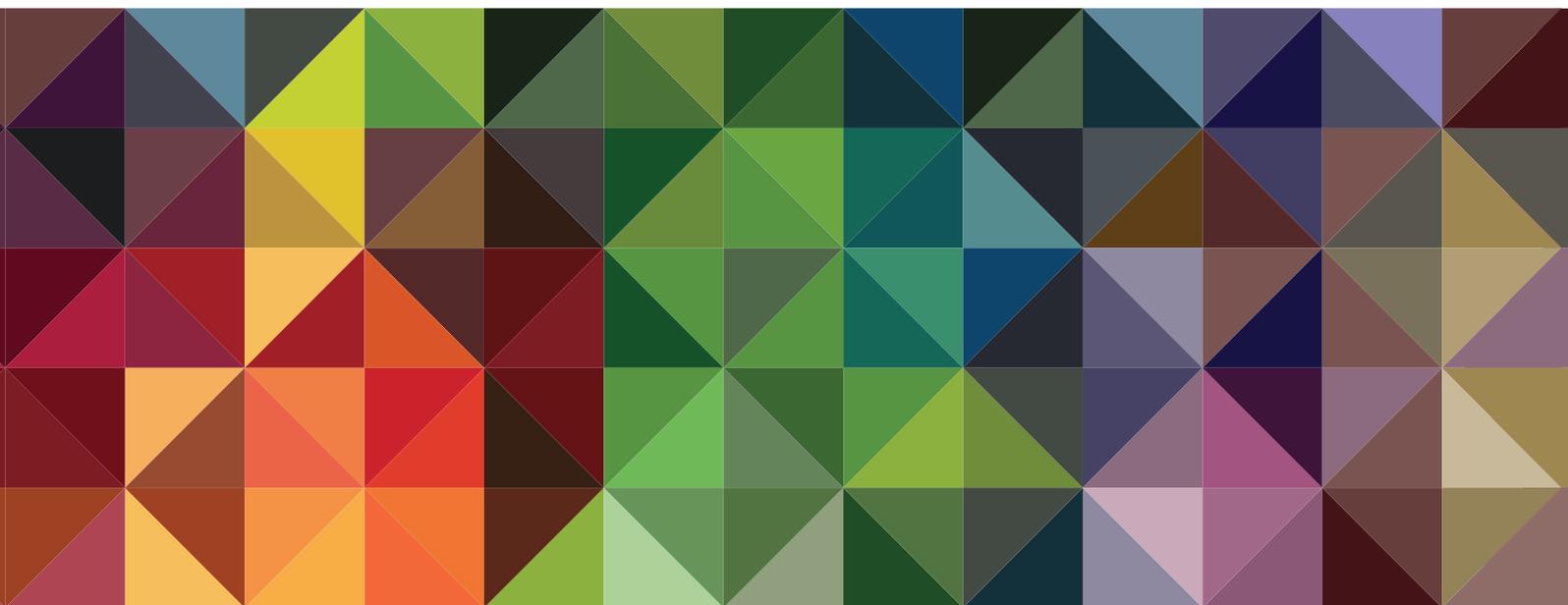


THE
MANY
FACETS
OF NDB



NDB BANK
ANNUAL
REPORT
2009



THE MANY FACETS OF NDB

When a bank's purpose is 'to make every household and business entity financially prosperous and stable' it is important that it plays a universal role. From that of a commercial bank to a trusted partner and expert advisor. Every household and every business has a unique financial challenge, for which there is no universal solution, but there is a universal solutions provider.



NDB BANK ANNUAL REPORT 2009

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 in our vision to be a world-class Sri Lankan Bank.

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"AA (Ika) Fitch Rating"

Registered Name: National Development Bank PLC

Trade Name:  **NDB bank**

Company Registration No : PQ 27

Financial Highlights

	BANK			GROUP		
	2009	2008	% Change	2009	2008	% Change
(Rs. mn)						
Total Income	13,821	12,093	14.29	14,167	12,522	13.13
Net Interest Income	3,715	3,155	17.76	4,233	3,787	11.77
Other Income	2,588	1,571	64.73	2,560	1,662	54.04
Net Income	6,303	4,726	33.37	6,793	5,449	24.66
Profit Before Tax	3,493	2,359	48.08	4,276	3,118	37.15
Profit After Tax	1,682	1,195	40.82	2,121	1,708	24.19
Profit attributable to equity shareholders	1,682	1,195	40.82	2,085	1,605	29.91
Shareholders' Funds	11,095	9,964	11.35	14,295	12,662	12.12
Deposits from customers	49,948	31,914	56.51	49,948	31,091	60.65
Borrowings	20,237	26,102	(22.47)	18,760	24,432	(23.22)
Total Assets	96,847	82,340	17.62	99,286	83,280	19.22
Loans and Advances	55,877	56,515	(1.13)	55,901	56,534	(1.12)
Non performing loans	1,448	1,275	13.59	1,448	1,276	13.48
Gross Dividend paid	522	491	6.31	522	491	6.31
(%)						
Return on Average Equity	15.98	12.44	28.50	15.52	13.18	17.76
Return on Average Assets	1.88	1.54	22.24	2.28	2.01	13.44
Non performing loans ratio	2.58	2.29	12.66	2.58	2.28	13.16
Cost to income ratio	38.66	47.46	(18.53)	39.30	43.83	(10.33)
Effective overall tax rate	51.83	49.34	5.03	50.39	45.21	11.45
Capital Adequacy Tier 1 (minimum ratio of 5%)	14.65	14.26	2.73	20.60	19.82	3.88
Tier 1 & 2 (minimum ratio of 10%)	17.03	16.91	0.73	23.81	23.31	2.06
Liquidity ratio DBU (minimum ratio of 20%)	40.98	24.11	69.97	40.98	24.11	69.97
FCBU (minimum ratio of 20%)	29.38	21.53	36.46	29.38	21.53	36.46
(Rs.)						
Earnings	20.55	14.60	40.82	25.47	19.61	29.91
Book Value	135.54	121.73	11.35	173.44	154.69	12.12
Dividends Paid	6.75	6.00	12.53	6.75	6.00	12.53
Market Value (31 December)	206.00	86.00	139.53	206.00	86.00	139.53
(Times)						
Debt/Equity	7.30	6.88	6.10	5.60	5.22	7.31
Total leverage	7.73	7.26	6.47	5.95	5.53	7.46
Interest Cover	1.49	1.43	4.19	1.57	1.54	2.52



CHAIRMAN'S MESSAGE

The Global Economy

When 2009 dawned, global output had fallen precipitously as had international trade, as economies worldwide were buffeted by the near collapse of the international banking system in 2008. Sri Lanka was not immune to these influences. One year later, in response to unprecedented and coordinated fiscal stimuli, monetary easing, and government support for banks, most developed countries have managed to emerge from recession. Emerging markets, led by China and India, suffered less than

richer nations, and have bounced back faster.

There is, however, concern that the recovery may be anemic and beset by high unemployment, based as it is on exceptional but temporary government spending, and "one off" replenishment of inventories by firms. There are at least four possible impediments to resumption of more rapid and sustained growth. Firstly, public debt has soared to very high levels in many rich nations, reflecting mainly the price of bailing out the banks and stimulating the economy.

Any further increase in government spending and debt levels risks destabilizing local and global economies. Sovereign debt service and risk are, therefore, rising concerns. Secondly, consumer spending which sustained global GDP growth in the past, is likely to remain subdued, as individuals reduce their borrowing levels. Thirdly, consumers in countries with massive surpluses like China and Germany will need to increase their spending significantly to compensate for the consumption downturn in deficit countries such as the US. This

involves structural change in individual lifestyles and savings habits and a move away from entrenched export cultures including currency alignments. This is not easily achieved. Finally, the global banking system remains damaged by the extent of its impaired assets. Lending, which is needed to sustain economic growth has resumed, but is likely to be subdued until banks have rebuilt their capital, and reform of banking regulations is agreed and implemented globally.

Sri Lanka is closely linked to the global economy through its high dependence on imports, exports, remittances, investment, borrowings and aid. In 2010 we are, therefore, likely to operate in a global environment which is improving albeit slowly, and where more stringent banking regulations including increased capital requirements are likely to be the norm everywhere.

The Sri Lankan economy

2009 was a year in which the full impact of the global recession was felt in this country. Thus, exports fell by around 13% and imports by 30% over the previous year, triggering a decline in GDP growth to around 3-4% from a recent trend level of over 6% p.a. This was an commendable performance in the context of a severe recession globally and escalated military conflict in the first five months of the year. While containing the fiscal deficit in the face of falling tax revenues and rising expenditure proved problematic, inflation was kept at a recent historic low of around 4% p.a. by tight monetary policy and falling global commodity prices. Interest rates declined sharply as inflation fell, which bodes well for prospects for future investment. The trade account benefited from the steeper decline in imports than in exports, decreasing from US\$ 5.9 billion in 2008 to less than half that sum by end 2009. The current account was boosted by an increase of 15% in remittances over the previous year and by capital inflows and borrowings, including drawdowns under an IMF facility. As a result, gross external reserves ended the year at a record high of US\$ 5 billion.

The end of three decades of conflict has provided the country with a unique opportunity to transform the economy and the lives of our citizens by achieving high and sustained economic growth. While the opportunity is now at hand, there are numerous structural challenges which need to be addressed before expected peacetime development goals can be achieved. Firstly, it is heartening to note the Government's stated commitment to reduce the fiscal deficit over a defined period, The persistent fiscal deficit has had a pervasive negative impact on many aspects of the economy for too long. Its continuance will surely impede future development. Secondly, the country needs to increase its present level of investment by at least 10% of GDP or over US\$ 4 billion annually, particularly in physical infrastructure, if expected growth targets are to be achieved. This involves making fundamental changes in productivity, skill levels and technology usage, as well as creating conditions to increase significantly the present low level of domestic and foreign savings. While the peace and security required to achieve these targets have been put in place, what is now needed is an unrelenting focus on long-term structural reforms required for sustained economic development.

Global and Sri Lankan Banking Systems

Global Banking Developments

There is global agreement that banking regulations need to be tightened to minimize the possibility of another financial meltdown. Reforms being discussed include increasing capital requirements, limiting leverage or borrowings of banks, more transparent accounting disclosure, building firewalls between commercial banking and their higher risk proprietary trading activities. These include the need to ensure that compensation paid to bankers is aligned with shareholder interests and also the need to deal with the vexed issue of moral hazard i.e. that guarantees and support provided by sovereign governments to banks do not encourage excessive risk taking, either by the management or by depositors of and lenders to those banks, secure in the

knowledge that the gains from their risk taking activities will be theirs to keep, but that losses will be borne by taxpayers. The financial crisis also demonstrated the connectivity of banks across geographic boundaries, and the importance of managing counterparty risk. This cross border vulnerability is likely to be addressed by globally coordinated tightening of banking regulation. Thus, the regulatory bar has to be raised in Sri Lanka accordingly.

The Sri Lankan banking industry - performance and outlook

2009 was a year of many challenges for our banks, including a slowing economy, volatile interest rates and the finance company crisis. Despite this, systemic stability was maintained which is a tribute to the resilience of the banking and regulatory system.

The industry loan book showed negative growth of 4% in 2009, compared with positive growth rates of 28%, 19% and 7% in 2006, 2007 and 2008 respectively. This was due to slower demand in the economy, combined with rising Non Performing Loans (NPLs) and resulting risk aversion at banks. Liquidity was strong with deposits growing at 18% a much faster pace than loans, enabling a reduction in borrowings. Excess liquidity was almost invariably invested in risk free government bonds.

Non-Performing Loans for all banks increased by 21% (Rs 22 bn) during 2009 to reach a NPL ratio of 8% for the industry by year-end. However, specific provisions made against NPLs have been reducing each year e.g. from 66% in 2005 to 39% by year-end 2009, the lowest level of cover since 1998. It is noteworthy that each further percentage point increase in provision cover will reduce industry profits of Rs 60 bn before tax for 2009, by Rs 1.2 bn. Profit before tax for the industry grew by 18%, mainly because of reduced provisioning, low growth in overheads and the impact of falling interest rates. Nevertheless, the industry's cost to income ratio of 53% remains regionally uncompetitive.

The opportunities for high and sustained economic growth in a nation at peace are

Chairman's Message

enormous. As providers of capital, banks have exciting opportunities and responsibilities to fuel this growth, as the North and East open up, tourism revives and infrastructure development and overall demand accelerates. However, significant structural impediments to growth need to be removed before sustained lending by banks can support national development. Principal among these are capital and the return on capital. Unlike other industries, banks fund themselves largely from public deposits. As a matter of public policy, therefore, regulators require that banks keep a minimum safety net of equity capital. As stated earlier, the minimum amount of regulatory capital is likely to increase.

The industry will not be able to support aggressive loan growth without new capital infusion. This can come from two sources, namely retained profits and external capital infusions. Retained profits in the industry are too low either to support high and sustained loan growth or to attract the significant amounts of needed new capital. The problem is that despite some of the highest interest margins in the region, profits are depressed by high overheads and Non Performing Loans which are far in excess of those of our regional competitors and also by a tax rate of around 60% on banking profits. Sri Lankan banks lack the scale that is needed to absorb the higher risks of rapid growth and the fixed costs of a capital-intensive business. The present high rate of tax on banking profits is also a strong disincentive to capital accumulation which provides the oxygen for growth. These structural problems need to be addressed, if banks in Sri Lanka are to move from resilience to growth.

Policy makers and banks need to recognize the dilemma, and work together to reduce tax rates and strengthen risk management. Equally important is the need to reduce the costly duplication of overheads such as branch network, ATMs, branch building and technology, which result from the present fragmented structure of the non-government banking industry. For this banks need to consolidate through mergers and acquisitions which should be facilitated by

appropriate logistics and regulatory initiatives. I emphasized the need for these last year, and we are hopeful that the authorities concerned are paying attention to these concerns.

NDB Bank - strategy and performance

NDB Bank has built on its historic legacy as a development and project finance bank, and has positioned itself to provide an integrated range of products and services in four areas, namely corporate and Small and Medium Enterprise banking, retail banking, capital markets and insurance, one of the most diversified business models among financial institutions in Sri Lanka.

2010 will bring new opportunities for expansion for NDB Bank in a post conflict era. Our positioning described above together with our specialist skills in project and infrastructure finance, will serve us well in the new environment of growth.

The strategy now is to build scale, to drive down costs and to reach out to new customers, whether organically or in partnership with others. There was considerable progress made towards our long-term goals in 2009.

Five new branches were opened in the North and East during the year and shortly thereafter, expanding our distribution to 45 branches, throughout the country. Our key financial indicators not only improved, but also were considerably better than the industry average. Thus, group profit attributable to shareholders grew by 30% to Rs 2.1 bn (20% excluding an exceptional capital gain on sale of shares of Rs 201 mn). The profit of the bank improved by 41% to Rs 1,682 mn. Return on shareholder funds therefore improved from 12.4% to 16.0%.

While loan growth was flat in line with industry trends, our Non-Performing Loans were kept at 2.6%, significantly better than the industry average of 8%. Specific provisions against NPLs was maintained at 75%, which is nearly double the industry average. This reflects the emphasis the Bank places on prudent risk management processes. Expenses increased by 9% over

the previous year, despite the branch expansion, and our cost to income ratio of 39% is one of the best among the local banks.

The capital adequacy ratio (Tier 1 and 2) for the bank was 17.03% at the year-end, which is substantially higher than the regulatory minimum requirement of 10%. NDB Bank enjoys a AA rating by Fitch Lanka Ratings.

In summary, the Bank is well capitalized, prudently managed and consistently profitable, with increasingly significant contributions being made from non-bank activities as well, namely insurance and the capital markets cluster. The group is well positioned to participate in the nation's future growth.

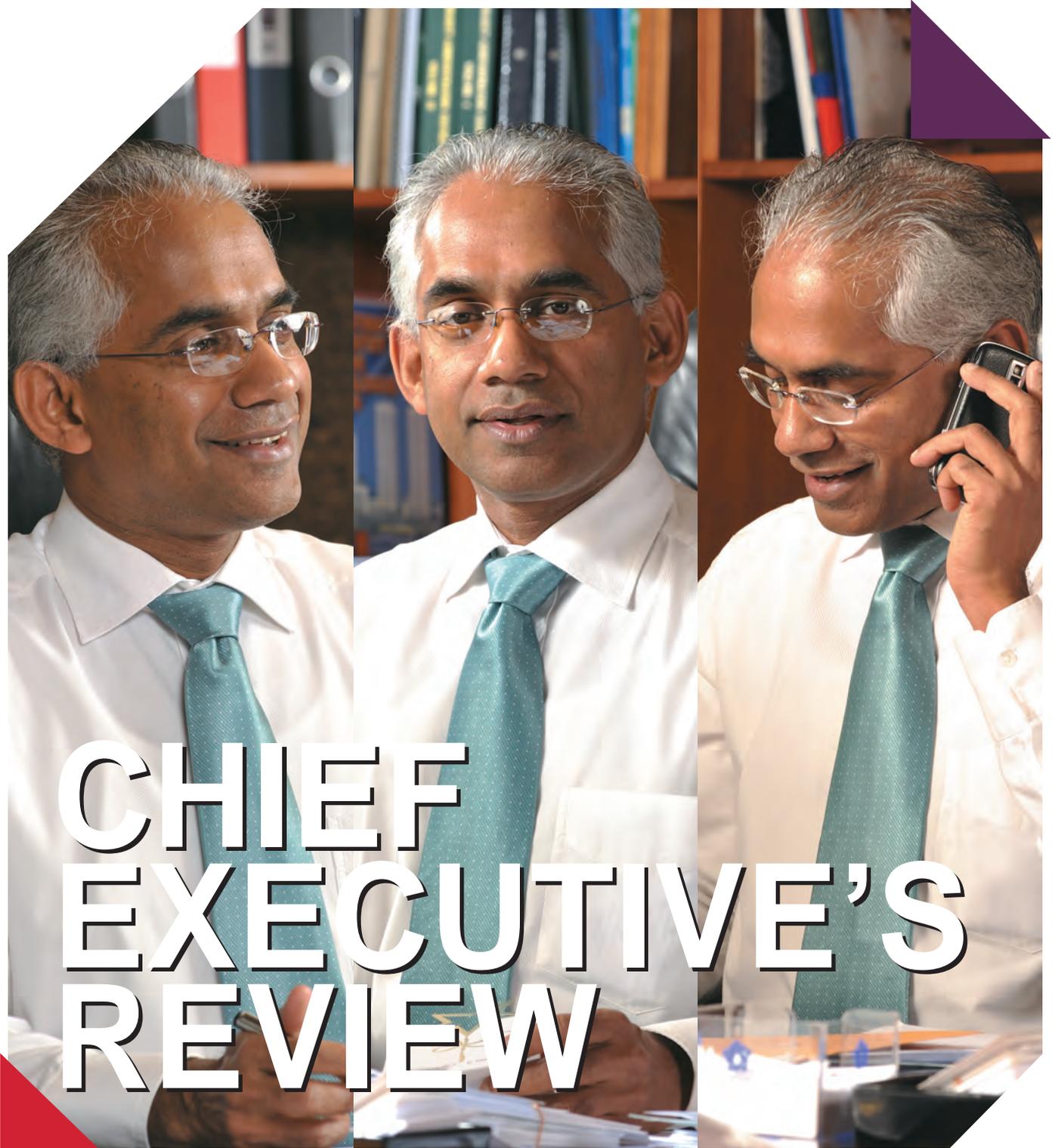
I would also like to emphasize the importance that we place on values and integrity within our organization. NDB Bank's success is based on the strongest ethical foundations.

I wish to take this opportunity to thank my colleagues on the Board of Directors for their dedication and guidance. I wish to express our gratitude in particular to Mr. S R de Silva and Mr. S T Nagendra who relinquished duties as directors during 2009, and to Mr. R B Thambiyah who relinquished duties as a director early this year, for the valuable service they rendered to the Bank for several years. We deeply appreciate the contribution they made as directors. I am thankful to the Chief Executive Officer, his management team and all employees for their excellent performance in a challenging year, which enabled the Bank to achieve the results it did. We are also grateful to the shareholders of the Bank for the co-operation extended by them. We owe a debt of gratitude to the regulators for their guidance and advice.



Manik Nagahawatte
Chairman

15 February 2010



CHIEF EXECUTIVE'S REVIEW

Sri Lanka experienced many macro economic challenges in 2009. Economic activity decelerated at the onset of the global financial crisis, export earnings became vulnerable, access to foreign capital was scarce, interest rates were volatile and the domestic financial system was increasingly under stress. As the crisis bottomed out, the world economy started to expand once again. There is now renewed hope of

creating the conditions necessary for sustainable long term economic growth and overcoming the near term challenges. The past year will also be remembered by all of us Sri Lankans with great relief and gratitude, as the end of the armed conflict opened a new chapter for the country. We now have the responsibility of fostering national reconciliation and building a post conflict country that we all could be proud of.

The challenges of the economy and financial markets tested the resolve of the NDB Group. However, the strong fundamentals, competitive strengths and diversified businesses within the Group helped us withstand these external pressures and record a commendable performance. The Group Profit Attributable to Shareholders increased 30% from Rs. 1.6 Bn to Rs. 2.1 Bn compared with the previous year, and we

Chief Executive's Review

posted a Group Return on Equity of 15.5% as compared to 13.2 % a year ago. The strength of the underlying core businesses has helped maintain profits, supplemented by exceptional gains. Total assets have grown by 18% in the year under review. The Non Performing Loans ratio of 2.58% as against an industry ratio of 8% and the Capital Adequacy ratio of 17% are amongst the best in the industry and bear evidence to the strength of our balance sheet and the low risk profile. While revenues increased, operational efficiencies were enhanced. The Cost Income ratio excluding exceptional equity capital gains was 41%, the lowest among Sri Lankan banks. We continued to invest in technology, distribution and brand building, thereby managing the task of balancing short term profits against the cost of investment for longer term gains.

One unique proposition that distinguishes the NDB Group against its competition is its strength as a fully integrated financial service provider, synergising commercial banking, retail banking, capital markets and insurance offerings. Our specialised skills in project and infrastructure finance built over the last three decades are being further leveraged to create synergies in other business segments as post conflict reconstruction and investment gathers pace. The Corporate Bank uses cash management and electronic banking services as a differentiator. SME lending was reorganised. A structured, target market approach addressed the working capital needs of small businesses as well as their project financing needs. Our liquidity positions were further strengthened during the year with a significant increase (57%) in the deposit base, compared against an industry growth of around 18%. However, the CASA component of deposits remains lower in comparison to the industry average, attributed to the fact that we are transiting

from a DFI to a commercial bank. Our capital market businesses were reorganised as an investment banking cluster. The CDIC's acquisition of the now re-branded NDB Aviva Wealth Management Company, brought asset management, investment banking and stock broking under a common umbrella. NDB Aviva Wealth Management Company is the largest private sector asset management company in the country. NDB Capital Ltd, our Bangladesh joint venture Investment Bank, formally launched operations in July this year. The launch established a regional footprint and positioned the Group for future expansion in new markets. Our strategy to become a retail brand has been strengthened by our foray into Insurance, as economic prosperity creates opportunities for new demand in this segment. Our Group company Eagle Insurance recently repositioned itself as Aviva NDB Insurance signifying the strength of their partners with global expertise and a local focus. NDB bank opened four new branches in the North and East regions of the country during the second half of the year. This demonstrates our commitment to post-conflict rebuilding of the physical and social infrastructure of the regions. We also endeavour to further leverage our partner networks such as the Singer and the Regional Rural Development banks, to deliver financial products to unreached customer segments.

Centralisation of operational functions has been further extended to select entities within the Group. This enhances operational efficiencies. We are currently in the process of upgrading our IT platforms with added functionalities, which would help better serve the changing demands of our customers. The proactive attitude of our employees was a key driver in improving productivity and gaining cost efficiencies. The senior

management team led from the front by accepting a salary freeze. These measures collectively helped us contain the operational expenses for the year, while retaining our training budgets and focussing on the development of people. We seek to realise our mission of providing the best in industry service excellence through an inspired team. We also ensure our commitment to the highest standards of corporate governance, business integrity and professionalism. Risk is inherent in the lending business and the Bank continues to assume and account for such risks in a systematic and efficient manner. Significant focus was laid on managing credit, market and operational risks.

At NDB, being a responsible citizen extends beyond community outreach. As such, close attention is paid to how we function as an employer and how we manage the organisation's wider social and environmental impacts. While our strategic CSR initiatives are focussed on the themes of Education and Entrepreneurship, we have also implemented a host of operational CSR initiatives with the active involvement of our employees. This enables us to build on our core values, while going that extra mile.

In education, we partnered with the University of Moratuwa to advance the cause of entrepreneurship education and research by the establishment of an Endowed Professor/ Senior Fellowship at the University, a first in Sri Lanka.

This year we also came up with a unique plan to empower each department, enabling them to carry out their own CSR projects. This initiative produced some amazing results as the staff came together as one family to reach out to the community. It is our belief that the vision of becoming a world class Sri Lankan bank can only be realised

with shared knowledge, skills and experiences of an inspired team that strives to meet and exceed customer expectations. We remain committed to retaining and developing human talent, encouraging a culture of innovation and actively promoting employee engagement at all times.

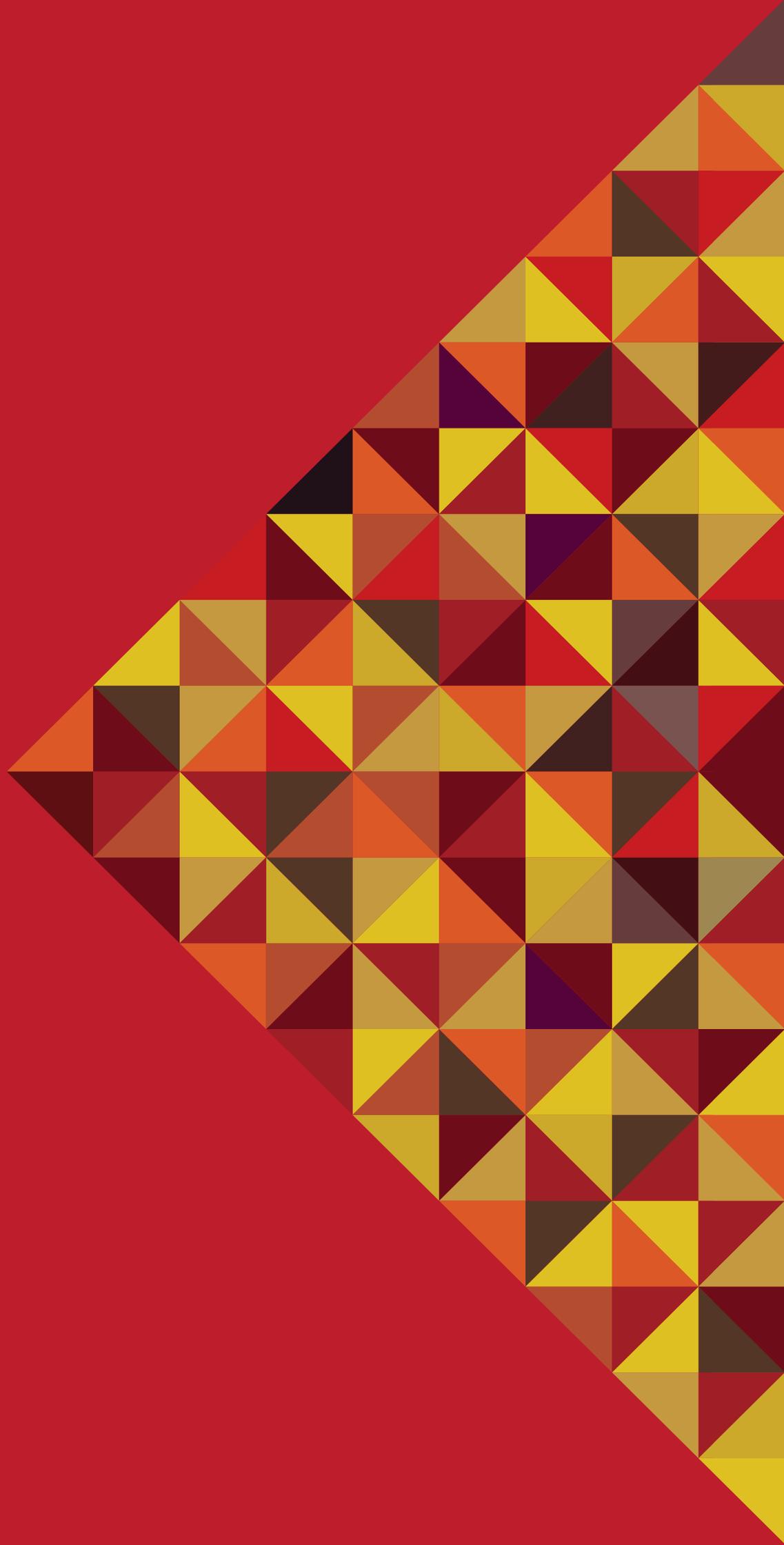
I am proud that we were able to reward our staff and their families with an overseas travel option, at a subsidised cost, through an initiative of the Staff recreation Club. This was a unique programme by a Sri Lankan company to expand the horizons of its staff. The Sri Lankan economy will pull out of the recession in 2010. We expect 2011 and 2012 to be years of economic growth. The banking industry has a major catalytic role to play in dealing with the investment demands of post-conflict development. NDB has much going for it: a strong balance sheet, a diversity of complimentary businesses, people and a culture to face the challenges of creating superior long term shareholder value. Although we are constrained by scale, we will grow organically and through mergers and acquisitions. We will strengthen group business sectors, such as insurance, and seek banking opportunities in Bangladesh. These strategies are contingent on the support of the regulators. In conclusion, my thanks are due to the officials of the Central bank for their support, Chairman and the Board of Directors for their advice and guidance, our customers for their continued patronage and my colleagues for their dedication and commitment. Let us convert the challenges into opportunities and advance with confidence and courage.



E Wickramaratne
Chief Executive Officer

15 February 2010

MANAGEMENT DISCUSSION N



Management Discussion

The year under review proved to be an extremely challenging one for the country as well as for NDB Bank. A multitude of political and economic developments defined this tumultuous period, requiring us to think on our feet whilst being mindful of our responsibilities to our stakeholders. NDB Bank scored high on all fronts in its multifaceted roles whether it was in commercial banking, development banking, or providing expert advisory services, creating a strong sense of financial security amongst all customers and laying the foundation required for the future growth. Emanating from the end of a 30 year military conflict, 2010 and years ahead are expected to yield many exciting banking opportunities, including opportunities in the newly liberated North & East areas. NDB Bank is well positioned in terms of capital adequacy, high asset quality and solid profitability to expand lending and provide other financial services in a significant way to help the Nation's rebuilding.

Corporate Banking Group

The Corporate Banking group of NDB Bank consists of four integrated business divisions, which are designed to provide both customer focus and product specialization:

- **Commercial Banking**
- **Project Finance**
- **Specialised Commercial markets**
- **Emerging Corporates**

Commercial Banking

The deterioration of the global economic environment continued in the first half of 2009 and NDB Bank adopted a cautious approach to lending, being selective in extending new credit with an emphasis on maintaining the high quality portfolio in commercial banking. However, despite all cautionary measures, NDB Bank was not entirely free from the adverse effects of the global economic meltdown. Nevertheless, continuous monitoring and the relationship based approach was helpful in successfully overcoming some challenging situations and recording an outstanding year-end

performance in terms of net income as well as portfolio quality. It is noteworthy to mention that NDB Bank maintains the best ratios amongst the local banks in respect of Non-Performing Loans (NPLs), profitability, and portfolio quality. Despite the adverse circumstances faced by NDB Bank, we remained committed to partnering our customers in tiding over the economic uncertainty with unique financial solutions to their every problem.

NDB Bank's strategy for growth in Commercial Banking and meeting the regular banking requirements of companies for transactions and trade is based not only on leveraging the strong client relationships, but also on enhancing client servicing capability at the operational level. Our Commercial Banking Department provides comprehensive and customized working capital solutions to the corporate clientele - offering the complete range of commercial banking products including rupee and foreign currency working capital credit, structured financing and transaction banking products and services.

The Commercial Banking Department is built around a core relationship team that has strong relationships with almost all of the country's corporate patrons. The relationship team is responsible for managing overall banking relationships with clients and monitoring the credit portfolio, and is also instrumental in cross-selling NDB Bank's products to other product specific departments on specific areas of expertise.

As the Sri Lankan economy embarks on a period of growth with the end to the 30-year-old ethnic conflict, the need for infrastructure development and expansion of local companies to the previously inaccessible North and East will provide stimulating opportunities for NDB Bank's Commercial Banking business in future. In 2010, Commercial Banking Department will continue to focus on increasing the stability of the revenue streams by leveraging on the transaction banking and trade services strategy and deepening the client

relationships by offering complete solutions of trade, transaction banking and working capital funding requirements.

Electronic Banking

NDB Bank offers its corporate customers the advanced electronic banking platform - 'e-window' - which enables customers to effectively manage Cash and Treasury Management activities and accounts in a convenient and secure environment. Some of the product functionalities offered are real time account information, statements, FX rates, etc. The trade finance module covers the opening of Import LCs, amendments and Trade Finance outstanding reports. In addition, customers could process all their payments such as cheques, telegraphic transfers, account transfers, and drafts in a cost effective and efficient manner. Over 45% of NDB Bank Commercial Banking customers now use this electronic banking platform to transact business with NDB Bank.

Product features and facilities are continually being updated to improve accessibility, convenience and security in transactions. Whilst e-Windows provides a competitive edge to NDB Bank amongst its peers, it also serves as a valuable differentiating factor for being the preferred banker for most of the corporate banking clients. We are constantly reviewing our service offerings and adding value to enhance the banking experience for our customers.

Project Finance

Project Finance Division of NDB Bank specializes in offering project loans tailored to suit corporate clients by considering their unique needs and business cycles. Leveraging on its industry knowledge and financial expertise, the Project Finance division continued to engineer financial packages no matter how complex, emerging with unique solutions that exceed customer expectations.

In a post-war era, Sri Lanka will require substantial investments in infrastructure to achieve its economic potential. At NDB Bank,

we consider economic and social infrastructure development as vital ingredients in the developmental mix to open up new avenues for investment, enhance nationwide reach and open up new markets, which in turn will generate new employment opportunities and support sustainable economic growth.

However, in our zeal to ensure financial stability for a prosperous nation, we are mindful of ground realities which dictate that this vision poses financial challenges for all stakeholders, since upgrading ports, airports, highways and rail networks, as well as capacity enhancement of power, communication and services sectors require substantial investments. The country's public sector has shouldered much of this responsibility since the time Sri Lanka gained independence, striving to bring about economic and social infrastructure development by providing essential services through direct budgetary allocation or foreign donor support.

Despite a prodigious beginning, a widening budget deficit and rising government debts ushered in direct private sector participation in financing infrastructure projects, which is an acceptable mode employed in many developing and emerging economies. In this context, Project Finance inevitably plays a pivotal role in economic and social development, meeting the numerous needs of all stakeholders in projects. At NDB Bank, development banking or project financing function remains a priority, inspiring us to act on our larger responsibility towards developing the nation's assets.

Most significantly, it can bring to bear comprehensive group synergies in order to structure the most suitable financial packages for its clients. NDB Investment Bank - the NDB Group's investment-banking subsidiary - has structured several securitizations primarily for the plantation sector. Encouraged by its success, the NDB Bank's Project Finance division has leveraged on these capabilities to reap a host of benefits in the year under review.

Despite the intricate nature of the project finance function, our innovative solutions remain pivotal to enhancing NDB Bank's position in this segment as it surges ahead to become a universal financial solutions provider.

Portfolio

The year under review was a challenging one for corporates across the globe as the world economy faced major difficulties. This, together with the heightened security concerns that prevailed amidst an escalating war situation in Sri Lanka until mid 2009, as well as wildly fluctuating international commodity prices created anything but a conducive environment for long-term lending in 2009.

In an attempt to beat the bleak outlook, NDB Bank followed a strategy of selective growth; therefore, the strategy of consolidating the portfolio in terms of its quality that was adopted in the recent past was further maintained.

Despite the global financial turmoil in the year under review, NDB Bank ventured into financing the first commercial wind power project, with the objective of assisting the country to unleash its untapped alternate energy resource.

Further, NDB Bank also participated in the Tea Relief Package offered by the Government of Sri Lanka, in addition to participating in several securitizations. Moreover, substantial disbursements were made to the Plantation Sector during the year under review under the Asian Development Bank concessionary funding scheme.

Environmental and Social Management

NDB Bank believes that environmental and social factors are key elements in project evaluation. Accordingly, the Bank's policy is to incorporate these factors formally in the credit evaluation process. The Environmental and Social Management system implemented by NDB Bank is designed to help identify and eliminate or mitigate

environmental and social risks at an early stage of the project to the benefit of NDB Bank, its customers and the community at large. NDB Bank has put into place stringent regulatory and management frameworks for environmental and social issues.

The current buzzword globally is 'climate change' and cleaner environment, while being both socially as well as economically important, provides banks such as ours with opportunities to be a part of this drive. We could achieve this by way of helping develop projects which would involve substantial investments towards achieving the 'greening' of the country, in doing so, we perceive our additional responsibility as a leading project financier to be in harmony with social and environmental regulation.

Strength of Core Competencies

The Project Finance division is the successor to the original National Development Bank of Sri Lanka set up in 1979. As a result of this rich legacy, it offers a comprehensive array of project financing skills and expertise, developed and refined over 30 years. Three decades on, NDB Bank still places great emphasis on the retention and enhancement of these core competencies. This is exactly why the Project Finance division is supported by dedicated, highly motivated and multidisciplinary professionals, who count a wide array of expertise and experience.

NDB Bank has been successful in combining this Project Finance know how with investment banking and specialized legal skills to structure a number of landmark deals. Leveraging on this high value competency, NDB Bank is presently involved in funding Greenfield infrastructure projects in the national energy sector, a crucial facet of infrastructure development that will drive the nation's economic growth in the near future.

Specialized Commercial Markets

Despite the fact that Sri Lankan banks were not directly impacted by the sub prime mortgage crisis in USA and Europe, which

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eventually led to the worst ever recession since the Great Depression, the dismal global and local economic realities were hard to ignore for most businesses in Sri Lanka as they struggled valiantly to retain and improve on the previous year's profit margins.

NDB Bank's Specialized Commercial Markets (SCM) division, with its close link to specific business sectors that are vulnerable to fluctuations in the global economy, was one of the first operations to be impacted adversely. The unit's key revenue generator - the Textile & Apparel sector - was further negatively impacted by the economic downturn combined with the higher costs of production.

The key export markets of USA and the European Union absorb a large chunk of apparel exports out of Sri Lanka, and the deep recession in those countries resulted in a decline in textile and apparel orders in local factories, which has impacted domestic vendors directly, causing a crisis that calls for serious assessment. As a natural corollary, this sequence of events served to contract the unit's lending portfolio by LKR 0.7 billion, to end up at LKR 2.7 billion by end of December 2009.

However, despite this grave situation, NDB Bank's Specialized Commercial Markets unit remained firm on its pledge to support the apparel sector in the country. In fact, the total loan disbursements to the apparel sector reached LKR 6.2 billion for the first 10 months of 2009. Despite being affected by the sector's marked slowdown, this unit will continue to steadfastly support and finance the apparel industry with more focus on transaction based financing.

Aside from the apparel sector, the unit continued to expand its cash flow based product offerings to clients in Corporate and Emerging Corporate banking units. This focused approach resulted in the portfolio of these products growing by 151% to reach LKR 467 million by the end of December 2009.

The end of the war in Sri Lanka and the seemingly steadily improving global economy are expected to revive the economy even more with key industries such as tourism etc, expected to make giant leaps, thereby leading to further investments in this and other infrastructure sectors particularly in the North and the East of the country, which thus far were neglected due to the war and would now need to be revitalized with a view to once again joining the country's mainstream economy.

The simultaneous expansion of the NDB Bank's distribution channels will enable the SCM unit to offer products to a more diverse customer base and eventually add value to clients of NDB Bank, strengthening our status as the preferred development bank for large and medium scale businesses, thus engendering financial stability.

Emerging Corporate (EC) - SME Banking

Small and medium enterprises (SMEs) play a catalytic role in the development of any country. While development banking with SMEs have always been an important aspect of NDB Bank's portfolio, it now takes on an even more important dimension given the end of the war and the task taken on by the government to rebuild the North and the East of the country. This is going to be made possible by various components in the economy, development banking being one of the foremost; and NDB Bank intends maintaining its strong position in this endeavor.



Handing over of the first financing facility done for the SME sector at the Ampara branch opening. The facility was provided for the purchase of a tractor.

In addition to the traditional forms of financial facilities such as granting of term and working capital loans and provision of guarantees, the Bank provides various other services such as credit rating, help in formulating/developing business plans for the current situation as well as for the future, debt restructuring, etc., and other areas of assistance to the entrepreneur. Recognizing the importance of the sector to the country's economy and the vast potential of the SME sector, the Bank has pioneered project lending to SME sector - supporting over 35,000 ventures and creating in excess of 500,000 employment opportunities since the establishment of National Development Bank Sri Lanka in 1979.

With the restructuring of SME operations in 2007, the Bank is now better equipped to handle the varied needs of the SME sector with emphasis on a customer focused and cash flow focused lending approach. The product range for the SME sector consists of Project-financing facilities (medium to long term), structured financing products (Cash flow based), commercial banking, trade finance products, etc.

NDB Bank further enhanced its position in 2009 as one of Sri Lanka's premier financial institutions serving SMEs by extending its presence to the newly liberated North and East Provinces with the opening up of 4 new branches, namely, Jaffna, Ampara, Batticaloa and Trincomalee in late 2009 and a fifth new branch in Vavuniya in 2010. With these branches, the Bank will focus on serving SME sectors such as fisheries, hotels & tourism, agriculture, commercial transportation and trading, with a view of rebuilding the communities, infrastructure and industries in the post-war economic activities, while enjoying peace dividends.

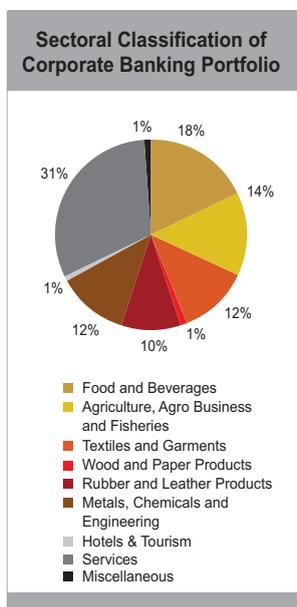
As the peace dividends will not be limited to the North and the East but will go further to other parts of the country, we will strive to consolidate our position in the areas outside the North and the East by offering robust banking solutions to SME clients, keeping pace with the expected economic growth in those areas.

Performance by Sector

The Corporate Banking portfolio at the end of the review period amounted to Rs. 41.165 mn, reporting a marginal growth of 2%. The Banking sector as a whole experienced a declining credit demand due to high cost of borrowing during the first half of 2009, and global economic slowdown permeating the local environment.

Dawn of peace in the North and East has created business opportunities and the full impact of this is expected to be seen in 2010. At present, the Government has implemented mega infrastructure development projects, enabling more facilities for investors interested in establishing ventures in the North and East.

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.



The services sector accounted for the largest share of the portfolio. Financial Services is the largest sub sector within the services sector accounting for 38% of this sector portfolio. The balance 62% is represented by Commercial services, telecommunications, energy, transport, shipping, construction and warehousing.

The food & beverage sector accounted for 18% of the portfolio. This portfolio increased during the period under review with the extension facilities. This sector is expected to provide good business prospects especially for the provision of working Capital Finance.

Agriculture, agribusiness and fisheries sector accounting for 14% of the portfolio, expanded by 26% during the period under review, largely supported by a marked increase in trade facilities to the agribusiness sub-sector, which encompass desiccated coconut, cinnamon and other spices. This sector also includes facilities extended to the plantation sector, which has increased by 27% during the year under review. This sector will have good potential in the coming year.

Textiles and garments sector portfolio at Rs. 4,931 Mn amounted to 12% of the Corporate Banking portfolio. Growth momentum of this sector will be impacted by any negative changes to the GSP+ scheme.

Metals, chemicals and Engineering sector accounted for 12% down from 14% in the previous year. The negative growth was largely on account of the metal sector, which largely depends on the construction industry, which in turn depends on the economic/political environment in the country, government policy, foreign aid & interest rates etc. Economic slowdown during the period under review had an adverse effect on the construction industry.

Rubber & leather products sector is an important and accounted for 10% of the portfolio. This sector will continue to provide good business prospects especially in the provision of working capital finance.

Hotels & Tourism sector, which has been dormant for a considerable period, is expected to kick-start with the tourism authorities unveiling plans for new resort development projects in the previously off-limits North & East of the country.

Refinance Operations

NDB Bank's refinancing operations reflect a rich legacy of nearly three decades - having benefited countless entrepreneurs in the micro, small and medium sectors over the years, with financial assistance encompassing preferential interest rates through APEX and direct credit line management.

NDB Bank together with its predecessor, National Development Bank of Sri Lanka has been providing universal solutions to the Small and Medium Enterprise (SME) sector for over 25 years, acting as an APEX agency to channel credit lines from international sources and financing over 35,000 projects directly and indirectly and creating over 500,000 employment opportunities. NDB Bank understands the special needs of SMEs more closely and offers a variety of specialised loan schemes tailored to SMEs at concessionary rates and terms, whilst also offering the customer financial and industry knowledge leveraging from its wealth of experience. This has helped to promote a sense of security amongst its beneficiaries.

Low cost funding is available through several credit schemes to uplift various sectors and industries including a special loan scheme that helps to make the business entities environmentally sound through waste minimisation, resource recovery/saving or pollution control. Rendering all possible assistance to ensure financial stability for this sector is the Bank's foremost priority.

NDB Bank completed another successful year in extending financial assistance to Participating Credit Institutions (PCIs), including its own branch network. During the year under review, NDB Bank managed five credit lines, including revolving funds. During a period when interest rates were showing a rising trend, these preferential interest rate credit lines catered to the capital requirements of the micro, small and medium sector entrepreneurs who play a vital role in the economy. The Government of Sri Lanka actively supports the implementation of these credit schemes through a bilateral

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negotiation process for sourcing funds from international donor lending agencies such as Japan International Corporation Agency (JICA) and Asian Development Bank (ADB), etc.

During 2009, the following APEX and direct refinance schemes were in operation:

- The credit component of the Southern Province Regional Economic Advancement Project (SPREAP) Revolving Fund, funded by ADB.
- The Small and Micro Industries Leader and Entrepreneur Promotion Project II (SMILE II) Revolving Fund, funded by JICA, contributed to the development of SMEs all over the country.
- The credit component under the ADB funded Aquatic Resources Development and Quality Improvement Project (Miridiya Sampath) promoted inland fisheries and aquaculture activities.
- ADB funded Small and Medium Enterprise Regional Development Project (SMERDP) was in operation targeting SMEs and its value chain clusters outside the Western Province.
- E-Friends I Revolving Fund was launched during the second half of the year with a fund allocation of Rs. 1.0 billion, funded by JICA.

NDB Bank also participated in refinancing schemes operated by the Central Bank of Sri Lanka and other lending agencies namely E-friends II, TDPRF and SMILE III.

A brief review of the salient features, achievements and main objectives of some credit lines, which were operational under APEX and direct financing by NDB BANK during the year under review, is as follows.

- a) The credit component of the Southern Province Regional Economic Advancement Project (SPREAP) Revolving fund continued to benefit micro level entrepreneurs in Galle,

Matara and Hambantota districts in the Southern Province. The credit line is gaining popularity especially with grassroots level projects in rural areas in the Southern Province. The success factor behind the increasing demand could be cited as the favourable terms of the revolving fund, which specifically targeted new and existing enterprises in the agriculture, commercial crops and animal husbandry sectors, while, selected manufacturing and service sectors were also included in its scope. This proved to be a boost to entrepreneurs in these prime sectors in the rural areas since accessing capital markets for their funding needs was a major constraint. The total funding availability for the project amounted to approximately Rs. 750 million. Several commercial banks and the Ruhuna Development Bank that participated in the original SPREAP scheme continued to participate in the revolving fund as well, while People's Bank and People's Leasing Company Limited joined as new participating credit institutions (PCIs) during the second half of the year.

- b) The credit component under the ADB funded Aquatic Resources Development and Quality Improvement Project (Miridiya Sampath) promoted inland fisheries and aquaculture projects.
- c) ADB, once again, extended valuable assistance to the country with the launch of a new credit line, SMERDP with a funding allocation of US\$ 10.0 mn to NDB Bank at concessionary terms, targeting SMEs outside the Western Province. This credit line further secured financial assistance to backward and forward linkages in the production value chain over a wide span of sectors based on the concept of cluster financing. Maintaining environmental standards plays a pivotal role under this credit line, encouraging PCIs to set up a standard process through establishing an environmental policy code, which is

inbuilt into the Credit Facility Appraisal Systems. NDB Bank has in place a comprehensive Environmental and Social Management Policy where certain sectors are excluded for funding and another 10 major sectors have been identified, where NDB Bank conducts an individual social and environmental risk analysis for the borrowers' operations and takes measures to avoid, mitigate and minimise the risks identified. Furthermore, funding proceeds only if these identified risks are mitigated/minimised.

- d) Small and Micro Industries Leader and Entrepreneur Promotion Project II revolving scheme was in operation during the year. This scheme supported the development of SMEs all over the country covering several target sectors. The fund allocation used for the revolving component was Rs. 1.6 billion. NDB Bank continued to act as the APEX institution for the scheme, which consisted of several licensed banks as PCIs. NDB Bank played a dual role by acting as a PCI as well.
- f) E-friends I Revolving Credit scheme was also in operation with a fund allocation of Rs. 1.0 billion. This credit line assists industrial enterprises with very low cost financing for end-of-pipe treatment projects such as industrial pollution as well as inefficiencies in energy consumption, compliance with statutory requirements of the Central Environmental Authority.

NDB Bank committed loan facilities amounting to Rs. 1,421 million for PCIs including its own branch network. Some 952 projects benefited from the financial assistance through these loan facilities. Aggregate withdrawals by NDB Bank under refinance schemes operated by other APEX institutions amounted to Rs. 188 million.

Retail Banking

Introduction



Opening of the Jaffna branch in the presence of Mr. Ajith Nivard Cabraal, Governor, Central Bank, Chief Guest for the occasion.

The year under review has proved to be an exciting one for Retail Banking in which several key milestones were reached in product differentiation and geographical expansion. During this period, NDB Bank successfully expanded its branch network to Ampara, Jaffna, Batticaloa and Trincomalee, setting new industry benchmarks in service and reach. During the first half of the year, greater emphasis was placed on a rigorous deposit drive while attention was also focused on managing the lending portfolio in line with declining interest rates.



A leadership development programme was conducted in Trincomalee, with the aim of developing students to face the future with confidence and helps achieve a true work-life balance.

Deposit Drive

Driven by the initiatives taken by the Bank to strengthen its distribution channels coupled with geographical expansion, the total customer deposit base showed a steady growth, despite the adverse economic conditions. The Bank's short term strategy was changed and greater thrust was applied to the area of deposit mobilization to overcome testing times. As a direct result of

these focused efforts, the retail deposit portfolio during the period under review indicated a healthy growth of 58%.

The deposit mobilization drive reached further heights during the year with the launch of the 'Savings Star' product and the new Children's Savings advertising campaigns, which captured public attention. The innovative savings account, 'Saving Star' offers an attractively branded NDB Bank wristwatch as a promotional gift and a wide range of rewards and benefits to our customers. This competitive savings product, with the underlying theme of 'saving today for a better tomorrow' enables the customers to earn interest on a tiered basis, linked to their account balance.



A 'Dorin Dorata' promotion was carried out in Anuradhapura with the participation of Roshan Ranawana, the Brand Ambassador for NDB Savings Star. Fans of the movie star/model got the rare opportunity to meet and speak to him, as well as get autographs.

Further emphasis was placed on focused direct sales and door to door marketing campaigns operated through the branch network to raise the public awareness on the wide range of products and services offered by the Bank, together with unparalleled flexibility and convenience.

Loans and Advances

Despite the unfavorable market conditions and high interest rates prevalent during the beginning of the year, Retail Loans and Advances grew by 12% during the year under review. A strategic credit policy was administered to ensure asset quality; with emphasis on pawning and mortgage backed lending to mitigate inherent risks in retail lending. A well thought out risk management policy has been implemented to ensure that

we operate within an acceptable spectrum in the realm of loans and advances. Embracing a path of measured growth at all times is the policy that determines all our actions in a bid to maintain financial stability for both corporate and individual customers.

Personal Loans

The personal loan portfolio recorded a steady growth during the year. Although portfolio growth was moderate during the early part of the year (primarily due to declining demand for credit and high interest rates), an impressive growth was recorded during the latter part. A well thought appraisal criterion was operative in customer evaluation, against a background of rising cost of living and declining net personal income.

Catering to the market demand, a mortgage backed personal loan scheme was introduced during the year, where personal loans were secured with property and vehicle mortgage covers.

A special loan scheme with unique features and several benefits and concessions was launched targeting professionals.



NDB Bank joined hands with EDEX 2009, for the 2nd consecutive year as the Official Banker.

An educational loan is a lifetime investment that enables students to overcome obstacles and achieve their life's ambition; NDB Bank's educational loans can be availed by parents or potential students themselves. NDB Bank's special Mortgage Backed Educational Loans are specially designed to obtain funding for both local and foreign educational needs.

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The three variants of personal loans, Professional Loans, Educational Loans and Mortgage Backed Loans yielded positive results and also contributed significantly towards retail fee income.

The Bank continued to promote educational loans through direct sales as well as special tie-ups with educational institutes. For the second consecutive year, the Bank sponsored EDEX 2009, the largest Higher Education and Career Guidance Fair in Sri Lanka, as the official Banker.

Home Loans

During the year, emphasis was placed on enhancing the existing standard product mix to introduce new products geared to explore untapped markets in Sri Lanka as well as in identified foreign markets. Accordingly, special home loan products catering to varied segments of Non-Resident Sri Lankan workers were offered during the year.

With the expansion of the distribution channels (branches and the centralised sales teams), knowledge enhancement and on-the-job training was actively promoted on a continuous basis in order to cater to all identified market segments with speed and efficiency.

Targeted advertising campaigns continued, along with several localised branch-centric /ground level activities that were carried out in selected locations with high potential.

The plethora of activities reflected a fresh approach and generated a spate of inquiries about the showcased products and services. Furthermore, NDB Bank was also the official banker for the 'Kedella' housing exhibition 2009.

Leasing

Vehicle leasing facilities to individual and business clientele have enhanced the wide range of retail banking solutions offered by NDB Bank. The clients are offered flexible terms and value additions (such as Motor Insurance) together with a personalised service. The vehicle leasing market is a

fiercely competitive one, where product differentiation is vital for survival. The significant decline in vehicle imports made the year under review difficult for the leasing business. However, with the resurgence of economic activity in the North and East, it is envisaged that NDB Bank's leasing product will play a vital role.

Western Union

Western Union, the world's largest money transfer company, has been in operation for the past 150 years and is an ideal mode to route funds to loved ones located anywhere in the world. NDB Bank is one of the principal agents for Western Union in Sri Lanka. The large Sri Lankan Diaspora makes an attractive target market for this service and therefore the Bank raised the profile of this facility through the year. A special promotion was initiated during the third quarter of 2009 offering a free CDMA phone for all customers who transacted through Western Union. Over 100 grass-root level promotional activities were also conducted during the year through NDB Bank and its sub agents.

Bancassurance

The Live Smart Insurance Plan was offered to NDB Bank customers during the year through Aviva NDB Insurance PLC in addition to the existing motor insurance and life insurance products. In addition, a series of seminars were conducted on wealth management and insurance planning for the high net-worth clientele of the Bank.

Debit Card

The monthly usage draw was continued from the previous year and cash prizes were awarded to the winners. The usage of debit cards in the country was further popularised with these initiatives.

Privilege Banking

Privilege Banking Service, geared to cater exclusively for the high net-worth clientele, recorded an exceptional portfolio growth in 2009 of 36.7% year on year on Rupee and Foreign currency liabilities. This outstanding

performance was attributed to the true value additions, excellent relationship and portfolio management services offered.

Currently, the Privilege Banking service offers a myriad of personal banking products. It has extended its product range to include the Bancassurance products offered through the Aviva NDB Insurance PLC. Privilege Banking continues its commitment to offer professional personal banking solutions, tailor-made to suit its high net-worth clientele; leveraging on the NDB Group synergies.

Marketing

The continued focus of Marketing was to build brand equity and increase awareness of NDB Bank. Several focused brand building campaigns and CSR initiatives were conducted throughout the year.

Branch centric door to door activities and 'Tikiri Peya' programs were also conducted at school level to increase brand awareness and to promote savings. An Avurudu promotion was launched through the branch network with a view to increase the Savings and Fixed Deposit bases. 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 children, with games, competitions and educational sessions.



The NDB Bank and Ogilvy Advertising teams together with the representatives from SLIM and the 4A's.

The 'Badu Malla' savings promotion that was launched in 2008 came to an end this year, creating an immense impact in the minds of the consumer. The campaign and its

effectiveness were further endorsed by the Effie Awards 2009 by being awarded one of the two Silver Awards presented. The award was presented for creative effectiveness, and results of the idea that was successful.

In keeping with celebrating success and recognising staff, outstanding performances by branch and sales staff were recognised at the Annual Retail Banking Awards night.

NDB Bank in its commitment to reach out to all communities in the country, enhanced its website to be a trilingual one. This initiative will enable Sri Lankans who are well-versed in Sinhala and Tamil to explore NDB Bank's products and services online with more convenience.

24 Hour Customer Service Centre and Tele Marketing

In keeping with its ultimate goal of providing a world-class service, the NDB Bank Call Centre strengthened its role as a 24-hour one-stop information center for all the Bank's products and services. Moreover, the Call Centre refurbished its office in mid-2009 to provide a higher quality of professional service and an enhanced experience.

The Bank's Tele Marketing Team continued its efforts in promoting the Bank's products and services to existing and potential customers with a prime focus on the deposit drive.

Operational Improvements

During the year under review, systematic emphasis was placed on improving customer service quality standards and on building efficiency in branch operations. A comprehensive sales excellence project was successfully implemented across the branch network.

In a bid to add further impetus, independent research surveys were conducted to evaluate the current service standards of existing delivery channels.

The operational risk unit was also set up and we are in the process of setting up a detailed policy framework.

The Recoveries and Collections unit was also strengthened during the year to support the growth of retail assets.

Equity Investments

Quoted Equity Investments

The Colombo bourse recorded its best performance during the year under review. The All Share Price Index recorded the highest ever at 3,386 on 30 December, 2009. Recording a 125% increase. The Milanka Price Index increased by 136% to 3,849.

Capitalizing on the bullish market performance, NDB Bank divested two of its investments in quoted companies during the year under review, which resulted in a capital gain of Rs. 196 mn. NDB Bank's non strategic equity portfolio in quoted companies, which consisted of only one investment as at December 31, 2009, amounted to Rs. 22 mn at cost. The market value of the investment amounted to Rs. 50 mn. The ratio of market value to cost was 1:2

Dividends from the non strategic equity portfolio in quoted companies during the period under review amounted to Rs. 15.3 mn.

Non Quoted Equity Investments

During the year, NDB Bank adopted an overall strategy of divestment for its equity investments in non quoted companies, which are carryovers from the past acquired as a part of project financing. The intention behind the divestment plan was to optimize returns and comply with the Central Bank directive limiting equity holding to quoted companies.

As per the Central Bank directive, NDB Bank was required to exit from all equity investments in non quoted companies by 31 December, 2009, except for investments in two non quoted companies, for which the Central Bank has granted permission to hold permanently. Thus, the NDB Bank adopted an aggressive portfolio management strategy, which culminated in the realization

of divestments of shareholding in 6 companies.

The returns earned through dividends contributed positively. Rs. 3.6 mn was received as dividends from ordinary share investments and Rs. 124.7 mn from preference share investments.

The size of the equity portfolio of non quoted companies, which stood at Rs. 834 mn (net of provisions) as at 31 December, 2008, was reduced to Rs. 706 mn by 31 December, 2009, comprising of Rs. 128 mn in ordinary share capital and Rs. 577 mn in preference share capital.

Treasury Operations

The performance achieved by NDB Bank in the realm of Treasury was exceptional - with both Debt Trading & foreign exchange revenues well surpassing expectations, despite a fiercely competitive environment. Notably, market volumes had dropped considerably in the foreign exchange market due to the economic situation of the country and as a result of the global recession. Import and export volumes in the country also declined by 30% and 13% respectively for the year ended 31 December 2009, according to Central Bank statistics. During March/April, the rupee depreciated drastically after Central Bank stopped intervening in the market and the exchange rate spiraled upwards to Rs. 120. However, post-war inflows stabilized the exchange rate and traded back to the current level of Rs. 114.30 by early December. Thus, the Treasury department was faced with a severe challenge to manage the NDB Bank's currency position and its trading book to minimize market risk. This was successfully tackled using the valuable expertise of treasury personnel wherein revenue targets were met despite a stressful environment.

Moreover, NDB Bank further strengthened its position as a market maker in the USD/LKR currency pair, in both spot and forward markets. This has enabled pricing advantages to be translated to acquire customer positions by providing competitive

Management Discussion

rates to importers and exporters, thereby attracting significant business volumes. The wealth of experience housed in NDB Bank unfailingly allows it to act as a universal solutions provider in every aspect of banking.

The significant revenue for NDB Bank was achieved through its Debt trading business via capital gains. As the interest rate structure in the market changed significantly during the year due to decline in inflation, the trading Treasury Bills and Bonds portfolio generated significant capital gains. An accurate reading of the market, entry into the market at the correct time and at the correct price, using the expertise and experience of treasury staff, contributed to the significant income generated. The performance and results achieved by Treasury was one of the highlights of NDB Bank's performance in the market this year.

Selective strategies were employed to gain optimal results on LKR yield curve shifts. The Treasury has currently adopted duration-based risk management discipline to manage interest rate risk.

Asset and Liability Management Committee (ALCO)

The Asset Liability Committee (ALCO) is the senior Bank management committee and is responsible for recommending to the Integrated Risk Management Committee (IRMC) prudent asset/liability management policies and procedures that enable the Bank to achieve its goals while operating in full compliance with applicable laws, rules, and regulations.

Under delegated authority from the Integrated Risk Management Committee, the ALCO is in charged with the overall asset liability management at NDB Bank. It has the primary responsibility for the provision of market risk and asset liability management (MRM/ALM) policies and guidance as well as the oversight functions with the objective to control the profitability and risks arising from balance sheet activities.

NDB Bank accords highest importance to the Asset & Liability Function & ALCO authorities & scope of responsibilities are as follows:

- Review and recommend MRM/ALM policies, limits and guidelines for IRMC approval
- Management of the balance sheet and risks associated with it (i.e. liquidity risk, mismatch risk, market risk, operational risk etc.)
- Setting key balance sheet and ratios / targets
- Planning strategies for funding, buffer investments, hedging and trading etc.
- Setting quantifiable objectives for each business line either for achieving balance sheet goals or managing balance sheet risks
- Setting internal investment policies
- Approve investments
- Setting pricing policies (internal transfer and external product)
- Approve the (further downward) delegation of authorities with regard to ALM function
- Appoint ALCO sub-committees as required
- Appoint attending members

The ALCO also commissioned a reputed foreign consultant to upgrade the market risk, asset and liability management units of NDB Bank. As a result, NDB Bank is in the process of establishing an international best practice compliant Market Risk unit. This will provide a basis for NDB Bank to elevate its risk management techniques to the most advanced in the banking industry.

Operations

Transaction Management & Support Services

NDB Bank, in order to achieve maximum benefit of following the internationally accepted practice of Centralised Operations,

brought the processing of housing loans too under the umbrella of Centralised Processing unit.

All processes handled centrally are subject to Service Level Agreements signed between the processing centre and the relevant business unit of the Bank.

The strategy of centralisation has delivered its expected results of improving and benchmarking of service standards, which is reflected in the annual internal and external customer satisfaction surveys carried out by NDB Bank. The other expectations of centralisations are a greater focus on Operational risks, regulatory compliance and the cost effectiveness.

NDB Bank's operations are covered by a comprehensive Business Continuity Plan to activate in case of any disaster situation to ensure uninterrupted services and access to the customers, who now interact with NDB Bank on a 24 x 7 basis. These systems and processes help us maintain our role as a universal solutions provider that ensures financial stability for all categories of customers.

Security

In response to widening the branch network in the North and East during the year under review, security procedures were adjusted accordingly and further streamlined to meet the changing needs.

New ISO 9001 2008 Certification for the Trade Finance Department

Although NDB Bank's Trade Finance Department was certified for ISO 9001:2000 standards till the year 2010, the department upgraded its service standards to be compliant with ISO 9001:2008 - becoming one of the few banks to be certified according to the new standard.

Information Technology

During the year, the IT department of NDB Bank initiated a project to upgrade one of its core software systems, Globus to the latest T24 version with added functionality. The

project is expected to complete in the latter half of 2010. The upgrade is expected to improve performance thereby benefiting customers in terms of service.

In the m-Commerce area, the NDB Bank tied up with other banks to provide their customers with m-Commerce services increasing the customer base and the revenue from the m-Commerce market.

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

To provide better and efficient service to our customers, products such as Pawning have been redeveloped in-house and tightly integrated with Core Banking systems, where by the customers are given wider choice of product options accessible across the branch network.

NDB Corporate web site has been upgraded with tri lingual to enable customers to access the corporate web site in the language of their choice to source more information about the products and features that are being offered.

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 remaining share is held by the public. The principal business of CDIC is to identify and manage investments of NDB Bank with the aim of realizing superior returns in the long term. CDIC's largest strategic investment is Aviva NDB Finance Lanka (Pvt) Ltd, through which CDIC holds a 36.27% stake in Aviva NDB Insurance PLC.

During June 2009, CDIC purchased 51% of the ordinary share capital of NDB Aviva Wealth Management Ltd (formerly known as Eagle NDB Fund Management Company

Ltd.) for a sum of Rs. 23.87 Mn. NDB Aviva Wealth Management Ltd. is the largest fund management company in Sri Lanka and it manages funds in excess of Rs. 26 Bn. In addition to this, the company invested in selected securitizations, commercial papers and in the Initial Public Offering (IPO) of Hemas Power Ltd.

The market capitalization of CDIC as 31 December 2009 was Rs. 6,490 Mn yielding an earnings per share of Rs. 8.97 as recorded in the company's financial statements for the year ended 31 December 2009. The market value on 31 December 2009 was Rs. 148 per share based on the last traded price (on 24 December 2009). The highest traded price of CDIC shares during the year was Rs. 160 (On 11 November 2009) and the lowest price was Rs. 75 (On 2 January 2009)

For the year ended 31 December 2009, the company recorded a net profit after tax of Rs. 393 Mn, compared with a figure of Rs. 459 Mn recorded for the year ended 31 December 2008.

Investment Banking Cluster

During the year the investment banking cluster was strategically structured to encompass a wide array of investment banking services. Eagle NDB Fund Management Company Limited was acquired by NDB Group's strategic investment arm, Capital Development and Investment Company PLC (CDIC) in June, 2009.

In addition, in July 2009, NDB ventured into Bangladesh, through the acquisition of 77.8% of a merchant bank, leading to the formation of NDB Capital Limited, Bangladesh.

The two acquisitions complement the other sister companies within the investment banking cluster, namely, NDB Investment Bank and NDB Stockbrokers. Headed by a new Cluster CEO, NDB is now poised to take advantage of synergies within the cluster to provide a full breath of investment banking,

wealth management and stock broking services to the Sri Lankan and regional capital markets.

NDB Investment Bank

NDB Investment Bank (NDBIB) successfully maintained its strong position as the leader in the investment banking industry in Sri Lanka in spite of negative investor sentiments and the downturn experienced in capital markets during the first half of the year. With the conclusion of the 30-year-old war and the positive upturn in the stock market, NDBIB was able to actively participate in transactions that afforded significant visibility to the Company in the Sri Lankan capital markets. These deals included the "first corporate IPO post-war" through Hemas Power Limited. Some of the other major deals include transactions carried out in the Mergers & Acquisitions space, especially in the restructuring of companies within the Ceylinco/Seylan Group. NDBIB is looking forward in playing a dominant role in the capital market over the coming years via a number of significant deals with innovative features in a bid to maintain its leadership position in the market.

Optimistic Outlook for Corporate Advisory

The early part of the year was challenging for the Corporate Advisory Unit of NDBIB due to the slump experienced in capital markets in the country, fueled by the intensified war situation and the global recession.

Whilst the types of services offered by Corporate Advisory are the first to experience downturns when markets decline, they are also the ones that afford opportunities in a bull market. As mentioned earlier, the first corporate IPO launched after the conclusion of the war, of .Rs. 626 mn, was successfully carried out by NDBIB and the issue was oversubscribed, attracting over Rs. 2.2 bn in funds from investors.

In addition, NDBIB carried out several business valuations for leading corporates in Sri Lanka which resulted in actual

Management Discussion

acquisitions / divestures of business entities. Further, the Advisory Unit successfully completed a private placement in the Textile industry on behalf of its parent company, NDB Bank.

The Advisory Unit is currently working on a few prominent IPOs, restructurings and private placements mandates, which it hopes to conclude in 2010. Additionally, it expects to achieve positive synergies from post war development opportunities that would open up during the next few years.

Debt Unit Maintains Steady Performance

The Debt Unit of NDBIB raised over Rs. 3.5 bn from the market by way of Securitizations, Debentures, Structured Loans and Commercial Papers, amidst the challenges posed by the current financial and economic environment. NDBIB was able to complete some notable transactions including a short term Commercial Paper issue of Rs. 1.0 bn to a blue chip corporate client and a Listed Rated Debenture of Rs. 500 mn for a leading commercial bank in Sri Lanka. In addition, Commercial Paper issues of over Rs. 600 mn were carried out for clients across diversified sectors such as Healthcare, Finance, FMCG, and Consumer Products.

NDB Stockbrokers

The All Share Price Index (ASPI), which commenced at a low of 1,503 at the beginning of 2009, gained momentum with the end of war in mid May. This upward trend continued and in October the ASPI went past the 3000 mark. In October the market capitalization crossed a trillion rupees for the first time in history. In November 2009 the ASPI declined by around 5% owing to political uncertainty and other events. A similar trend was witnessed in the movement of the Milanka Price Index (MPI) which increased from 1,631 as at 31 December 2008 to 3,849 as at 31 December 2009, a 136% growth.

The strategies pursued by NDB Stockbrokers (NDBS) in 2008, to reposition itself in the market and prepare for the market

turnaround reaped positive results in 2009 recording a profit before tax and after tax of Rs. 33.3 mn and Rs. 21.2 mn respectively.

Research plays a vital role in investment decisions made by the advisors and has been improved to provide quality continuous up to-date research to our clientele. The brand image continues to be enhanced by the publicity received via the electronic and print media. The sales team has been strengthened by the recruitment of qualified professionals and provision of training in order to offer a superior service.

During the year, NDBS worked closely with the group companies to maximize group synergies. The regional reach via the NDB retail banking branch network is proving to be a success. NDBS is confident that the NDB branch network would continue to attract new clients, which will be of mutual benefit to the group and facilitate the access to capital markets by a wider clientele.

NDBS also continues to market fixed income securities by placing fixed income instruments structured by the capital markets cluster company NDBIB. During next year the company plans to market products of Aviva NDB Wealth Management Company as well. This would create a team of financial advisors at NDBS with expertise to market a range of products structured by the group and increase fee income.

In 2010 NDBS will focus on attracting a wider foreign institutional and high net worth customer base. New business opportunities in the Asian region would be pursued and possibilities of establishing alliances and agencies would be explored.

Several upgrades to the IT systems are also being carried out to improve efficiencies and improve quality of service to the clientele.

NDBS is working towards establishing itself to be a leading stockbroker and would be in a position to meet the demands of a growing market.

NDB Capital

In January 2009, NDB acquired Capital Market Services Limited, a Merchant Bank in Bangladesh. Rebranded as NDB Capital, the Company commenced operations in July 2009, offering a wide array of investment banking services. NDB Capital is expected to leverage on the successful investment banking model utilized in Sri Lanka, and during its short period of operations, has been successful in acquiring several mandates with potential to turn into highly visible transactions in the coming year.

NDB Aviva Wealth Management

NDB Bank's newest subsidiary will be a joint venture Wealth Management Company. The new venture will manage funds in sectors encompassing life & general insurance, provident & pension funds, unit linked insurance and a gamut of trust funds for the Corporate and Retail Market exceeding Rs 27 bn.

It is expected that the best in class local knowledge of the NDB Bank and Global Expertise of Aviva together with their impeccable reputation and a truly independent ownership would provide NDB Aviva Wealth Management's clients with a range of financial products they can genuinely depend on.

The management of risks according to client needs, with best of controls always in place for the safety of clients' wealth and adhering to the highest standards in corporate governance will be the hallmarks of the new venture.

The NDB Aviva Wealth Management will work synergistically with the NDB Bank in the future to provide innovative financial solutions to the Sri Lankan consumers. The products are expected to be launched in the first quarter of 2010.

In keeping with the Sri Lanka Government's vision of taking the best of everything to the villages, NDB Aviva Wealth Management plans in the near future to take banking and capital markets to the masses, who have

hitherto not had access to this type of value added service.

Aviva NDB Insurance

The newly transformed Aviva NDB Insurance recorded a post-tax profit performance of Rs 730 Mn for 2009 - the highest in the 22 year history of the Company earlier known as Eagle Insurance. This reflects a noteworthy growth of 58% for the year.

Total Gross Written Premiums in Life business recorded Rs 4,632 Mn - a growth of 7% which is above the 1% estimated industry growth rate. Unit-linked business recorded a top line growth of 100% year-on-year while General insurance business achieved a milestone exceeding Rs 2.5 Bn in Gross Written Premium, again for the first time in the Company's history, recording an increase of 22% over the previous year. This too is well above the industry average growth rate estimated to have declined by 4%.

The primary driver of General insurance growth was the Motor segment which recorded a 33% growth crossing the Rs 1 Bn mark - another first in the Company's history. The net underwriting result in General insurance reflected a marked improvement evidenced by the COR of 99.7%, attributed to initiatives in claims management and the year's reinsurance programme.

The exceptional post-tax profit performance was primarily due to investment income and most importantly, the achievement has not altered the risk profile or the risk appetite of the Company. Aviva NDB Insurance continues to maintain a prudent investment approach with 78% of Life policyholders' investment portfolio being invested in gilt-edged Treasury bills and Treasury bonds.

The Company's results stand testimony to the unwavering spirit with which AVIVA NDB Insurance faced the rough tide and delivered exceptional results being mindful of its promise of providing prosperity and peace of mind to its customers as well as maintaining the strength of its balance sheet.

Aviva NDB Insurance was launched in mid February 2010 and the transformation was designed to harness the potential of the future. The change process will touch every aspect of the Company while retaining the values, ethics and culture that have been the hallmarks of Eagle Insurance. The transformation is in line with Aviva's global strategy of "One Aviva, twice the value" and opened a new chapter in the Company's illustrious history. The transformation builds on the rich heritage of Eagle while reinforcing the Company with the strength of global Aviva group and the Sri Lankan values of the NDB group.

Key Retail Banking Products & Services

NDB Bank continue to offer innovative products to enrich your life. Banking should ensure individual attention and care and we deliver this to you through up-to-date products and services catered specifically to you.



NDB Home Loans allow you to indulge in the home that you have always wanted. The repayment scheme will accommodate you, allowing you to purchase, construct, extend or improve your home.

Personal Loans permit you to act upon your aspirations by allowing you to spend that extra money on anything ranging from a car, a wedding to a refurbished house or purchasing your own piece of land or enjoying a vacation in a dream destination.

Dream Maker mortgage backed educational loans are specially designed to obtain funding for your local and foreign education. It maybe for your child's higher education or for yourself to gain an education or professional qualifications.

Children's Savings Accounts, with a higher interest rate, continually reward both you, as a parent or guardian, and your child, with exciting gifts. The more you save; the more they get.

Privilege Banking service, catered towards an exclusive clientele, recognizes your busy lifestyle and your expectations of us. We extend a range of exclusive services and special privileges to you.



'Vishmitha' Savings Account is truly remarkable because it presents you with the opportunity to fulfil your dreams by offering you an interest free loan based on your average balance upon the completion of one year.

NDB Saving Star is a savings account which rewards account holders, with continuous benefits. Customers who open a accounts with an initial deposit of Rs.10,000/- will be rewarded with numerous benefits. In addition, the account offers a tier-based interest rate. This way, the more you save for a brighter future, the higher the interest rate.

Continued partnership with the globally renowned Western Union Money Transfer services enables you to receive money quickly and efficiently from overseas. This reliable service, which is available at all NDB Bank branches and sub agents appointed by NDB Bank, relieves the usual burden of transferring money allowing you to breathe easy.

NDB Leasing provides you with your ideal vehicle; be it a registered or unregistered car, van, lorry, bus or jeep. We will adapt this product to suit your requirements, with a repayment period of 48 to 72 months.

This joint initiative product from Dialog Telekom and NDB Bank, allows you to pay for goods and services via a Dialog mobile phone, offering unparalleled flexibility and security.

Other Retail Banking Products and Services

- Current accounts
- Savings accounts
- Fixed Deposits
- Foreign Currency accounts
- Special Foreign Investment Deposit accounts
- Call Deposits
- Safe Deposit lockers
- Internet banking
- Visa Debit Cards
- ATM facilities
- Bancassurance services

Financial Review

Overview

The NDB group profit attributable to shareholders for the year increased significantly by 30% to Rs. 2.1 bn as compared to Rs. 1.6 bn for the previous year. The profit after tax of the group was Rs. 2.12 bn as compared with Rs. 1.71 bn for the previous year. The Profit Before Tax and the Profit After Tax of the NDB group, excluding the exceptional equity capital gains earned by NDB Bank during the year increased by 26% and 9% respectively over the last year. This exceptional performance for the year was mainly due to the significant profits earned by the banking segment of the NDB Group.

The financial conglomerate's continuous excellent performance further substantiates the stability of the NDB Group in a highly volatile global and local economic environment.

NDB Bank also expanded its business operations in the region early this year by acquiring a controlling interest in an investment banking operation in Bangladesh (NDB Capital Limited) after obtaining the necessary approvals from regulatory authorities both in Sri Lanka and Bangladesh. The effective holding by the Bank in NDB Capital Limited is 77.8%.

The NDB Group's strategic investment arm, Capital Development and Investment Company PLC (CDIC), NDB Bank's 99.6% held subsidiary acquired a direct holding of 16.15% and an indirect holding of 34.85% through its investment in Aviva NDB Finance Lanka (Private) Limited, of the issued share capital of Eagle NDB Fund Management Limited (ENDB). ENDB was a fully owned subsidiary of Aviva NDB Insurance PLC (formally known as Eagle Insurance PLC) in which CDIC holds 36.27% of the issued capital through Aviva NDB Finance Lanka (Private) Ltd. Accordingly CDIC and National Development Bank PLC acquired 51% and 50.8% respectively in ENDB. Through this acquisition and an ensuing shareholder agreement, NDB Bank effectively acquired a controlling interest in ENDB. Subsequent to this acquisition by the NDB Group, ENDB was renamed as Aviva NDB Wealth Management Limited.

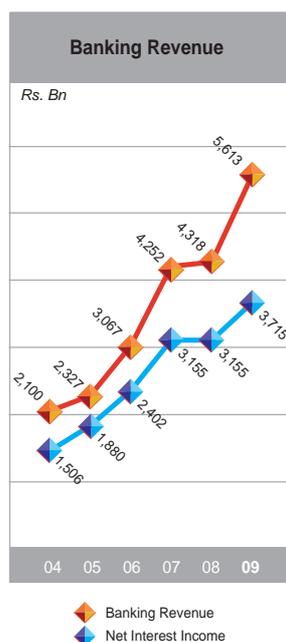
The products and services offered to the customers of the NDB Group include Insurance from Aviva NDB Insurance PLC Stock Brokering from NDB Stockbrokers (Pvt) Ltd and Investment Banking from NDB Investment Bank Limited and the recently acquired NDB Capital (Bangladesh) and Wealth Management services from the newly acquired NDB Aviva Wealth Management Limited, among others.

The results of NDB Investment Bank Limited, NDB Stock Brokers (Pvt) Limited, Capital Development & Investment Company PLC, Development Holdings (Pvt) Limited, NDB Capital (Bangladesh) and NDB Aviva Wealth Management Limited, representing the spectrum of Group businesses, have been consolidated.

The core banking revenue (Net interest Income, fee income, forex, capital gains on government securities and commissions etc) of NDB Bank for the year was Rs. 5,613 mn, and compares very favorably with Rs. 4,317 mn for the previous year (an increase of 30%). Net interest income increased by 18% over the last year, whilst other income (excluding equity income) increased significantly by 63% over the last year. The significant increase in other income was mainly due to capital gains earned on government securities of Rs. 733 mn for the year as compared to a loss of Rs. 1 mn for the previous year. The fees and commission income for the year also increased by 12% over the previous year.

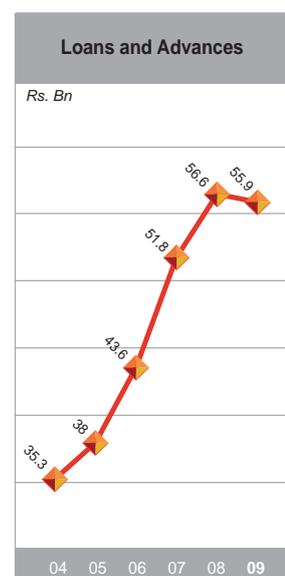
Though NDB Bank's lending portfolio declined marginally by 1% as compared to the lending portfolio as at 31 December 2008, customer deposits grew significantly by 57% from Rs. 31.9 bn as at 31 December 2008 to Rs. 50.0 bn as at 31 December 2009. The loans to deposits ratio (including credit lines) were 89% as at 31 December 2009 as compared to 123% as at 31 December 2008.

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



Net Interest Income (NII)

The NII of NDB Bank grew by 18% from Rs. 3,154 mn in 2008 to Rs. 3,715 mn for 2009. The increased NII was mainly due to the revised pricing strategy of the Bank in terms of the prevailing market conditions. The portfolio also went through a rebalancing exercise during the first three quarters of the year, to mitigate some of the sectorial stresses identified, resulting in a portfolio drop of 7%. However, during the fourth quarter of 2009, NDB Bank was able to grow the portfolio substantially, which eventually resulted in a marginal drop of 1% over the last year.



Net Other Income

Net Other Income of NDB Bank, excluding equity income for the year, was Rs. 1,898 mn as compared with Rs. 1,162 mn for the comparative year (a significant increase of

63%). The significant increase in other income was mainly due to capital gains earned on government securities of Rs. 733 mn for the year as compared to a loss of Rs. 1 mn for the previous year, as a result of the declining trend in interest rates that prevailed throughout the year. There was also a steady increase in commercial banking fees and commission and forex income earned due to the high volatility of the exchange rates and the interest rates in the market.

Equity income net of provisions was Rs. 602 mn as compared with Rs. 465 mn for the previous year. The Bank earned capital gains of Rs. 201 Mn from the sale of quoted ordinary shares during the year. Further the Bank also earned capital gains of Rs. 94 mn and dividend income of Rs. 40 mn from the sale of shares by NDB Venture Investments (Private) Ltd, an associate company of the Bank, during the year. During the previous year the Bank incurred capital losses of Rs. 32 mn. The provision charge for the fall in value of equity investments was Rs. 87 mn as compared with the previous year.

At the NDB Group level, Net Other Income, excluding provisions for equity losses, increased by 57% during the year.

Operating Expenses Excluding Provisioning

Overheads of NDB Bank increased by 9% over the previous year. NDB Bank expanded its retail network in the Northern and Eastern Provinces of the country by opening 4 branches during the last quarter of 2009. NDB Bank's staff strength also increased from 948 as at 31 December 2008 to 991 as at 31 December 2009 due to the expansion of the retail distribution network. However, NDB Bank adopted effective cost reduction methods during the year which resulted in the overheads increasing only by 9% over the last year.

NDB Bank's cost income ratio excluding equity capital gains from the sale of shares and equity capital gains from the investments in group companies was 41% for the year as compared to 47% for the year ended 31 December 2008. NDB Bank's cost income ratio is one of the best amongst local banks.

At NDB Group level, operating expenses, excluding provisioning, increased by 12% for the year when compared with the previous year. This was mainly due to the two new group companies that were added to the NDB Group during the year.

Provision for Credit Losses and Non-Performing Loans (NPL's)

NDB Bank continued to adopt stringent policies to maintain the quality of the loan

book throughout the year. The NPL's to the gross lending portfolio was 2.58% as at 31 December 2009 as compared with 2.26% as at 31 December 2008. The Bank's ratio of 2.58% compares well with the industry NPL ratio of 8.0% as at 31 December 2009.

The Central Bank mandated specific provisions for credit losses at the year-end amounted to Rs. 737 mn compared with Rs. 630 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. 1,542 mn compared with Rs. 1,470 mn as at the previous year-end. Total specific and general provisions together amounted to Rs. 2,034 mn at the year-end compared with Rs. 1,946 mn at the previous year-end. The percentage of specific provisions (minimum Central Bank mandated and judgmental provisions) to NPLs was 75% as at 31 December 2009 as compared to 76% as at December 2008. The industry ratio as at 31 December 2009 was 38%.

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 and the general provision for NDB Bank as at 31 December 2009 was Rs. 490 mn.

The loan loss provision charge for the year amounted to Rs. 277 mn as compared with a provision of Rs. 181 mn for the previous year.

Taxation

The effective overall tax rate inclusive of the Financial Services VAT remained at 52% for the year as compared with 49% for the previous year. The reduction in the overall tax rates NDB Bank in comparison with the overall tax rate on banking profits of 60% was due to the equity income which is exempt from income tax.

The overall tax rate of the group inclusive of the Financial Services VAT charge was 50% as compared with 45% for the previous year. The increase in the group effective overall tax rate for the year as compared with the previous last year was due to the increased dividends received from group companies which are eliminated on consolidation.

Capital Adequacy

The Tier 1 and 2 ratios of NDB Bank was 17.03% as compared with 16.91% for the previous year. The ratio for the NDB Group was 23.81% as compared with 23.31% for the previous year.

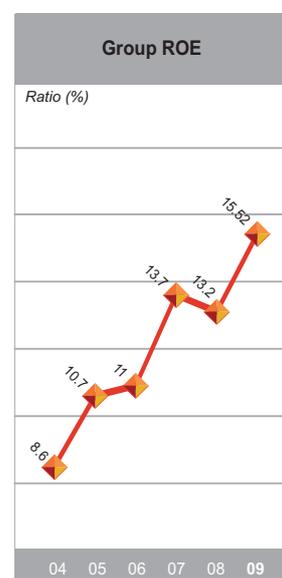
The minimum levels mandated by the Central Bank are 5% for Tier 1 and 10% for Tier 1 and 2.

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.

Group Returns

The Group earnings per share for the year, was Rs. 25.47 as compared with Rs. 19.61 for the previous year. The Group's return on equity for the year 15.52% compared with 13.18% in 2008.



Share Price

The share price of NDB Bank closed at Rs. 206 for the year end, as compared with Rs. 86 at the end of 2008 (an increase of 139%). The gradual increase in the share price is in line with the banking sector index increase of 125% and ASPI increase of 114% over the last year.

The price/book value (PBV) at the year-end was 1.19 compared with 0.56 at the previous year-end. The PE ratio for the year 2009 was 8.09 times as compared with 4.39 times for the previous year.

Post Balance Sheet Events

There have been no other significant events subsequent to the balance sheet date that require disclosure in the Financial Statements.

BOARD OF DIRECTORS

P M 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.



Eran Wickramaratne Director/Chief Executive Officer

Prior to the merger of the National Development Bank Limited and NDB Bank Ltd., Mr. Wickramaratne functioned as Director/Chief Executive Officer of the NDB Bank Ltd. He joined the NDB in 1999 from Citibank, where he was Vice- President and Corporate Bank Head. Mr Wickramaratne was a pioneer of the Government of Sri Lanka's Information Communication Technology driven Development Programme, e-Sri Lanka. He was the Chairman of the Information Communication Technology Agency (ICTA) and also served as a Director on the Board of Investment. He holds a Degree in Economics and Politics and a Masters in Economics from the University of London. Mr Wickramaratne is an Eisenhower Fellow.

H D S 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 Senior Vice President of Singer Asia Limited and Retail Holdings Limited USA.



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. S Yaddhegige Director

Dr. Sena Yaddhegige 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 and the United States. In addition to the Companies in the Richard Pieris Group, Dr. Yaddhegige is a Director of a Swiss Pharmaceutical Company and a Director of a number of European Companies. He was appointed to the Board of NDB Bank in December 2007.

Dr. G C B Wijeyesinghe

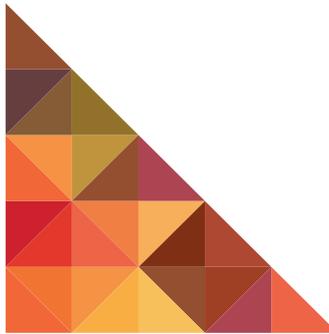
Director

Dr Wijeyesinghe is a Fulbright Scholar having had his graduate education in Management at Ohio State University, U.S.A. and has had a distinguished professional career, retiring as Precedent Partner of KPMG Ford, Rhodes, Thornton & Co. He also served on the Board of KPMG - Asia Pacific, the External Audit Committee of the IMF and the Council of Common Wealth Association of Corporate Governance. He is a Past President of the Institute of Chartered Accountants of Sri Lanka and the Organization of Professional Association of Sri Lanka. He holds directorates in other public quoted companies. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka, a Fellow of the Society of Chartered Management Accountants and has been conferred a Doctorate (D. Litt) Honoris causa, by the Postgraduate Institute of Management affiliated to the University of Sri Jayawardenapura.

L de Mel

Director

Mr Lal de Mel was the Managing Director of CIC Paints from 1995 to 2001, prior to which he was a Director of Chemical Industries (Colombo). He was Chairman of the Sri Lanka Insurance Corporation in 2001 and a Director of the Bank of Ceylon from 1999 to 2001. He is currently the Chairman of N. Chandraratne Decorators Ltd. and Capital Development and Investment Co. PLC. He is a Director of a number of NDB Group companies including Eagle Insurance PLC, and NDB Investment Bank. He is Co-Chairman of the Trade & Tariff Cluster of NCED. He has served as Chairman of the Ceylon National Chambers of Industries, as President of the Federation of Chambers of Commerce & Industry and as President of the Sri Lanka Institute of Marketing. Mr de Mel is a Member of the Chartered Institute of Marketing, U.K. He has a Bachelor of Science Degree from the University of Ceylon and Diplomas in Marketing (CIM) and Management (NIBM).



A R Gunasekara

Director

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, Minet, 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 operation in Africa, Australia 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.



Nihal Welikala

Director

Mr. Welikala is a Bachelor of Laws of the University of Sri Lanka, a fellow of the Institute of Chartered Accountants of England and Wales, and an Associate Member of the Institute of Chartered Accountants of Sri Lanka. He worked for several years at the London offices of Ernst & Young, and was the CEO of Citibank NA Colombo, prior to joining National Development Bank (NDB). Mr. Welikala served on the Board of NDB as an Alternate Director for the Asian Development Bank, since its privatization, and joined the NDB as the Deputy General Manager in January 1999. He assumed duties as the General Manager of NDB on 1 January 2002 and became the Chief Executive Officer of NDB on 1 August 2005 with the merger of NDB and NDB Bank Limited. He retired from the services of Chief Executive Officer of NDB on 1 April 2008 and appointed as a Director on 25 January 2010.

T.L.F.W. Jayasekara

Director

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., where he was once again responsible for the overall finance function of the parent company and its subsidiaries. He has held several positions at Aitken Spence, including Director Management Board, where he was responsible for finance, planning and IT for their entire group, and Director Corporate Finance, where he spearheaded project evaluation, long-term planning and treasury management. 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. Jayasekara was appointed as a Director of NDB Bank on 10 February 2010.

LEADERSHIP TEAM

Eran Wickramaratne Chief Executive Officer

Prior to the merger of the National Development Bank and NDB Bank Ltd., Mr Wickramaratne functioned as Director/Chief Executive Officer of the NDB Bank Ltd. From 1999 to 2001, he was the Assistant General Manager, responsible for Corporate Finance, Infrastructure and Privatization.

Mr Wickramaratne joined the NDB in 1999 from Citibank, where he was Vice-President and Corporate Bank Head. He has 15 years of varied banking experience at Citibank and held various positions.

Mr Wickramaratne was a pioneer of the Government of Sri Lanka's Information Communication Technology driven Development Programme, e-Sri Lanka, and was Chairman of the Information Communication Technology Agency (ICTA). He also served as a Director on the Board of Investment. He holds a Degree in Economics and Politics and a M.Sc. in Economics from the University of London. Mr Wickramaratne is an Eisenhower Fellow.



Russell de Mel

Vice-President
Head of Corporate Banking Group
(Appointed w.e.f 8 February 2010)

Mr Russell de Mel, an Associate member of the Chartered Institute of Management Accountants, U.K, has served the NDB Bank for over 29 years, largely in the field of Corporate Banking. Presently he serves the Bank as Vice President - Head of the Corporate Banking Group.

His experience ranges from Project Financing, Merchant Banking, Corporate Planning & Management Information etc to name a few.

Prior to his current posting, Mr de Mel functioned as the Vice President-Head of Group Risk Management.



Sujeewa Dissanayake

Vice-President
Head of 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 25 years experience in IT, 19 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 the immediate past Chairman of British Computer Society Sri Lanka Section.



Raj Aboobucker

Vice-President
Head of Emerging Corporates and Specialized Commercial Markets

Mr Aboobucker is currently Vice-President in charge of the Emerging Corporates and Specialised Commercial Markets divisions on the corporate-banking side of NDB Bank. He was also instrumental in successfully setting up the bank's Specialised Commercial Markets division. He counts 28 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.



Nilam Jayasinghe

Vice-President
Head of Group Audit & Compliance

Mr Jayasinghe joined NDB Bank thirteen years ago and is currently Head of Group Audit and Compliance. He is a Fellow of The Chartered Institute of Management Accountants (CIMA), UK, having obtained his training at KPMG. 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 Vice Chairman of the Industrial Association of Sri Lanka. He is also a past President of CIMA (Sri Lanka Division) having been awarded the Institute's Bronze Medal and currently serves on the Members Services Committee in CIMA (UK). He has served as a member of the Sri Lanka Accounting and Auditing Standards Monitoring Board and the Company Law Reforms Commission and counts twenty six years experience in the areas of Finance and Treasury.



Chrisanthi Jayawardena

Vice-President
Head of Legal

She is an Attorney-at-Law who counts over 28 years experience at the NDB Bank.

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

Buwanekabahu Perera

Vice-President

Head of Commercial 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 30 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]



Indrajit Wickramasinghe

Vice-President

Head of Retail Banking & Marketing

Mr. Wickramasinghe holds a Master's Degree in Business Administration from the University of Sri Jayawardenepura, a Postgraduate Diploma from the Chartered Institute of Marketing, UK and is a Chartered Marketer and a Fellow of the Chartered Institute of Marketing, UK. Before joining NDB Bank nine years ago, he held the position of Head of Marketing at Reckitt & Colman of Ceylon Ltd. Mr Wickramasinghe has over 20 years experience in the Fast-Moving Consumer Goods and Financial Service Sectors.



Ajith Wickremaratne

Vice-President

Head of Corporate Banking Group (upto 8 February 2010)

Mr Wickremaratne holds an Engineering Degree from the University of Peradeniya, a Postgraduate Diploma in Business and Financial Administration from the Institute of Chartered Accountants, of Sri Lanka and a Masters's degree in Business Administration from the University of Southern Queensland, Australia. He has been with NDB Bank for 23 years, his experience ranging from project/infrastructure financing to investment banking and venture capital financing. Presently, he is responsible for operations of the Corporate Banking Group. Mr Wickremaratne also holds corporate memberships of the Institute of Civil Engineers, UK and Institute of Engineers, Sri Lanka.



Kumar Weerasuriya

Vice-President

Head of Operations

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



Niran Mahawatte

Vice-President

Head of 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 17 years banking experience.



Ishani Navaratne Bandara

Assistant Vice-President

Head of Human Resources

Having joined the organization in 1995, Ms Navaratne Bandara 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.



Dhanan Senathirajah

Assistant Vice-President

Head of 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 24 years experience in finance and accounting.



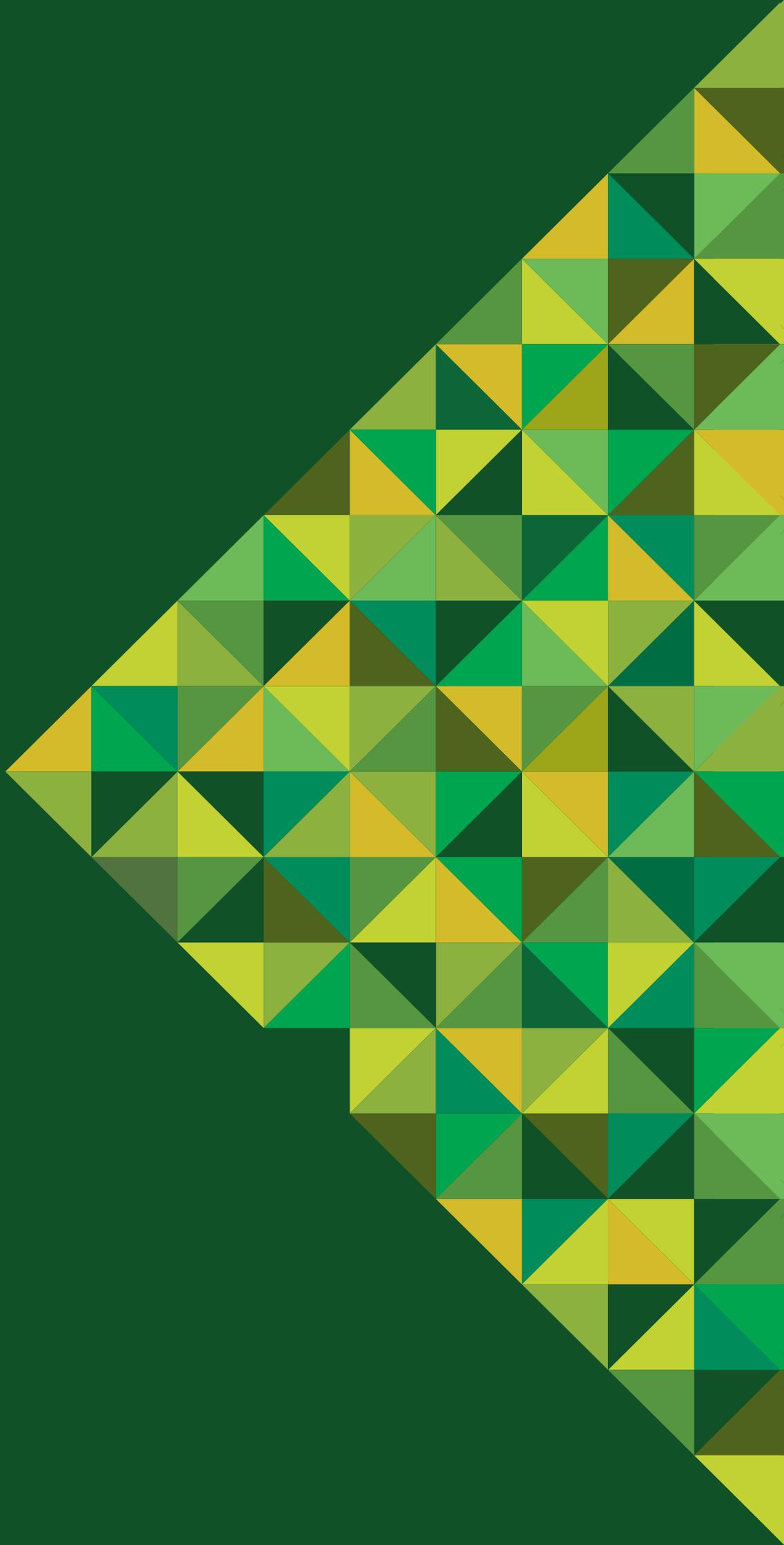
Nirmala Rayen

Assistant Vice-President

Head - Group Risk Management (Appointed w.e.f 8 February 2010)

Ms Rayen is an Associate Member of the Institute of Bankers, Sri Lanka and counts over 27 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.

SOCIAL
RESPONSIBILITY



Social Responsibility

Our approach

Sustainability is at the heart of our business strategy - with the aim of driving values over the longer term. At NDB Bank, being a responsible citizen includes not only reaching out to our community but also how we function as an employer and how we manage the organization's wider social and environmental impacts.

EDUCATION & ENTREPRENEURSHIP

As a world-class Sri Lankan Bank, NDB Bank continued its efforts to empower the youth of our nation to overcome tomorrow's challenges by focusing on our Strategic CSR Initiatives of Education & Entrepreneurship.

Endowed Professor in Entrepreneurship

"Rather than adapting to a pre existing environment, a true entrepreneur will design his own working environment. He will be skilled and empowered to not just create opportunities for himself but for many others. An entrepreneur can in fact become a catalyst to change and develop entire villages and communities. The economic and social benefits of entrepreneurship are limitless and hold immense development potential."

Banks are central to every society - supporting a sound financial system whilst providing funding that facilitates entrepreneurship, which in turn helps generate employment and wealth. NDB Bank has been actively involved with SMEs and entrepreneurs since 1979. Entrepreneurs are the fabric that fashion a country's business environment; and as a socially responsible corporate with over 25 years of experience in this field, NDB Bank felt there was a need to introduce entrepreneurship education and instill entrepreneurship attributes in Sri Lankan graduates.

Cognizant of the need to bridge the gap between the industry and academia,

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

As two nationally conscious entities, both the UOM and NDB Bank are focused towards achieving the common objective of developing an entrepreneurial culture in Sri Lanka. We are confident that through this endeavour we will be able to foster a new generation of youth who will be 'job creators' rather than 'job seekers' in the country.



The signing of the agreement between NDB Bank and UOM.

IDP Empowerment Trust

Following the end of the armed conflict in Sri Lanka, it was reported that over 200,000 civilians were displaced and living in camps in the North and East. Taking into consideration the future reconstruction needs in the North and hence the need for construction craftsmanship, as well as NDB Bank's Strategic CSR focus being Education and Entrepreneurship, NDB Bank set up a Trust: the 'IDP Empowerment Trust' to assist the IDPs or Internally Displaced Persons by improving their livelihoods. Supporting this initiative will be crucial in the post-conflict resettlement of these individuals by enabling them to take on the reconstruction and economic recovery efforts that will begin soon.

The Vocational Training Authority of Sri Lanka (VTA) which comes under the Ministry of Vocational and Technical Training, facilitates several vocational training programmes such as carpentry, masonry, plumbing, electrical, welding, etc., to prepare eligible IDPs with skills that will provide them with gainful employment immediately upon moving out of the camps to their permanent places of residence. Programmes such as beauty culture and dress making are also conducted for the women.

Considering that the VTA was already successfully operating their training programmes in the camps and has established 03 Vocational Training Centres for the IDPs, NDB Bank partnered with them to empower the IDPs. Phase I of the project provided the necessary tool kits for the IDPs trained by VTA that will enable them to practice their new skills.



The signing of the agreement between NDB Bank and VTA.

Library Project

NDB Bank continued its partnership with the Asia Foundation to donate English educational books to rural schools. High quality supplementary reading material on different subjects was donated to over 30 schools through NDB Bank's branch network. The ultimate goal is to nurture the reading habit in children whilst improving their knowledge of English.

NDB BANK IN THE COMMUNITY - EMPLOYEE VOLUNTEERING

Building on our values of Integrity, Care, Passion, Teamwork and Service, NDB Bank

employees were actively involved in the community through the Bank's department-wise CSR Initiative Programme. The employees of each department were given an opportunity to carry out their own CSR projects in line with the Bank's Strategic CSR Initiatives. The hidden talents of the employees surfaced and their passion, enthusiasm, teamwork and compassion for the less fortunate shined through. NDB Bank went the extra mile to offer a positive benefit to the society. We share with you the details of some of the projects carried by our very own employees who actually took time off their busy schedules to volunteer and carry out the work. They worked tirelessly every weekend to complete the projects and shared their time, skill and resources. It was a touching sight to see our staff come together as one family to reach out to the community. Every weekend they were either colour-washing a school, clearing up, or even volunteering for wiring and maintenance work. It was evident that they had not forgotten the human touch.

A Library for the Visually Handicapped Graduates of Sri Lanka

Sri Lanka is a developing nation. It has a growing population of over 20 million and demographically an aging population. Being blind in Sri Lanka most often results in unemployment. The prevalent attitude is that a person's visual handicap makes it difficult for him or her to function at a commercially profitable standard. Due to various reasons the state provisioning for such individuals is very limited. It is a few who make it to schools, and obtain an education. The rest are faced with unemployment and poverty. Thus, the blind in Sri Lanka have become an extremely marginalised group among our population.

Presently, there are around 200 graduates and 50 undergraduates who are visually handicapped. These students have no place of their own where they could go to either do

their research or even to find reading material as sighted students could do. Such a library would facilitate the visually handicapped to a whole new world of reading, where they could read books in Braille and record it so that more students could have access to these copies as books in Braille are also scarce.



Some of the visually handicapped graduates making use of the facilities provided by NDB Bank.

Understanding this need, the Administration, Security & Maintenance Departments of NDB Bank took the initiative to set up a library for the visually handicapped graduates. A project of this nature is the first such in Sri Lanka, where graduates and undergraduates have the facility to do their research, as most of these visually handicapped people are teachers and their hunger for knowledge is only matched by their courage to live life like any sighted person.

A Library for the Kadawatha Roman Catholic School

The Kadawatha Roman Catholic School is 180 years old and located in the heart of Kadawatha. The school has no library facilities, while access to a computer seemed an impossible dream. Considering this need, NDB Bank's Marketing, Finance, Retail Operations, Call Centre and Reception Departments set up a library for this school. The staff actively participated in refurbishing the buildings, painting and setting up the library. Two computers were also donated to the school.



Officials from NDB Bank pitching in to clean the premises.

Refurbishing the Horagolla Kanishta Vidyalaya, Nattandiya

The school consists of a population of about 200 students who come from poverty stricken backgrounds and broken families. The school has about 40 teachers and grades from 1 to O/L. Despite the lack of resources the commitment of the principal, teachers and students is exceptional. This was proven further when a student scored 147 marks at the Grade 5 scholarship exam last year. Thus, the Personal Loans & Sales and Collections & Recoveries Teams of NDB Bank selected this school to carry out their CSR initiative. The staff themselves engaged in refurbishment work including painting, landscaping and planting of saplings. Sports items were also donated.



Officials from NDB Bank painting a building.

A Laboratory for Doranagoda Maha Vidyalaya, Udugampola

Doranagoda Maha Vidyalaya is located in Udugampola, a rural locality situated approximately 10 kms from Gampaha. The school conducts classes from Year 1 to

Social Responsibility

Year 11, with 15 teachers in the services of the school. The student population stands at 124. The majority of the students are from very needy families who are even unable to pay the school fees of Rs.10 per term. Despite the hardships faced by them, it was promising to note that many of the students were successful in their Grade 5 scholarship and O/L Examinations. The school's Science Laboratory was situated in an old building, which also houses the school library and was used as classrooms as and when necessary. The room was in a dilapidated state, with the partitioning attacked by termites and no facilities to store the lab equipment and to carry out experiments. Therefore, NDB Bank's Risk, Audit and Compliance Departments opted to refurbish the Laboratory and the Library complete with storage facilities for the lab equipment, facilities to carry out experiments in a safe environment as well library books and computers.



Lab equipment donated by the Bank.

Mind Building - Buddhist Girls Home, Gampaha

The Buddhist Girls Home is a refuge for children whose parents, either one or both, are serving imprisonment sentences on various offenses. As a result, these children face tough living conditions with a single parent or as total orphans causing them immense mental anguish. The children are referred to these homes by the Department of Probation and Child Care Services (DPCCS) or directly by Courts. Presently all

the children attend nearby schools and there are some individuals who visit and conduct some extra lessons for these children on a voluntary basis for subjects such as mathematics and science. However it was observed that apart from providing basic necessities such as food, clothes and sanitation there were no opportunities for the mental uplifting of these children which is of utmost importance.

It is a daunting task faced by the authorities to nurture these children's' minds to look upon the society around them without hatred once they come of age. Therefore, making them independent, law abiding and responsible citizens of this country poses an enormous challenge.

NDB Bank's HR, CEO's Office and Legal Departments took on the task of providing proper counselling as well as fun activities such as handicrafts, music, dancing and also cooking which would not only help in calming their spirits and assist in their mental well-being, but also bring out their talents and provide them the means to even carve out a career for themselves in the future.



Children of the Buddhist Girls Home enjoying the fun activity.

Whilst the Counselling was conducted by a Professional Counselor, the handicrafts and cooking classes were carried out by the staff members themselves on a volunteer basis who shared their valuable time, talent and love with these impressionable minds. Library Books and computers were also donated to the Home. NDB Bank's very own

'Pancha Mama' kicked off the programme with an interactive fun activity session for the children and the programme will conclude after 06 months with a talent show and sale of handicrafts done by the students themselves.

Refurbishing of Library and Improving Sanitary conditions of Yuadaganawa Vidyalaya in Monaragala

The Yudaganawa Vidyalaya is located in Buththala, a rural locality in the Monaragala district. The school conducts classes from Year 1 to Year 11, with 600 pupils and 35 teachers. The majority of the students are from very needy families; 70% of parents of the pupils are labourers working in the Pelawatte Sugar factory who are not even able to pay the school fees. The examination results of the students show a positive upward trend which is commendable considering the tough conditions they face. The poor sanitary condition of the school is a huge problem to the pupils as well as teachers with, 600 pupils and 35 teachers utilizing 2 toilets. Restoration so far has failed due to lack of funds. Inadequate sanitation is a major cause of disease worldwide and even denies the right to children's education. Lack of access to this most basic of needs is an assault against human dignity.

The school Assembly Hall was also in a state of disrepair with no electricity and in need of renovation as it's a basic need of the school for the development of skills of the students. The Library was also in need of books to cater to the 600 students in order to



Donation of library books

enhance their knowledge. Only nine books were received as donations from different institutions and individuals in the last three years.

Therefore, the Emerging Corporates/Refinance, Specialised Commercial Markets and Auto Finance Departments of NDB Bank took on the task of uplifting the Sanitary conditions of the school as well as refurbishing of the hall and library.

Entrepreneurial Skills Development Project

The country has a supply driven university education system which has little relevance to labour market requirements and entrepreneurial culture, creating a mismatch between labour supply and demand. Thus, a substantial proportion of the graduates encounter difficulties in finding productive employment.

The University of Colombo conducts courses in almost all areas of academia, but a challenging problem it has faced in the recent years has been to ensure that its graduates are readily employable. This is especially a problem in the Arts Stream of the University. Universities around the world are becoming more entrepreneurial to face this challenge and Sri Lanka too is exploring how to create an entrepreneurial culture within its state universities.

It is in this precept, that the Corporate Banking Department of NDB Bank organised an Entrepreneurial Skills Development Project for the undergraduates of the University of Colombo. Developing entrepreneurial skills of these undergraduates will not only help them personally, but also will result in the promotion of entrepreneurship as a career option for graduates passing out of Sri Lankan universities. The ability to start one's own business enterprise will reduce the pressure on the existing employment market

and contribute to the overall economy with new start-up businesses and indirect employment. It will also enhance entrepreneurial attributes such as Confidence, Creativity and Innovation, which will help to improve the quality of overall Human Capital of the country.

The staff of the department in co-ordination with the university and the external resource persons structured the course content whilst a few employees shared their knowledge and expertise by volunteering as the resource persons.



An employee of NDB Bank sharing their knowledge and expertise with the participants.

Improving Sanitary Conditions of Meegoda Maha Vidyalaya

The Central Processing Unit of NDB Bank visited several schools and after careful selection opted to improve the sanitary conditions of Meegoda Maha Vidyalaya. The Meegoda Maha Vidyalaya is situated in the Homagama Education zone and has about 650 children (mix) in the school. The school conducts classes from grade 6 to 13. The school is about 60 years old and its toilet and drainage system was in very poor condition with the pit latrines overflowing into the entrance of the toilet block. The toilets were very unsanitary as they were not regularly cleaned due to lack of water.

Sanitation is preventive medicine and it is vital that proper sanitary conditions exist in a school in order to prevent disease and maintain basic hygiene. NDB Bank's project involved constructing toilets, including water closets, sewage pipes, painting of walls, hand washing facilities and piped water. The

staff and their families also painted one of the school buildings.

Awareness Campaign - Thalassaemia Prevention Programme

Thalassaemia is a dreadful disease prevalent in the North Western Province in Sri Lanka, with a heavy concentration in Wayamba. This is an incurable genetic disorder which affects children with symptoms not visible at birth. The red blood cells of such children are destroyed early, causing anemia, affecting the spleen, liver, heart and bones resulting in death if regular blood infusions are not done. Infusion of blood causes iron accumulation which results in serious side effects. The accumulated iron has to be removed through a machine which is tied to the body with a syringe piercing the skin for 8-10 hours a day for the entire lifetime. The families of such patients very soon become bankrupt and ostracized by society.

Although incurable, the disease is preventable. Prevention is the only solution to this problem and is possible through proper education via public awareness campaigns. The Region I of NDB Bank's branch network in partnership with health services of the North Western Province undertook this task with a view to eradicating this problem.



The happy glow on the beneficiaries' faces, the wonder in their eyes as they beheld their libraries, labs, books and computers was proof that NDB Bank's Department-wise CSR Initiatives were an unprecedented success. This not only brought a ray of sunshine to those in need, but also brought a glow of happiness and satisfaction to the employees of NDB Bank.

Social Responsibility

CORPORATE PHILANTHROPY

NDB Bank continued to support the most vulnerable through 'The Prevention of Child Abuse Trust' and 'The NDB Bank Cancer Aid Trust Fund'.

NDB Bank Cancer Aid Trust Fund

Cancer is a leading cause of death worldwide. The disease accounts for 7.4 million deaths or around 13% of all deaths worldwide annually, with more than 70% of all cancer deaths occurring in low and middle-income countries. Understanding the need to fight the disease in Sri Lanka, NDB Bank launched the NDB Bank Cancer Aid Trust Fund in 2007. The objectives of the NDB Bank Cancer Aid Trust Fund are two-fold: to focus on providing financial and related assistance to cancer patients who are unable to afford vital medical supplies and help maintain the well-being of patients who are being treated at cancer hospitals. We share below one of the success stories of a very young cancer patient:

- Gimasha is a 4-year-old living in Pubudugama Mulleriyawa. She developed a strange abdominal pain associated with an abdominal mass.
- It was diagnosed that she had a malignant cancer in both ovaries. She underwent operations to remove both her ovaries. Since these cancers are highly malignant, she needed chemotherapy to counteract these cancer cells, which were already in her system.
- Cancer Chemotherapy drugs are usually delivered through a vein. In children it is very difficult to find a suitable vein, which too tends to get destroyed by the first dose of chemotherapy.
- Administering chemotherapy in this manner to a child is extremely painful and traumatic for the child as he/she has to be pricked repeatedly in order to

locate the vein. Hence, a long acting central venous line (Hickman's Line) is recommended to administer chemotherapy in children. However, the cost of a Hickman's line ranges from Rs. 20,000 to Rs. 50,000 which was unaffordable for her poor parents.

- Gimasha's father is a mason and is the sole breadwinner of the family. He earns a meagre income of around Rs. 8,000 to Rs. 12,000 per month, which is also not on a regular basis. These parents were helpless in saving their only child who desperately needed a Hickman's line to deliver her chemotherapy.
- Their dilemma was solved when the NDB Bank Cancer Aid Trust Fund donated 100 Hickman's lines to the National Cancer Institute, Maharagama. Gimasha was able to undergo chemotherapy treatment without any trauma and is now recovering from the disease.



This Smile tells not only her story but of hundreds of children who were beneficiaries of the NDB Bank Cancer Aid Trust Fund.

The Prevention of Child Abuse Trust

Statistics reveal that child abuse in Sri Lanka has reached epic proportions, with over half of the court cases out of Colombo relating to child abuse. A survey of child abuse cases reveal that the majority of the abused children have been victimised by family members, relatives or known persons. These alarming statistics stress the need for greater awareness of the problem.

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 20 awareness programmes during the past two years in areas where a high incidence of child abuse has been reported with over 3,000 parents attending. A Special Awareness Programme was conducted for 100 children from 20 school committees in the Maharagama District for the Universal Children's Day. A programme for school principals was also conducted wherein over 100 principals attended from the Divisional Secretariats of Negombo, Katana and Ja-ela.



An official from the Department of Probation and Child Care conducting an awareness program on the prevention of child abuse.

These awareness programmes are conducted by qualified resource persons from the Department of Probation & Child Care. The Programme educates the listeners on the different categories of child abuse, repercussions of child abuse, methods of prevention, action in case of an incident and the legal aspects as well as the contact details of the Child Help Centres. It is evident from the discussions held with the parents that the majority were unaware of child abuse, how/where it happens, possible abusers, the methods of prevention and the child help lines available to call for help. Very few were aware of the magnitude of the problem and the need to protect their children. The feedback received from the parents is very encouraging and reinforces

the fact that awareness on this pressing issue is vital.

Corporate Donations

As one of the fastest growing commercial banks in the country, NDB Bank has a long history of supporting charitable concerns. The Bank has donated under the umbrella of 'Corporate Donations' to charitable concerns that not only reflect our values, but will also help us to create a better future for all Sri Lankans.

NDB Bank continued to support and uplift the most vulnerable in Hambantota. Partnering with the Women's Development Federation in Hambantota, NDB Bank provided a monthly stipend to 40 tsunami affected orphans from the bottom end of the pyramid for their education, health and nutrition, and also continued to maintain the Minor Savings Accounts which was opened for each child.

ENVIRONMENTAL ACCOUNTABILITY

Waste Reduction/Recycling

Caring for our environment is an integral part of NDB Bank's corporate values. Through the collection of old records and waste paper amounting to 13,649 Kgs, we were able to save:

232 Trees

433,765 Liters of water

54,596 Kwh of Electricity

23,953 Litres of Oil

40.94 Cubic meters of Land Fill

NDB Bank in collaboration with M/s Neptune Papers (Pvt) Ltd., makes every effort to collect the waste paper generated in its day-to-day operations for recycling. NDB Bank also promotes a paperless culture where employees are encouraged to use electronic communications, online approvals and other web-based applications.

Environmentally-Friendly Lending

NDB Bank promotes the E-Friends Loan Schemes which are specifically used for pollution control. These loans are used to construct waste water treatment plants as well as to replace inefficient plant and machinery - the end result being valuable saving of resources. NDB Bank continues to evaluate projects based on the Bank's 'Environmental and Social Management Policy', ensuring that funding is only for projects that comply with the standards.

NDB AS AN EMPLOYER

NDB Bank is committed to developing its people and has a wide range of development and leadership programmes for employees and a policy that ensures that they are all treated with respect, regardless of age, race, gender or disability. We use our employee opinion surveys to understand and engage our employees at all times. As we grow, our workforce becomes ever more diverse, reflecting the markets in which we operate. We are committed to building the local talent base in the markets in which we operate. We perceive this as a crucial success factor for us in emerging markets.

Whistleblower Protection

NDB Bank commits to take all reasonable measures to protect an individual against any detrimental action being suffered by anyone on the basis that they have made a disclosure on a confidential issue. Issues can be raised anonymously and are treated confidentially throughout the internal investigation process.

* Please also refer the 'Human Resource' Section on pages 40 - 42.

Our Ethics

Our principles for doing business set out how we aim to conduct ourselves across our business enterprise in the areas of governance and ethics, employee practices and customer practices. The clear set of

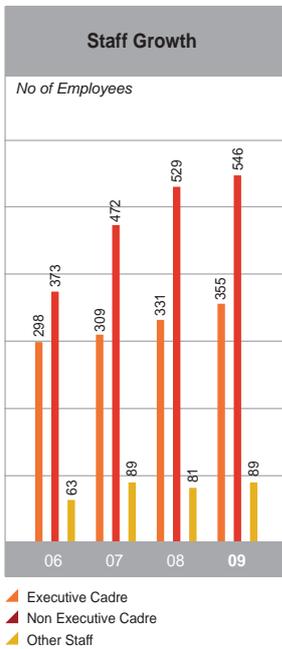
guidelines ensures that we operate with integrity and responsibility, ensuring the financial stability of our customers at all times.

* Please also refer the 'Corporate Governance' Section on pages 46 - 55.

Human Resources

Engaged and Empowered Employees

As human capital takes on greater significance globally, Human Resources Departments are being transformed to function as business partners with employees and other stakeholders, rather than centres of administration. At NDB bank, the Human Resources Department is actively involved in furthering the vision and mission of the bank, driving profitability while maintaining high morale. While the bank strives to be a friend and a guide to its customers, the same philosophy is also applied inwards - with the HR team supporting the growth of the institution.



Human Resources Management (HRM) practices have been found to be most effective when they are in alignment with the overall strategic goals of the bank. At NDB bank, this strategic aspect has always been our foremost concern while designing, developing and implementing our HRM strategy. We have constantly been monitoring and adapting our human resource planning and strategies, given the increasingly competitive environment, changing regulations and fast developing use and implementation of information technology. These factors constantly alter the requirement of employees both in relation to the internal needs for job

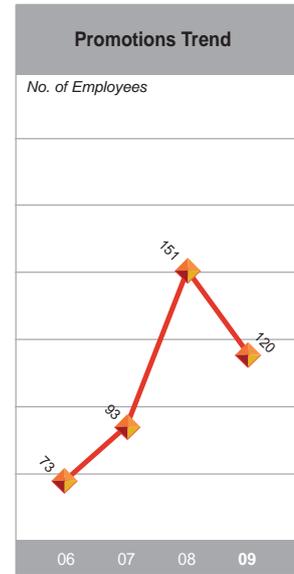
performance as well as the constantly changing requirements of the customers in terms of higher expectations.

At NDB bank, we believe that our employees are the backbone of our organisation - having imbibed the vision of the company and translating this into satisfied customers. The Human Resources Department's role in developing and nurturing an exceptionally skilled and motivated work force has been commendable, as they have kept the staff motivated and ensured to achieve individual needs together with prioritised organisational needs. They have provided ample room for personal career growth and infused them with a sense of ownership for the organisation.

The bank has built a culture of personal growth by engaging talented people into a disciplined performance management system. The Human Resources Department is committed to cultivating a performance-driven culture that rewards results. That's why we have a rigorous performance management process, as well as a goal-setting process at all levels of the company.

From our CEO to our business segments and across the corporate functions, we display our performance on critical measures through dashboards. We rate our performance in key areas. This goal-setting activity aligns teams, department and individual goals to company goals. Progress is formally evaluated at mid-year and year-end.

On a personal level, employees develop and review their goals annually with their managers, defining expectations that meet and exceed the objectives. During performance reviews, the results of how well goals were or were not met are discussed and evaluated, which feeds into the organisation's remuneration decisions. This criteria-driven system is all about improving performance and developing people. As part of the process, employees create individual development plans to align each employee's work to company and unit business goals.

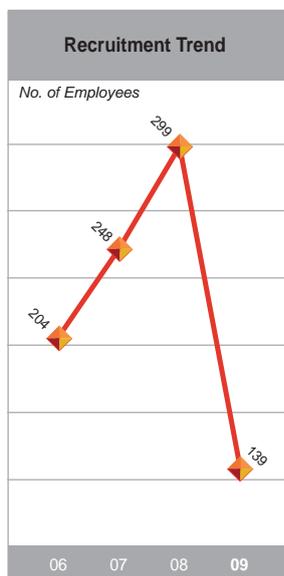


Gender equality and diversity are some of the factors that have forged a deep connection between the staff and the Human Resources Department, which is perceived to be a partner in their growth. Therefore, the Human Resources Department ensures that the organisation has a diverse workforce working together in harmony despite the diverse backgrounds and values. NDB family is bound by the core values of integrity, care, passion, service and teamwork which it strives to uphold.



Our Recruitment Strategy

The Human Resources Department has put into place precise processes and systems to ensure that recruitment is a streamlined process that ensures only the right candidates are handpicked. By gauging the emotional and intelligence quotients of candidates, the Human Resources Department ensures the selection of the right person for the relevant job and also makes sure that the selected person is right for the organisation as this in turn has direct benefits for the bank by way of employee productivity, employee relationships as well as a positive impact on the work environment. The bank's forward looking policies and professional work environment makes it an "Employer of Choice" and the bank is reputed as a crucible of learning, where employees can achieve their full potential while benefiting from unlimited career opportunities. In addition to external recruitment, a well thought out programme for existing employees is in place by way of career progression and enhancement.

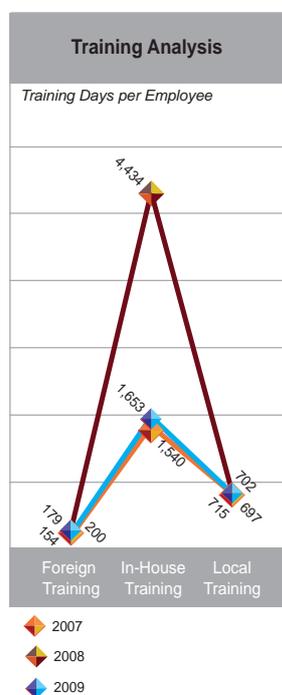


Our Training and Development Strategy

The existing training and development framework aims to help employees to develop their personal and organizational skills, knowledge and abilities. The focus of all aspects of the Human Resources Department is on developing the most

superior workforce so that the bank and the individual employees can accomplish their work goals in service to customers. Employee training needs are generally assessed via performance reviews, business plans and other training interventions. NDB bank has managed to maintain an average of 4.9 training days per employee in the recent past despite the high staff growth numbering to over one hundred and fifty employees per year working out to 21%.

The graph below is a snapshot of our training and development delivery for the past three years.



Our Equal Opportunity Policy

At NDB bank, valuing diversity means that we recognise that we all have complex identities made up of many strands. These can include, but are not limited to, ethnicity, gender, age, physical and mental aptitudes, nationality, socio-economic status, and religious, political or other beliefs. This means we embrace and celebrate our differences in a positive environment, and are committed to engage with the needs of our diverse staff and customers to enable us, both individually and corporately, to achieve our goals and objectives. The bank tackles barriers to participation and creates a culture

in which equal opportunities and equal treatment are a priority for all staff and customers. In the recruitment, training, pay and management of staff, and in all our day-to-day work with both colleagues and customers, we seek to create an environment where attitudes and biases that hinder the progress of individuals and groups are dismantled and where we work together in mutual respect and tolerance.

Employee Welfare

NDB bank is committed to looking after its employees' well-being in the belief that a healthy body and mind will have a positive impact on their professional and personal lives. In addition to the initiatives designed to improve the health, safety and well-being of our people at work the bank also offers a number of recreational and educational activities to help employees pursue their interests and find ways to unwind. Thus, the bank maintains a state of the art gymnasium that is located at its Head Office. There is also a library with a comprehensive collection of literature covering spheres beyond banking with the objective of broadening the horizon of knowledge of its valued employees.

Being a World Class Sri Lankan, NDB bank attempts to enlighten employees as well as their family members. The bank believes in exposing its staff to hitherto unexploited ventures which give self realisation in working towards one's goals, dreams and in doing so discover one's potential. In addition the bank believes that the experience of discovering self and enjoying life blissfully becomes richer when it is done with those who are closest to one's heart - the family. It is in this spirit, that staff were given the opportunity to travel to Far East in 2009. It is worthy of note, that majority of staff travelled overseas for the first time accompanied by their family members. The Staff Recreation Club together with the Human Resources Department partnered for related welfare activities such as obtaining of passports in making a dream come true for those who have not crossed the shores of Sri Lanka. As a result, over six hundred employees with

Human Resources

their family members took a vacation to the Far East. NDB takes pride in living a World Class Sri Lankan bank, where every individual along with his/ her family got the opportunity to enjoy and experience the differentiation of world class standards, cultural heritage, life style of the rest of the world.



Furthering the belief, of developing family members, the Human Resources Department through a well accepted and respected Corporate Trainer conducted NDB Children's Development Workshops for the kids of NDBer's. This interactive fun filled learning experience was developed with the objective of helping children to achieve their best in Academic Pursuits, Extra Curricular Activities and be at their best in Social Interactions. In other words, inspiring the children to develop a positive personality and inculcating a passion for success were the underlying objectives.



In summary the Human Resources Department designs the welfare programmes to address staff wellness, learning process, work related stress and work life balance. Support structures have been put in place to oversee harmonious interventions in staff welfare.



Our Innovation Recipe

Innovation today is "much more than new products". It is also "reinventing business process and building entirely new markets that meet untapped customer needs". The ubiquity of the internet and globalisation of the business expand generation of new ideas. Hence, the Human Resources Department has put in place a suggestion tracking system to encourage employees to explore new opportunities for the bank and promote boundaryless thinking work culture. As a fully fledged commercial bank, we are breaking into new areas. Therefore, it is imperative to actively encourage, listen to and act upon the ideas and insights of our employees.

Risk Management

The Global Financial Crisis & Green Shoots

After a deep global recession, the global economy may be bottoming out with slightly positive economic indicators. However, the recovery is expected to be modest and slow, as financial systems remain impaired. It is important to restore financial sector health while maintaining supportive macroeconomic policies until recovery is on a firm footing.

Did Risk Management Fail?

Risk management did not fail. Organizations failed in their implementation of risk management. The term 'Risk Manager' is an unfortunate title as it conveys the impression that this person can manage all the risks an organisation faces. Everyone is a risk manager - or should be - and organisations need risk officers to direct and embed a culture of risk management across an organisation. The recent global financial crisis has revealed that in risk management, robustness is more important than sophistication.

A strong and pervasive integrated risk-management culture provides a bank with the foundations of 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 at any bank are to

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

Integrated Risk Management at NDB Bank

NDB Bank's Group Risk Management (GRM) is responsible for the design and operation of NDB Bank's integrated risk-management process and is independent of

NDB Bank's business units. Its risk-management framework is integrated with NDB Bank's strategy and business planning processes.

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 & assess NDB Bank's overall risks and to focus directly on integrated Risk Management. The IRMC Charter was formulated and approved in 2008 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 NDB 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 NDB Bank's credit portfolio is maintained. The effectiveness of this system is well reflected

in the Non-Performing Loan (NPL) ratio of NDB Bank, which was 2.58% as at 31 December 2009, against an average industry NPL ratio of 8.0% as at 31 December 2009.

There are five executive credit committees in operation, representing the five business units of NDB 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.

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 NDB 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 NDB 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 NDB 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.

Risk Management

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.

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 identify areas for improvement. The Board IRMC, which meets on a quarterly basis, reviews the credit portfolio of NDB Bank, its policies and processes. A risk-assessment report is submitted to the Board, summarizing the proceedings at IRMC meetings.

Market Risk

The possibility that the on and off-balance sheet positions of a financial institution will be adversely affected by movements 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 it 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 and fluctuations in mortgage prepayment rates.
- 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.

Market-risk Management at NDB Bank

The Assets and Liabilities Committee (ALCO), comprising senior management staff from the treasury, risk-management, finance and various business units of NDB Bank is responsible for the supervision and management of market risk. The ALCO meets monthly and whenever circumstances demand and its decisions are further reviewed by the Board. Its main responsibilities are:

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

The Asset Liability Committee (ALCO) of NDB Bank, taking into consideration the expansion of Treasury activities, both in volumes and in new business initiatives, decided to obtain the services of an independent consultant to carry out a risk management gap analysis and assist in setting up a market risk management desk.

ALCO's recommendations were positively viewed by the Board IRMC and approved by NDB Bank's Board of Directors. Accordingly,

an approved independent overseas consultant with an outstanding track record in providing similar services throughout the region was selected in August 2008 to: -

1. Carry out a risk management gap analysis.
2. Provide an implementation plan for a best practice market risk management.
3. Provide an implementation on best practice asset liability management framework.

The project is expected to support NDB Bank to achieve better results in:

1. International best practice compliance in the market risk management systems: This will enable NDB Bank to elevate its market risk management techniques to the most advanced in the banking industry.
2. Enhanced Risk Management: Improve the overall return to NDB Bank through better risk management by aligning the returns from business with the risks assumed and minimize losses, thereby improving the overall return to NDB Bank (improved risk profile and profitability).
3. Training: As part of the assignment, comprehensive training covering market risk management and asset liability management areas will be customized for NDB Bank's staff who are involved in the day-to-day operation.
4. Enhanced Shareholder Value: This is directly related to effective risk management within NDB Bank. The independent and effective monitoring of risk will enable capital to be allocated to those businesses with the best returns.

The implementation proposal shall encompass a road map to a best practice risk management framework and include detailed policies, methodologies and templates designed to be in line with NDB Bank's requirements. It has also designed the much desired management information statements to manage market risk at various levels of NDB Bank. Further, the implementation of Market Risk Management consultancy is in line with the regulatory

guidelines.

The project is expected to be completed during the 1st Quarter of 2010 with a training program for relevant staff members.

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 case, a bank will often go to the markets to meet its liquidity requirements - a course whose wisdom depends on the liquidity of the market and the borrowing institution.

Effective liquidity-risk management is essential to maintain the confidence of depositors and counterparties, as well as to ensure that the bank's core businesses continue to generate revenue, even under adverse conditions.

Liquidity Risk Management at NDB Bank

This category of risk also comes under 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. These limits correspond to the liquidity available to NDB Bank through various providers at an agreed level of confidence. NDB Bank has also adopted a liquidity policy whose object is 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 CBSL). Market and liquidity risks are addressed at Board IRMC meetings on a quarterly basis.

The Market Risk Management consultancy will also assist NDB Bank to be compliant 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 a failure of human resources

or internal processes and systems, or from external events.

Operational Risk Management at NDB Bank

NDB Bank manages key operational risks through a synergistic combination of its governance framework, policy, procedure and the application of specific risk management tools.

The managers of all business and support units share responsibility for adhering to the operational risk management policies of NDB Bank. Appropriate procedures and guidelines are in place to ensure that risks arising from day-to-day operational activities are controlled. A regular assessment is made of the risks facing each business and support unit - risks such as may be inherent in products, processes and activities. All identified risks are regularly reviewed and all significant changes of degree evaluated.

NDB Bank adopts a comprehensive operational risk management approach with internal audits and compliance playing complementary roles in identifying, assessing, monitoring, controlling and mitigating operational risks.

During the year under review, NDB Bank signed an agreement with an independent overseas consultant to design, set up and implement an Operational Risk Management Practice across NDB Bank in line with the regulatory guidelines. The external Consultant has extensive experience in providing similar services in other regions of the world.

The objective of the consultancy is to carry out a diagnostic study on the operational risk management function at NDB Bank in the light of global / regional best practices, policies, procedures and regulatory requirements, inter alia but not limited to,

- a) A comprehensive diagnostic review of NDB Bank's Business & Support functional areas specifically focusing on operational risk management and a gap analysis report with recommendations to improve the identified areas in line with the CBSL guidelines.
- b) Setting up an operational risk

management function for NDB Bank, with Operational Risk Management Policies and Procedures, a reporting structure and appropriate tools (including formats) for identifying and assessing (likelihood and impact) operational risks across NDB Bank together with a suitable structure and Human Resources/Skill requirements.

- c) Implementation plan with priorities, key milestones, target dates and cost estimates (if any).

The project commenced in October 2009 and progress has been made on drafting the Operational Risk policy and procedure documents.

Qualitative toolkits have been formulated for selected units of Retail Banking; these will be piloted during the first quarter of 2010.

The project is expected to be concluded by mid -2010.

Basel II Compliance - (Measurement for Capital Adequacy in Banks)

NDB Bank has been fully compliant with the Central Bank regulations on Basel II since 1st January 2008.

Currently, NDB 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 capital requirements as per Central Bank regulations. NDB Bank continues to exceed the Central Bank requirement for minimum capital, thereby protecting stakeholders and enhancing the financial strength and stability of NDB Bank.

Internal reviews of the reporting of capital-adequacy ratios are carried out by the Internal Audit on a regular basis to ensure accuracy of reporting.

NDB Bank is in the process of upgrading its core banking system which would ease off capturing and analysis of data, preparing the road map for NDB Bank to migrate to advanced approaches of BASEL II.

Corporate Governance

The Governance Framework

The global financial crisis left major banks crippled by toxic assets with immediate and potential impacts on the banking system and the economies, that compelled governments to intervene with bailout programmes and emergency measures. These interventions helped to avoid systemic collapse and stabilize the global financial system. If institutions had adhered to the best practices in Corporate Governance, the recent calamities in the banking industry could have been avoided to a large extent.

Corporate Governance is the key to integrity of corporations, financial institutions and markets, and central to the health of our economy and its future stability. Corporate Governance emphasizes the need to balance the achievement of corporate objectives against the need for a sound framework of controls in the best interests of all stakeholders, while maintaining high standards of industrial and professional ethics.

At NDB Bank, we are committed to upholding the highest standards of Corporate Governance and ethical conduct in all our business dealings commencing with the Board of Directors and permeates throughout the Bank.

NDB Bank, in its endeavour to maintain a high degree of commitment to sound Corporate Governance practices, adopted its own Code of Corporate Governance in January 2007. Additionally, to enhance governance practices within NDB Bank, the following are in place:

- A well articulated corporate strategy and overall policy framework which is geared to measure the success of the overall performance of the organization and the contribution of individuals.
- An organization structure, which clearly defines the assignment of responsibilities and accountability backed by appropriate financial compensation set at levels that are competitive to enable recruitment and retention of high caliber employees.

- An appropriate structure of the Board, with the Directors being accountable for the proper stewardship of NDB Bank's affairs and apply sound judgment and commit sufficient time on issues of strategy, performance, resources and standards of business conduct.
- Ensure that there is proper oversight by senior management.
- Strong internal control systems including internal audit, compliance and risk management functions independent of the business lines.
- Effective internal and external information flows and appropriate financial reporting.
- Promoting fairness and transparency in NDB Bank.

NDB Bank being committed to upholding the highest standards of Corporate Governance, complies with regulations relating to Corporate Governance issued from time to time 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.

The Banking Act Direction No. 11 of 2007 and subsequent amendments thereto 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 (as amended) provides that the mandatory provisions set out in Direction 3 thereof should be complied by Licensed Commercial Banks from 1st January, 2008 onwards and all Licensed Commercial Banks should fully comply with the said provisions by 1st January, 2009 except where extended compliance dates have been specifically provided for in the said Direction. NDB Bank is compliant with the said Directions on Corporate Governance as required by the Central Bank and continuously endeavours to develop and improve internal practices progressively.

Board of Directors

The Board of Directors being ultimately responsible for the operations and financial soundness of NDB Bank, ensures that the Corporate Management acts in the best interest of all its stakeholders.

The Board of NDB Bank comprises eleven Directors, ten of whom including the Chairman, are Non-Executive Directors. The Chief Executive Officer (CEO) of NDB Bank, functions as an Ex-officio Director. The CEO functions as the apex executive in charge of the day to day management of the Bank's operations and business. The positions of the Chairman and CEO are kept separate. The Chairman does not engage in activities involving the direct supervision of Key Management Personnel and in any other executive duties. The filling of vacancies of elected Directors is made on the recommendations of the Nominations Committee of the Board. The Directors of NDB Bank are professionals and eminent personalities from both the private and public sectors who dedicate adequate time and effort to understand and execute their oversight role in ensuring that sound governance practices are adopted throughout NDB Bank. The Board of Directors consistently maintains high standards and ensures such standards and corporate values are adhered throughout NDB Bank. The Board has also formulated appropriate checks and balances to ensure that best practices of Corporate Governance are maintained at all times. The Board lays strong emphasis on transparency, accountability and integrity in all operations, in line with NDB Bank's Code of Corporate Governance. 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 Corporate Management to ensure the implementation of these strategies. To this end, the Board has delegated its authority to the Corporate Management in operational areas within clearly defined limits.

The Board has met sixteen times during the financial year under review. Matters

considered at these meetings include approving and / or reviewing of corporate strategy, budgets and forecasts, operational and financial performance, delegation of authority, portfolio quality, reporting to shareholders and approving loans in excess of defined thresholds.

The Board of Directors has established the following committees namely, the Audit Committee, Integrated Risk Management Committee, Corporate Governance and Legal Affairs Committee, Remuneration and Human Resources Committee, Strategic Issues Committee and the Nominations Committee which ensures its oversight and control over the affairs of NDB Bank. The scope of such committees and the membership is illustrated in the following pages. The Board also delegates its authority to management who also work through a number of internal committees as shown in the diagram below. Management is held accountable for both performance of NDB Bank and the maintenance of a sound governance framework.

The Board strengthens the safety and soundness of NDB Bank by ensuring the

implementation of the overall strategic objectives, which it oversees while it ensures that core values are instilled in all employees of NDB Bank. The Board is also responsible for approving the overall business strategy of NDB Bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals for the medium term. Principal risks are identified by the Board and appropriate systems are in place to manage risks prudently.

The Board has implemented an overall communication policy with all stakeholders and it also reviews the adequacy and the integrity of NDB Bank's internal control systems and management information systems.

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

Key Management Personnel who have significant authority and responsibility for NDB 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 NDB Bank by Key Management Personnel which are consistent with Board policy.

Through a sound internal governance process based on its own Governance Code, the Board assesses the effectiveness of the directors' own governance practices and makes necessary changes based on best practice. To ensure long term continuity of NDB Bank, the Board has formulated an appropriate succession procedure for Key Management Personnel while maintaining a sound balance by having a dialogue with such Key Management Personnel to monitor progress towards corporate objectives.

The Board keeps abreast of the changing regulatory environment and maintains a sound and effective relationship with the regulators and exercises due diligence in the hiring and oversight of External Auditors with the assistance of the Board Audit Committee.



Corporate Governance requirements under the Listing Rules issued by the Colombo Stock Exchange.

Section 7.10 of the Listing Rules of the Colombo Stock Exchange requires listed companies to comply on a mandatory basis with the aforesaid rules with effect from financial year commencing on or after 1st April 2008. The NDB Bank complies with section 7.10 of the listing rules as set out in the table below.

Rule	Present status	Remarks
7.10.1 Non Executive Directors		
(a) The Board of Directors of a listed entity shall include at least <ul style="list-style-type: none"> • two Non-Executive Directors; or • such number of Non-Executive Directors equivalent to one third of the total number of Directors whichever is higher. 	Complied	Of the eleven Directors, ten are Non- Executive Directors except for the CEO, who is an Ex-officio member of the Board.
(b) The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.		
(c) Any change occurring to this ratio shall be rectified within 90 days from the date of the change.		
7.10.2 Independent Directors		
(a) Where the constitution of the Board of Directors includes only two Non-Executive Directors as mentioned above, both such Non-Executive Directors shall be 'independent'. In all other instances two or 1/3 of Non-Executive Directors appointed to the Board of Directors, whichever is higher shall be 'independent'.	Complied	Of the eleven Directors, eight Directors are independent.
(b) The Board shall require each Non-Executive Director to submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria.	Complied	The Board has adopted a scheme of self assessment based on the best practices as recommended by the SEC to be undertaken by each Director annually.
7.10.3 Disclosures relating to Directors		
(a) The Board shall make a determination annually as to the independence or non-independence of each Non-Executive Director based on such declaration and other information available to the Board and shall set out in the annual report the names of Directors determined to be 'independent'.	Complied	Based on the declarations received from Directors at year end the following Directors are independent. <ol style="list-style-type: none"> 1. P. M. Nagahawatte 2. H. D. S. Amarasuriya 3. G. C. B. Wijeyesinghe 4. A. R. Gunasekara 5. R. Vokes 6. R. B. Thambiyah 7. S. R. de Silva 8. S. T. Nagendra
(b) In the event a Director does not qualify as 'independent' against the criteria set out in clause 7.10.4 but if the Board, taking account all the circumstances, is of the opinion that the Director is nevertheless 'independent', the Board shall specify the criteria not met and the basis for its determination in the annual report.	Not applicable	

Rule	Present status	Remarks
<p>7.10.6 Audit Committee A listed entity shall have an Audit Committee in conformity with the following:</p> <p>a) Composition The Audit Committee shall comprise of a minimum of two independent Non-Executive Directors (in instances where a company has only two Directors on its Board); or Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.</p> <p>In a situation where both the parent company and the subsidiary are 'listed entities', the Audit Committee of the parent company may function as the Audit Committee of the subsidiary.</p> <p>However, if the parent company is not a listed entity, then the Audit Committee of the parent company is not permitted to act as the Audit Committee of the subsidiary. The subsidiary should have a separate Audit Committee.</p> <p>One Non-Executive Director shall be appointed as Chairman of the Committee by the Board of Directors.</p> <p>Unless otherwise determined by the Audit Committee the Chief Executive Officer and the Chief Financial Officer of the listed entity shall attend Audit Committee meetings.</p> <p>The Chairman or one member of the committee should be a Member of a recognized professional accounting body.</p>	Complied	Audit Committee consists of five Non-Executive Directors, four of whom are independent.
	Complied	The Audit Committee of NDB Bank functions as the Audit Committee of Capital Development and Investment Company PLC.
	Not applicable	
	Complied	A R Gunasekara is the Chairman of the Audit Committee.
	Complied	The CEO and Key Management Personnel attend meetings by invitation.
	Complied	Chairman and another member of the Audit Committee are members of the Institute of Chartered Accountants of Sri Lanka.
<p>b) Functions Shall include,</p> <ul style="list-style-type: none"> Overseeing of the preparation, presentation and adequacy of disclosures in the financial statements of a listed entity, in accordance with Sri Lanka Accounting Standards. 	Complied	The Audit Committee reviews the quarterly and annual Financial Statements prepared in conformity with the Sri Lanka Accounting Standards, prior to being released to the Colombo Stock Exchange.
<ul style="list-style-type: none"> Overseeing of the entity's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements. 	Complied	NDB Bank has strictly complied with the information requirements of the Companies Act and the other relevant requirements in the preparation of the Financial Statements.
<ul style="list-style-type: none"> Overseeing the processes to ensure that the entity's internal controls and risk management, are adequate, to meet the requirements of the Sri Lanka Auditing Standards. 	Complied	The Audit Committee monitors and reviews the effectiveness of NDB Bank's Internal Audit function and the internal control systems.
<ul style="list-style-type: none"> Assessment of the independence and performance of the entity's External Auditors. 	Complied	
<ul style="list-style-type: none"> To make recommendations to the Board pertaining to appointment, reappointment and removal of External Auditors and to approve the remuneration and terms of engagement of the External Auditors. 	Complied	The Audit Committee has a primary responsibility to make recommendations to the Board regarding same.

Rule	Present status	Remarks
<p>c) Disclosure in the Annual Report</p> <p>The names of the Directors (or persons in the parent company's committee in the case of a group company) comprising the Audit Committee should be disclosed in the annual report.</p>	Complied	Please refer page 53.
<p>The committee shall make a determination of the independence of the Auditors and shall disclose the basis for such determination in the annual report.</p>	Complied	The Audit Committee has established independence of the Auditors taking into consideration the Best Practice Auditor Independence rules and the guidelines issued by the SEC for companies with regard to relationships and services. Please refer Audit Committee Report on page 68 for the basis of determination
<p>The Annual Report shall contain a report by the Audit Committee, setting out the manner of compliance by the entity in relation to the above, during the period to which the annual report relates.</p>	Complied	Please refer page 68.

The NDB Bank's adherence to the Corporate Governance Directions as required by Section 3(8) of the Banking Act Directions No.11 of 2007 issued by the Central Bank of Sri Lanka

Direction	Rule	Remarks
3(8) (i)	The Board shall ensure that;	Please refer Statement of Directors' Responsibilities on page 67.
	<p>(a) Annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards;</p> <p>(b) Such statements are published in the newspapers in an abridged form in Sinhala, Tamil and English.</p>	
3(8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
	(a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Please refer 'Statement of Directors' Responsibilities' on page 67.
	(b) A report by the Board on NDB Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Please refer 'Statement of Directors' Responsibilities' on page 67.
	(c) The External Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above, in respect of any statements prepared or published after 31 December 2008.	A framework is being formulated by the External Auditors in consultation with the Institute of Chartered Accountants of Sri Lanka, to ensure compliance with the Direction.
	(d) Details of Directors, including names, fitness and propriety, transactions with NDB Bank and the total of fees/remuneration paid by NDB Bank.	Please refer 'Board of Directors' on pages 28 - 29. 'Directors' interest in contracts with NDB Bank' on pages 64 - 66 and page 62 for Directors' remuneration.

Direction	Rule	Remarks
	(e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of NDB Bank's regulatory capital.	Please refer page 103.
	(f) The aggregate values of remuneration paid by NDB Bank to its Key Management Personnel and the aggregate values of the transactions of NDB Bank with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in NDB Bank	Please refer page 103.
	(g) The External Auditor's certification of the compliance with these Directions in the annual Corporate Governance reports published after 01 January 2010.	A framework is being formulated by the External Auditors in consultation with the Institute of Chartered Accountants of Sri Lanka, to ensure compliance with the Direction
	(h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.	Please refer 'Statement of Directors' Responsibilities' on page 67.
	(i) A statement of the regulatory and supervisory concerns on lapses in NDB Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by NDB Bank to address such concerns.	There were no lapses in the risk management and non compliance with Directions issued by the Central Bank of Sri Lanka, identified for disclosure to the public.

Code of Best Practice on Corporate Governance issued by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka

The Code of Best Practice on Corporate Governance was updated and reissued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka for voluntary compliance. The NDB Bank currently complies with most sections of this code.

Board Committees

In order to ensure that the activities of the NDB Bank are conducted by maintaining the highest ethical standards and in the best interest of all its stakeholders the Board of Directors has appointed six sub committees to oversee specific areas of review. These Board Committees are comprised of Non-Executive Directors, except in the case of the Integrated Risk Management Committee. They are the Audit Committee, Integrated Risk Management Committee, Nominations Committee, Strategic Issues Committee, Remuneration and Human Resources Committee and the Corporate Governance & Legal Affairs Committee. The composition and workings of these committees are elaborated in the table below.

Committee/Composition	Scope of the Board-Committee/Principal Activities carried out during the year
<p>Audit Committee:</p> <p>A R Gunasekara*</p> <p>G C B Wijeyesinghe</p> <p>Lal de Mel</p> <p>R Vokes</p> <p>S T Nagendra</p>	<p>The Audit Committee comprises of five Non-Executive Directors and acts under delegated authority from the Board of Directors as spelt out in the Audit Committee Charter. The Chairman is an Independent Director and a Chartered Accountant. The main role of the Committee is to assist the Board in meeting its responsibilities for maintaining an effective system of internal control and for meeting its external financial reporting obligations. The Committee's charter empowers it to examine any matter relating to the financial affairs of NDB Bank.</p> <p>NDB Bank has an effective and independent internal audit function which reports to the Audit Committee. The Vice President, Group Audit and Compliance, who heads NDB Bank's Internal Audit department and functions as the secretary to the Committee, has direct access to the Chairman of the Audit Committee. The Internal Audit department's plans for the year are reviewed and approved by the Committee. In formulating these plans the views of the business and support units are also taken into consideration. The Committee provides a forum for the impartial review of regular internal audit and investigation reports and takes into account the major findings and recommendations relating to significant business risks and control issues. The Committee monitors the performance of the Internal Audit department and the performance evaluation of its staff.</p> <p>The Committee is also responsible for monitoring the effectiveness of the External Audit function including the External Auditors' independence, and for making recommendations to the Board regarding the External Auditors' appointment and remuneration.</p> <p>In addition to the formal meetings of the Committee, which are attended by the External and Internal Auditors and the Chief Executive Officer, the Committee also meets separately with the Internal and External Auditors, independent of management, at least once a year. The Committee has also adopted a policy of keeping in touch on a continuing basis with the key persons involved in NDB Bank's governance.</p> <p>The minutes of all Audit Committee meetings are tabled at meetings of the Board of Directors. Additionally, the Chairman of the Audit Committee submits separate papers to the Board of Directors when necessary, on matters that warrant further elaboration and discussion.</p> <p>Further information on the activities of the Committee for the year under review is given in the Audit Committee report on page 68. The Committee had eight meetings during the year and information on the attendance at these meetings is given on page 55.</p>
<p>Integrated Risk Management Committee:</p> <p>Lal de Mel*</p> <p>A R Gunasekara</p> <p>R B Thambiyah</p> <p>S T Nagendra</p> <p>S R de Silva**</p> <p>Eran Wickramaratne (CEO)</p> <p>N I R De Mel</p> <p>(Vice President-Group Risk Management)</p>	<p>The Integrated Risk Management Committee was formed in June 2008 replacing the Risk & Credit Committee of the Board. The Committee consists of five non executive directors, the Chief Executive Officer and the Vice President 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 NDB Bank covering mainly credit, market, liquidity, and operational. In fulfilling its duties, the Committee reviews the quality of the portfolio, adequacy of provisions, liquidity position, impact on market volatility, 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 agreed upon based on internal and regulatory requirements. A risk assessment report is submitted to the Board quarterly, based on the proceedings and outcome of the IRMC meeting.</p>

Committee/Composition	Scope of the Board-Committee/Principal Activities carried out during the year
<p>Strategic Issues Committee: P M Nagahawatte* G C B Wijeyesinghe A R Gunasekara S T Nagendra R Vokes</p>	<p>The Committee is responsible for evaluating all major strategic decisions taken by NDB Bank. The Committee reviews the strategy development and implementation process and assesses the key business drivers. The Committee met five times during the year under review.</p>
<p>Remuneration & Human Resources Committee: H D S Amarasuriya* G C B Wijeyesinghe R Vokes R B Thambiayah S R de Silva**</p>	<p>This Committee is responsible for maintaining NDB Bank's performance and market oriented remuneration policy for its staff and ensured the selection of the best talent and created incentives for staff loyalty and retention of their services. It is further responsible for reviewing recruitment and promotions of the senior management and executive officers and thereby ensuring that an effective succession plan is in place for NDB Bank. The Committee recommends the remuneration of the Non Executive Directors. The Committee evaluates the performance of the CEO and Key Management Personnel against set targets and goals and determines the basis for revising remuneration, benefits and other payments. The Committee has a Chairman and four Non-Executive Directors serving on it.</p>
<p>Nominations Committee: P M Nagahawatte* H D S Amarasuriya Lal de Mel A R Gunasekara</p>	<p>The Nomination Committee is headed by the Chairman of NDB Bank and has four Non-Executive Directors serving on it. All new appointments as well as continuing directorships are reviewed by the Committee. They evaluate the requirements of the Board of Directors and the need for certain skills representation on the Board and are responsible for the identification of suitable persons with credible track records and/or have necessary skills and experience to be recommended by the Board of Directors to the Shareholders to be appointed at the AGM and whenever a vacancy arises. The Committee has implemented a procedure for the appointment/selection of Key Management Personnel.</p>
<p>Corporate Governance & Legal Affairs Committee: Lal de Mel* P M Nagahawatte S R De Silva** R Vokes A R Gunasekara</p>	<p>The Corporate Governance and Legal Affairs Committee was established in May 2007 and consisted of five Non-Executive Directors including S R De Silva upto the date of his resignation from the Board of NDB Bank in July 2009. Presently the Committee consists 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, NDB Bank's Corporate Governance Code and all rules, regulations and guidelines issued by regulatory authorities relating to Corporate Governance for Licensed Commercial Banks. The committee met seven times during the year under review.</p>

* Chairman of the Committee

** Resigned with effect from 27/07/2009

Structure and composition of the main Board, Board Committees as at end 2009 and the attendance of each Director is set out in the table below.

The independence of the Directors has been determined based on the criteria set out in the Banking Act Directions No. 11 of 2007 (as amended) on Corporate Governance for Licensed Commercial Banks in Sri Lanka.

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	
		Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
P M Nagahawatte (Chairman)	Non Executive Independent	16	16					5	4			3	3	7	7
E Wickramaratne (CEO)	Executive	16	15			4	4								
H D S Amarasuriya	Non Executive	16	11							3	3	3	2		
G C B Wijeyesinghe	Non Executive	16	16	8	7			5	3	3	3				
L de Mel	Non Executive	16	16	8	8	4	4					3	3	7	7
S R de Silva *	Non Executive Independent	10	9			2	2			3	3			4	4
A R Gunasekera	Non Executive Independent	16	16	8	8	4	4	5	5			3	3	7	7
S T Nagendra **	Non Executive Independent	15	15	8	6	4	2	5	4						
R B Thambaiyah	Non Executive Independent	16	16			4	2			3	3				
R Vokes	Non Executive Independent	16	12	8	4			5	5	3	3			7	3
S Yaddehige	Non Executive	16	12												

* resigned with effect from 27/07/2009.

** resigned with effect from 15/12/2009.

Compliance

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

NDB Bank has 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 NDB Bank's compliance with Central Bank regulations and guidelines.

NDB Group Companies

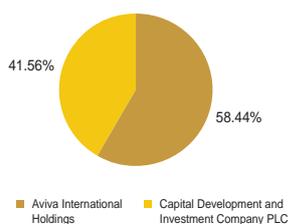
Aviva NDB Finance Lanka (Pvt) Ltd.

Eagle House, 75, Kumaran Ratnam Road,
Colombo 2
Tel: +94 11 2310300
(Holding Company of Aviva NDB Insurance
PLC.)

NDB Group's Investment	Rs. 741 mn
Profit after Tax (Group)	Rs. 601 mn
Net Assets (Group)	Rs. 2,565 mn

Directors:
S Machell - *Chairman*
William Lisle
J Soo
Eran Wickramaratne
N S Welikala

NDB Bank's indirect holding - 41.40%



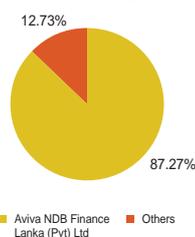
Aviva NDB Insurance PLC (Formerly known as Eagle Insurance PLC)

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

NDB Group's Investment	Rs. 741 mn
Profit after Tax (Group)	Rs. 731 mn
Net Assets (Group)	Rs. 2,579 mn

Directors

William Lisle - *Chairman*
D Sooriyaarachchi - *Managing Director*
S Rouf
D Hope
H Chamberlain
E Wickramaratne
D S P Wikramanayake
L de Mel
I A Wickramasinghe
N S Welikala - *Alternate to E Wickramaratne*
NDB Bank's indirect holding - 32.42%



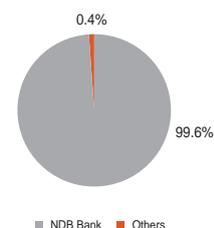
Capital Development and Investment Company PLC

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

NDB Group's Investment	Rs. 2,331 mn
Profit after Tax (Group)	Rs. 570 mn
Net Assets (Group)	Rs. 4,609 mn

Directors

L de Mel
E Wickramaratne
N S Welikala
N I R de Mel - (*appointed w.e.f 3/2/2010*)
A Wickremeratne - (*resigned w.e.f 2/2/2010*)



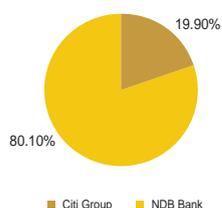
NDB Investment Bank Ltd.

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

NDB Group's Investment	Rs. 32 mn
Profit after Tax	Rs. 1 mn
Net Assets	Rs. 92 mn

Directors

L de Mel (*Chairman*)
N S Welikala
N I R de Mel (*appointed w.e.f 2/2/2010*)
E Wickramaratne
C V Kulatilaka
D G Perera (*CEO*)
A Wickremeratne (*resigned w.e.f 2/2/2010*)



NDB Stockbrokers (Pvt) Ltd.

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

NDB Group's Investment	Rs. 27 mn
Profit after Tax	Rs. 21 mn
Net Assets	Rs. 164 mn

Directors

S R de Silva (*Chairman*)
N S Welikala
S N Jayasinghe
C V Kulatilaka
I A Wickremeratne



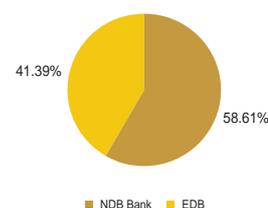
Development Holdings (Pvt) Ltd.

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

NDB Group's Investment	Rs. 228 mn
Profit after Tax	Rs. 84 mn
Net Assets	Rs. 1,338 mn

Directors

L de Mel (*Chairman*)
S N Jayasinghe
E D K Weerasuriya
(Mrs) C.L Jayawardena
(Mrs) D Seneviratne
A Koswatta
Ms. S Weerakoon
M K G Mendis
P A A Panditharatne



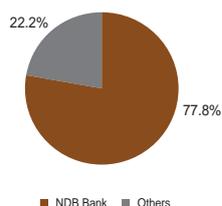
NDB Capital Limited

Bilquis Tower, Plot 6 (New), 5th Floor,
Gulshan 2, Dhaka 1212, Bangladesh
(Investment Banking)

NDB Group's Investment	Rs. 131 mn
Profit after Tax	Rs. (20) mn
Net Assets	Rs. 145 mn

Directors:

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



NDB Aviva Wealth Management Limited

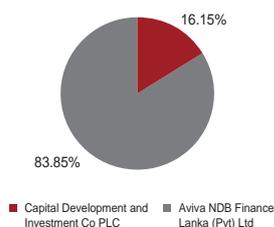
No. 42, Navam Mawatha, Colombo 2.
Tel: +94 11 2303232
(Wealth Management)

NDB Group's Investment	Rs. 24 mn
Profit after Tax	Rs. 25 mn
Net Assets	Rs. 132 mn

Directors:

N S Welikala
D S P Wikramanayake
C V Kulatilaka
William Lisle
Deepal Sooriyaraachchi

NDB Bank's indirect holding ; 51%



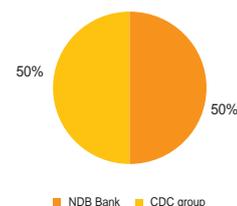
NDB Venture Investments (Pvt) Ltd.

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

NDB Group's Investment	Rs. 19 mn
Profit after Tax	Rs. 255 mn
Net Assets	Rs. 57 mn

Directors:

Ms R L Nanayakkara (*Chairman*),
G C B Wijeyesinghe, Brian Lim,
D Senathirajah (*appointed w.e.f 2/2/2010*)
A Wickramaratne (*resigned w.e.f 2/2/2010*)



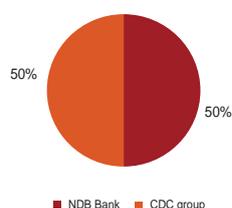
Ayojana Fund (Pvt) Ltd.

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. 10 mn
Net Assets	Rs. 30 mn

Directors:

Ms R L Nanayakkara (*Chairman*)
Dr. G C B Wijeyesinghe
Brian Lim
D Senathirajah (*appointed w.e.f 2/2/2010*)
A Wickramaratne (*resigned w.e.f 2/2/2010*)



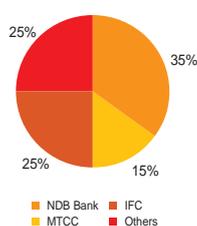
Maldives Finance Leasing Company (Pvt) Ltd.

12, Boduthakurufaanu Magu, Male 20-094,
Republic of Maldives
Tel: +(960) 315605/315606
(Leasing)

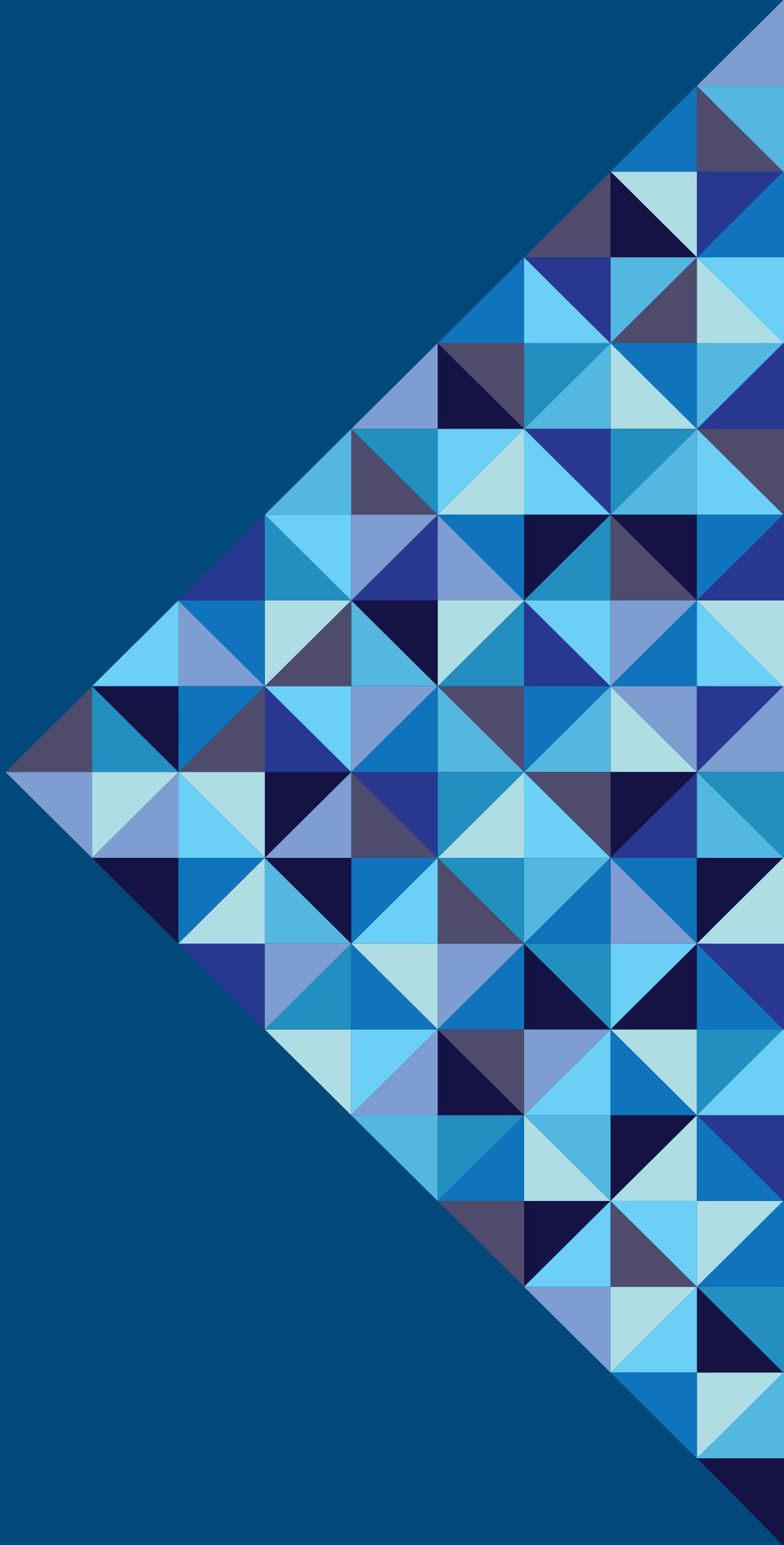
NDB Group's Investment	Rs. 165 mn
Profit after Tax	Rs. (97) mn
Net Assets	Rs. 650 mn

Directors

E Wickramaratne
S Senanayake
M N Ibrahim
F Manike
H Afeef
H Rasheed
M H Maniku
S D Soosaipillai



FINANCIAL
INFORMATION



Financial Calendar 2009

Interim Quarterly Un Audited Reports for 2009

March	30 May 2009 *
June	18 August 2009*
September	19 November 2009*
December	25 February 2010*

Annual Reports and Accounts

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

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

Dividends

Final Dividend 2005	26 April 2006
Final Dividend 2006	26 April 2007
Final Dividend 2007	29 April 2008
Final Dividend 2008	30 March 2009
Final Dividend 2009	30 March 2010**

* 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 2009.

Principal Activities

The principal activities of NDB Bank and NDB Group are described under Note 1 to the Financial Statements on page 82.

Details of the NDB Group Companies Indicating NDB Bank's own holding in key companies is shown on pages 56 and 57.

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 2009 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 70 to 104 inclusive, give a true and fair view of the state of affairs of NDB Bank and the NDB Group as at 31 December 2009 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 46 to 55.

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. 4,276 mn (compared to Rs. 3,118 mn in 2008). After deducting Rs. 2,154 mn (compared to Rs. 1,409 mn in 2008) for taxation, the profit after tax for the year amounted to Rs. 2,121 mn (compared to Rs. 1,708 mn in 2008).

NDB Bank's profit before taxation amounted to Rs. 3,493. mn (compared to Rs. 2,359 in 2008). After deducting Rs. 1,810 mn (compared to Rs. 1,164 mn in 2008) for taxation, the profit after tax for the year amounted to Rs. 1,682 mn (compared to Rs. 1,195 mn in 2008).

Details are given in the Income Statement on page 70.

Final Dividend

NDB Bank paid a final dividend of Rs. 6.75 for the year ended 31 December 2008.

Details of the reserves are shown in the Statement of Changes in Equity on page 74.

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 29 to the Financial Statements on page 96.

Donations

No donations to external charitable or political organizations were made by NDB Bank during the year, except for the following:

Corporate Social Responsibility

	Rs.
NDB Bank Cancer Aid Trust Fund	500,000
Prevention of Child Abuse Trust	500,000
Tsunami Orphans Project	200,000
The Ceylon School for the Deaf and Blind	600,000
Martin Wickramasinghe Trust	200,000
The Ceylon Association for the Mentally Retarded	100,000
Society for uplift & rehabilitation of leprosy patients	100,000
Lt. General Denzil Kobbekaduwa Trust	100,000
Prithipura Infants Home	50,000
National Council for Child and Youth Welfare	50,000
Sri Lanka Economic Association	50,000
National Federation of Sports for the Disabled	50,000
The Children's Heart Project of Sri Lanka	200,000
Victoria Home for Incurables	200,000
Ranaviru Rehabilitation Fund	200,000
Leonard Cheshire Disability Resource Centre	75,000
Educate a Child Trust	50,000

	Rs.
Helpage Sri Lanka	150,000
Sri Lanka Sumithrayo	50,000
Library Project for Rural Schools	375,000
Lakshman Kadirgamar Foundation	150,000
National Trust of Sri Lanka	150,000
Other donations	198,044
	4,298,044

The report on the Community Upliftment by NDB Bank is given on pages 34 to 39 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. The 1% general provision requirement mandated by the Central Bank of Sri Lanka was Rs. 492 mn as at 31 December 2009.

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

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

Post Balance Sheet Events

There have been no events subsequent to the Balance Sheet date that require disclosure.

Share Capital/Stated Capital and Debentures

The stated capital of NDB Bank at the beginning and end of the year under review was Rs. 1,032,931,000.

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 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 are to be redeemed on 27/11/2010.

Directorate

In terms of the provisions of the Articles of Association of NDB Bank, the Board of Directors, as at 31 December 2009, consisted of Nine (09) Directors, including the Chairman, was made up as follows:

- Four (04) Directors appointed as the first Directors of National Development Bank Ltd.
- The Chief Executive Officer is an ex-officio Director, with voting rights.
- Three (3) Directors appointed on casual vacancies.
- One (01) Director has been nominated by the Government of Sri Lanka.

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.

In compliance with the internal Code of Governance of NDB Bank which was adopted on January 2009, of the 9 Directors, Seven (07) Directors are independent. The others being the CEO and the Government nominee.

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 64 to 66 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 2009 are as follows:

	Bank	Group
Directors' Fees and emoluments	13.56	13.57

Insurance and Indemnity

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

Major Shareholders

The 20 largest shareholders of NDB Bank as at 31 December 2009 are given on page 110 together with an analysis of the shareholdings. As at that date NDB Bank had 7,257 shareholders.

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

Name	As at 31.12.09	As at 31.12.08
H D S Amarasuriya	9,075	9,075
A R Gunasekara	883	883
G C B Wijeyesinghe	-	-
E Wickremaratne	-	-
S R de Silva	-	-
Lal de Mel	15,541	15,541
S T Nagendra	4,575	4,575
R B Thambiayah	-	-
R W A Vokes	-	-
S Yaddehige	4,234,500	3,888,200

are as shown below:

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 2008 (Corporate Governance for Licensed Commercial Banks in Sri Lanka)

The above Directions mandate all Licensed Commercial Banks to commence compliance with same from 1 January 2008 and be fully compliant with the provisions of such Directions by 1 January 2009, with the exception, where extended compliance dates have been specifically provided for.

The Board of Directors confirms that:

- NDB Bank has commenced compliance with the Directions from 1 January 2008, as required by the Directions,
- NDB Bank shall endeavour to comply with the requirements, which are

mandatory for compliance currently, and

- with regard to the requirements for which extended compliance dates have been provided, NDB Bank has taken steps to be compliant, by such dates.

Application of the Corporate Governance Rules of the Colombo Stock Exchange

As per the Section 6 of the Listing Rules of the Colombo Stock Exchange on Corporate Governance Rules, it is mandatory for all

listed companies to publish a Table in the Annual Report relating to the financial year commencing on or after 1 April 2008, confirming that as at the date of the Annual Report that the Company complies with the Corporate Governance Rules set out in the above Section and if not, the reasons for non-compliance. Further, it is mandatory for all listed companies to comply with the above Corporate Governance Rules with effect from the financial year commencing on or after 1 April 2009, and also to include the relevant affirmative statements in the Annual Report. Accordingly the Table setting out the above requirements are given in page 46 to 55.

Auditors

The Financial Statements for the year ended 31 December 2009 have been audited by M/s. Ernst & Young, Chartered Accountants.

Fees to Auditors

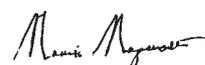
The fees paid to Auditors during the year was Rs 4.1 mn (2008 - Rs. 3.8 mn) for audit work and Rs. 0.5 mn for non-audit work

(2008 - Rs. 1.0 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.

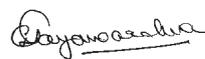
For and on behalf of the Board



P M Nagahawatte
Chairman



E Wickramaratne
Chief Executive Officer



C L Jayawardena
Secretary to the Board

15 February 2010

Directors' Interests in Contracts with NDB Bank

	Relationship	Accommodation Granted/ Deposits	Balance Outstanding as at 31.12.2009 Rs. '000	Balance Outstanding as at 31.12.2008 Rs. '000
(a) Mr H D S Amarasuriya				
Singer (Sri Lanka) PLC	Director	Loans / Advances	256,334	400,116
		Off Balance Sheet		
		Accommodations	29,430	89,032
		Deposits & Investments	7,113	1,548
Regnis (Lanka) Limited	Director	Loans / Advances	84,087	146,808
		Off Balance Sheet		
		Accommodations	142,967	26,895
		Deposits & Investments	598	505
Bata Shoe Company of Ceylon Ltd	Director	Loans / Advances	13,000	15,000
		Deposits & Investments	2,282	4,303
(b) Dr G C B Wijeyesinghe				
Singer (Sri Lanka) PLC	Director	Loans/Advances	256,334	400,116
		Off Balance Sheet		
		Accommodations	29,430	89,032
		Deposits & Investments	7,113	1,548
Regnis (Lanka) Limited	Director	Loans/Advances	84,087	146,808
		Off Balance Sheet		
		Accommodations	142,967	26,895
		Deposits & Investments	598	505
Central Finance Company PLC	Director	Loans/Advances	-	50,000
		Deposits & Investments	966,279	46,903
Ceylon Trading Company Ltd	Director	Deposits & Investments	-	10,000
(c) Mr L de Mel				
Capital Development & Investment Company PLC	Director	Deposits & Investments	1,279,176	2,424,657
Cisco Speciality Packaging (Pvt) Ltd	Director	Loans/Advances	1,324	17,206
Aviva NDB Insurance PLC	Director	Loans/Advances	1,447	4,654
		Off Balance Sheet		
		Accommodations	1,806	4,878
		Deposits & Investments	143,422	32,806
Development Holdings (Pvt) Ltd	Director	Deposits & Investments	125,686	59,713
NDB Investment Bank (Pvt) Ltd	Director	Loans/Advances	6	4
		Deposits & Investments	25,598	2
(d) Mr S R De Silva				
Lanka Walltile PLC	Director	Loans/Advances	2,919	3,890
Lanka Walltile (Meepe) (Pvt) Ltd	Director	Loans/Advances	35,102	41,098
Lanka Tiles PLC	Director	Loans/Advances	643	1,339
(e) Mr E Wickramaratne				
Capital Development & Investment Company PLC	Director (Ex-officio)	Deposits & Investments	1,279,176	2,424,657
NDB Investment Bank Ltd	Director (Ex-officio)	Loans / Advances	6	4
		Deposits & Investments	25,598	2
Maldives Finance Leasing Co.Ltd	Director (Ex-officio)	Deposits & Investments	3,375	-
Aviva NDB Insurance PLC	Director (Ex-officio)	Loans/Advances	1,447	4,654
		Off Balance Sheet		
		Accommodations	1,806	4,878
		Deposits & Investments	143,422	32,806
NDB Aviva Wealth Management Ltd	Director (Ex-officio)	Deposits	-	6,275
(f) Mr S T Nagendra				
Acme Printing & Packaging PLC	Director	Loans/Advances	57,738	49,516
		Off Balance Sheet		
		Accommodations	-	3,192

	Relationship	Accommodation Granted/ Deposits	Balance Outstanding as at 31.12.2009 Rs. '000	Balance Outstanding as at 31.12.2008 Rs. '000
Acme Packaging Solutions (Pvt) Ltd	Director	Loans/Advances Off Balance Sheet	39,495	33,840
		Accommodations	-	1,479
Lanka Aluminum Industries PLC	Director	Loans/Advances Off Balance Sheet	4,604	98,444
		Accommodations	1,837	2,853
Texlan (Lanka) Ltd	Director	Loans/Advances Off Balance Sheet	306,213	423,864
		Accommodations	19,307	3,256
		Deposits & Investments	54,682	47,604
Texlan Centre (Pvt) Ltd	Director	Loans/Advances Off Balance Sheet	-	22
		Accommodations	60,896	21,960
		Deposits & Investments	39,401	21,711
Finetex (Private) Ltd	Director	Deposits & Investments	150	-
Filotex (Lanka) Ltd	Director	Loans/Advances Off Balance Sheet	-	3,471
		Accommodations	3,219	-
		Deposits & Investments	258	-
Residence Peelawatte (Pvt) Ltd	Director	Deposits & Investments	2,448	409
CIC Agri Businesses (Pvt) Ltd	Director	Loans/Advances Off Balance Sheet	640,658	93,014
		Accommodations	620,333	338,387
		Deposits & Investments	250,000	
Metecno Lanka (Pvt) Ltd	Director	Loans/Advances Off Balance Sheet	22,762	34,135
		Accommodations	36,043	47,121
(g) Dr S Yaddhige				
Richard Peiris & Company PLC	Director	Loans/Advances Off Balance Sheet	270,000	166,361
		Accommodations	13,886	50,235
		Deposits & Investments	270,784	1,685,468
Richard Peiris Exports Ltd	Director	Loans/Advances Deposits & Investments	-	104,331
			16	17
Richard Peiris Distributors Ltd	Director	Loans/Advances Off Balance Sheet	2	98,844
		Accommodations	242,338	600
		Deposits & Investments	636,582	28,037
Arpico Interiors (Pvt) Ltd	Director	Loans/Advances Off Balance Sheet	24,207	15,591
		Accommodations	16,540	25,546
		Deposits & Investments	28,649	-
Arpitalian Compact Soles (Pvt) Ltd	Director	Loans/Advances Off Balance Sheet	86,638	-
		Accommodations	8,797	-
Arpidag International (Pvt) Ltd	Director	Loans/Advances Off Balance Sheet	-	114,750
		Accommodations	-	52,387
Arp-Echo (Pvt) Ltd	Director	Deposits & Investments	4,139	-
RPC Management Services (Pvt) Ltd	Director	Deposits & Investments	16,112	-
Kegalle Plantations PLC	Director	Loans/Advances Off Balance Sheet	347,745	257,393
		Accommodations	91,047	160,871
		Deposits & Investments	544,500	265,482

Directors' Interests in Contracts with NDB Bank

	Relationship	Accommodation Granted/ Deposits	Balance Outstanding as at 31.12.2009 Rs. '000	Balance Outstanding as at 31.12.2008 Rs. '000
Maskeliya Plantations PLC	Director	Loans/Advances	279,322	231,409
		Off Balance Sheet		
		Accommodations	11,449	50,000
		Deposits & Investments	-	198
RPC Logistics Ltd	Director	Loans/Advances	-	12,846
RPC Construction (Pvt) Ltd	Director	Loans/Advances	-	91,361
Arpico Plastics Ltd	Director	Loans/Advances	829	-
		Deposits & Investments	-	32,917
Plastishells Ltd	Director	Loans/Advances	228,928	232,348
		Off Balance Sheet		
		Accommodations	142	417
Richard Pieris Rubber Products Ltd	Director	Loans/Advances	-	32,323
		Off Balance Sheet		
		Accommodations	68	-
		Deposits & Investments	1,075	-
Richard Pieris Tyre Company Ltd	Director	Loans/Advances	185,651	286,347
		Off Balance Sheet		
		Accommodations	4,711	-
		Deposits & Investments	39	38
Richard Pieris Natural Foams Ltd	Director	Loans/Advances	143,555	201,128
Arpico Homes Ltd	Director	Loans/Advances	75,004	73,225
RPC Real Estate Development Company (Pvt) Ltd	Director	Deposits & Investments	1,827	-
RPC Precision Craft (Pvt) Ltd	Director	Loans/Advances	5,669	-
RPC Timber Line (Pvt) Ltd	Director	Deposits & Investments	-	663
Richard Pieris Group Services (Pvt) Ltd	Director	Deposits & Investments	2,743	368
Rivira Media Corporation (Pvt) Ltd	Director	Loans/Advances	10,175	-
		Deposits & Investments	15,000	3,519
Arpico Natural Latex Forms (Pvt) Ltd	Director	Deposits	89,733	91,661
Richard Pieris Plantation (Pvt) Ltd	Director	Loans/Advances	46,803	7,913
Arpimalls Development Company (Pvt) Ltd	Director	Loans/Advances	50,817	8,022
Arpico Industrial Development Company (Pvt) Ltd	Director	Loans/Advances	-	19,071
		Deposits & Investments	4,707	-
Namunukula Plantations PLC	Director	Loans/Advances	39,500	145,000
		Deposits	79	45,287
Arpico Flexifoam (Pvt) Ltd	Director	Loans/Advances	-	86,081
		Off Balance Sheet		
		Accommodations	4,938	4,579
		Deposits & Investments	88,611	-
R P C Global Travels (Pvt) Ltd	Director	Loans/Advances	-	3,373
Richard Pieris Rubber Compounds Ltd	Director	Loans/Advances	9,255	155,481
		Off Balance Sheet		
		Accommodations	15,020	10,784
R P C Polymers (Pvt) Ltd	Director	Loans/Advances	-	271,058
		Off Balance Sheet		
		Accommodations	-	80,692
(h) Mr R B Thambiyah				
Renuka Hotels Ltd	Director	Loans/Advances	43,293	-
		Deposits & Investments	45	5,720
Renuka City Hotels Ltd	Director	Deposits & Investments	213,515	-
Renuka Consultatants & Services	Director	Deposits & Investments	86,905	-
Lancaster Holdings Ltd	Director	Deposits	19	2,019
Royal Ceramics Lanka Ltd	Director	Loans/Advances	12,500	-
Renuka Properties Ltd	Director	Deposits	-	19,185

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.

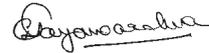
It is also the responsibility of the Directors to ensure that NDB Bank maintains proper accounting records and to take reasonable steps as far as practical to ensure the accuracy and reliability of accounting records and to prepare Financial Statements using appropriate Accounting Policies applied consistently 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 68 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 69 of this Report.

By Order of the Board



C L Jayawardena
Secretary to the Board

15 February 2010

Audit Committee Report

1. 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 53.

2. Composition of the Committee and Meetings

The Audit Committee comprised of five Non-Executive Directors during the year of whom three 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 55.

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.

3. Financial Reporting

The Audit Committee has reviewed and discussed NDB 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 and that the financial position of NDB Bank is secure.

The Committee has also been briefed by the Management and the External Auditors on the implications of Sri Lanka Accounting Standards (SLAS) 44 Financial Instruments: Presentation and SLAS 45 Financial Instruments: Recognition and measurement, which are due to come into force in 2011. NDB Bank is making satisfactory progress in preparing for the implementation of these standards.

4. Internal Audit, Risks and Controls

The Internal Audit department has provided independent assurance on the overall system of internal controls and governance, by evaluating the adequacy and effectiveness of internal controls and compliance with laws and regulations and established policies and procedures of NDB Bank.

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. In general, it has been satisfying to note that the results of the internal audits have shown improved standards of control over the last few years.

A comprehensive Information Systems (IS) audit was also carried out during the year. This was outsourced to KPMG Ford, Rhodes, Thornton & Company. The report arising from this audit was discussed with Management and the Internal and External Auditors, and agreement has been reached on how the recommendations will be implemented.

Formal confirmations and assurances were received from the Chief Executive Officer quarterly regarding the efficacy and status of the internal control systems.

During the year, the Committee formulated policy statements on several matters including the External Auditors' Independence, Engaging the External Auditor for non-audit services and the External Auditors' performance evaluation.

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 during the year.

5. 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 Committee also met the External Auditors, without Management present, twice during the period under review. The External Auditors' management letter for the year 2008, together with management's responses was discussed with Management and the Auditors.

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 that Ernst & Young be re-appointed as the External Auditors of National Development Bank PLC for the financial year ending 31st December 2010, subject to approval by the shareholders at the Annual General Meeting.

6. Conclusions

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.)

A. R. Gunasekara
Chairman of the Audit Committee

15 February 2010

Independent Auditor's Report



Chartered Accountants

201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : (0) 11 2463500
Fax Gen : (0) 11 2697369
Tax : (0) 11 5578180
eysl@lk.ey.com

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 31 December 2009 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 pages 70 to 104.

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 31 December 2009 and the financial statements give a true and fair view of the Bank's state of affairs as at 31 December 2009 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 31 December 2009 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 151 (2) to 153 (7) of the Companies Act No. 07 of 2007.

(sgd.)
Ernst & Young
Chartered Accountants

Colombo
15 February 2010

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA Ms. Y A De Silva ACA W R H Fernando FCA FCMA W K B S P Fernando FCA ACMA
A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) A S M Ismail FCA FCMA
H M A Jayasinghe FCA FCMA Ms. G 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		
		2009 Rs.'000	2008 Rs.'000	% Change	2009 Rs.'000	2008 Rs.'000	% Change
GROSS INCOME	2	13,821,072	12,093,491	14	14,166,864	12,522,183	13
Interest Income	3	11,233,423	10,522,663	7	11,606,877	10,860,240	7
Interest Expenses	4	7,518,311	7,367,793	2	7,373,688	7,072,994	4
NET INTEREST INCOME		3,715,112	3,154,870	18	4,233,189	3,787,246	12
Other income	5	2,587,649	1,570,828	65	2,559,987	1,661,943	54
NET INCOME		6,302,761	4,725,698	33	6,793,176	5,449,189	25
OPERATING EXPENSES	6						
Personnel costs		1,190,232	1,070,054	11	1,281,153	1,129,013	13
Staff retirement benefits	7	14,746	20,015	(26)	18,676	22,104	(16)
Other administrative and general expenses	8	1,231,772	1,152,624	7	1,370,091	1,237,217	11
Total operating expenses		2,436,750	2,242,692	9	2,669,920	2,388,334	12
PROFIT BEFORE PROVISIONS		3,866,011	2,483,006	56	4,123,256	3,060,856	35
Provision for bad and doubtful debts and fall in value of securities	9	373,495	124,450	200	373,495	115,707	223
		3,492,516	2,358,556	48	3,749,761	2,945,149	27
Share of associate companies' profits	10	-	-	-	525,818	172,403	205
PROFIT BEFORE TAXATION		3,492,516	2,358,556	48	4,275,579	3,117,552	37
Taxation	11	(1,810,063)	(1,163,794)	56	(2,154,252)	(1,409,363)	53
PROFIT FOR THE YEAR		1,682,453	1,194,762	41	2,121,327	1,708,189	24
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS							
OF THE PARENT		1,682,453	1,194,762	41	2,084,758	1,604,790	30
MINORITY INTERESTS		-	-	-	36,569	103,399	(65)
		1,682,453	1,194,762	41	2,121,327	1,708,189	24
Earnings per share (in Rs.)	13				25.47	19.61	
Dividend per share (in Rs.)					6.75	6.00	

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 75 to 104 are an integral part of these Financial Statements.

15 February 2010

Balance Sheet

As at 31 December	NDB BANK				NDB GROUP		
	Note	2009 Rs.'000	2008 Rs.'000	% Change	2009 Rs.'000	2008 Rs.'000	% Change
ASSETS							
Cash and short-term funds	14	5,591,964	3,622,414	54	5,840,984	4,250,099	37
Balances with Central Bank	15	2,402,173	1,632,908	47	2,402,173	1,632,908	47
Investments held for trading	16	11,385,939	7,825,083	46	11,385,939	7,825,083	46
Investments held to maturity	17	16,879,061	6,529,884	158	18,887,773	6,894,810	174
Securities purchased under resale agreements		1,662,193	3,043,914	(45)	1,662,193	3,043,914	(45)
Dealing securities	18	22,140	54,967	(60)	42,683	54,967	(22)
Commercial paper		-	422,132	(100)	148,923	422,132	(65)
Bills of exchange	19	2,539,402	2,247,326	13	2,539,402	2,247,326	13
Loans and advances	20	48,748,202	49,643,632	(2)	48,772,594	49,660,524	(2)
Lease rentals receivable	21	1,863,362	1,910,423	(2)	1,863,362	1,910,423	(2)
Interest receivable	22	931,128	770,761	21	931,128	770,761	21
Investments in subsidiary companies	25	2,748,586	2,617,913	5	-	-	-
Investments in associate companies	26	452,460	468,935	(4)	1,723,809	1,661,268	4
Group balances receivable	27	1,373	2,403	(43)	1,373	347	296
Other assets	28	903,601	788,618	15	1,117,635	925,054	21
Property, plant & equipment	29	692,571	758,317	(9)	736,982	780,629	(6)
Deferred Tax	35	23,305	-	100	24,741	-	100
Investment Property	30	-	-	-	1,200,000	1,200,000	-
Goodwill	31				4,330		
Total assets		96,847,460	82,339,630	18	99,286,023	83,280,244	19
LIABILITIES							
Deposits	32	49,947,589	31,913,946	57	49,947,589	31,091,397	61
Borrowings	33	20,236,880	26,101,755	(22)	18,759,841	24,432,302	(23)
Securities sold under repurchase agreements		10,801,250	10,560,405	2	10,801,250	10,560,405	2
Other liabilities	34	3,899,829	3,298,175	18	3,989,747	3,364,127	19
Taxation		523,130	243,053	115	560,115	343,853	63
Deferred Tax	35	-	8,267	(100)	-	7,873	(100)
Dividends payable		344,158	249,866	38	344,158	249,866	38
Total liabilities		85,752,836	72,375,468	18	84,402,700	70,049,823	20
SHAREHOLDERS FUNDS							
Stated Capital	36	1,032,931	1,032,931	-	1,032,931	1,032,931	-
Statutory reserve fund	37	818,554	818,554	-	818,554	818,554	-
Revenue reserves	38	9,243,139	8,112,678	14	12,345,216	10,810,519	14
		11,094,624	9,964,163	11	14,196,701	12,662,004	12
Minority interests		-	-		686,623	568,417	21
Total funds employed		11,094,624	9,964,163	11	14,883,324	13,230,422	12
Total liabilities and funds employed		96,847,460	82,339,630	18	99,286,023	83,280,244	19
Commitments and contingencies	40	21,577,000	16,440,998	31	21,577,000	16,440,998	31

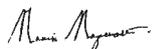
These financial statements are in compliance with the requirements of the Companies Act No. 7 of 2007.



D Senathirajah

Assistant Vice-President - Finance

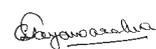
The Board of Directors is responsible for the preparation and presentation of these financial statements.
Signed for and on behalf of the Board.



P M Nagahawatte
Chairman



E Wickramaratne
Chief Executive Officer



C L Jayawardena
Company Secretary

15 February 2010

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 75 to 104 are an integral part of these Financial Statements.

Cash Flow Statement

For the year ended 31 December	Notes	NDB BANK		NDB GROUP	
		2009 Rs.'000	2008 Rs.'000	2009 Rs.'000	2008 Rs.'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		11,001,686	10,209,005	11,488,893	10,831,770
Fee based income received		587,826	544,065	587,826	656,317
Dividend income received		394,661	439,942	340,373	341,210
Other income received		1,543,688	621,609	1,709,597	697,070
Lease rentals received		1,016,332	1,001,544	1,016,332	1,001,544
Lease disbursements		(608,090)	(756,984)	(608,090)	(756,984)
Interest paid		(7,337,323)	(6,714,565)	(7,337,323)	(6,714,567)
Personnel costs paid		(1,190,088)	(964,054)	(1,221,314)	(1,023,013)
General expenses paid		(930,617)	(1,093,216)	(1,007,340)	(1,105,781)
Financial Services VAT paid		(919,407)	(514,456)	(919,407)	(514,456)
Income taxes paid		(714,388)	(741,878)	(968,143)	(957,382)
Net (increase)/decrease in other receivables		(115,393)	(322,825)	(125,863)	(344,556)
Net increase/(decrease) in other liabilities		369,089	97,866	392,385	62,550
Net cash provided by operating activities		3,097,976	1,806,053	3,347,926	2,173,722
CASH FLOWS FROM INVESTING ACTIVITIES					
Net increase in investments					
Acquisition of subsidiaries		(130,672)	(1,161,447)	118,220	(1,161,447)
Return of Capital by an associate Company		110,959	-	110,959	-
Government treasury bills and bonds		(12,907,074)	(4,553,348)	(14,688,220)	(4,553,349)
Change in other investments		713,676	853,699	1,659,303	(544,635)
Securities sold under repurchase agreements		240,845	1,717,290	240,845	1,717,290
Net increase in loans and advances		27,265	(4,876,604)	27,265	(4,876,604)
Deposits from customers		18,033,643	6,515,010	18,033,643	6,515,010
Net due to/(from) related companies		1,030	15,321	1,030	15,321
Expenditure on property & equipment		(126,392)	(166,152)	(148,868)	(169,646)
Proceeds from sale of property & equipment		665	6,597	710	6,597
Net cash provided by investing activities		5,963,945	(1,649,634)	5,354,887	(3,051,463)
CASH FLOWS FROM FINANCING ACTIVITIES					
Issue of shares		-	-	3,300	-
(Decrease)/Increase in borrowings		(5,864,875)	(525,438)	(5,864,875)	(525,438)
Dividend paid		(458,231)	(411,352)	(481,088)	(461,377)
Net cash used in financing activities		(6,323,106)	(936,790)	(6,342,663)	(986,815)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
		2,738,815	(780,371)	2,360,150	(1,864,556)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR					
		5,255,322	6,035,693	5,883,007	7,747,563
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR					
	a	7,994,137	5,255,322	8,243,157	5,883,007

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 75 to 104 are an integral part of these Financial Statements.

For the year ended 31 December	NDB BANK		NDB GROUP	
	2009 Rs.'000	2008 Rs.'000	2009 Rs.'000	2008 Rs.'000

Note a

RECONCILIATION OF CASH AND

CASH EQUIVALENTS

Cash and short-term funds	5,591,964	3,622,414	5,840,984	4,250,099
Balances with Central Bank	2,402,173	1,632,908	2,402,173	1,632,908
	7,994,137	5,255,322	8,243,157	5,883,007

Statement of Changes in Equity

For the year ended 31 December

	Attributable to equity holders of the parent						Total Rs.'000
	Stated Capital	Statutory Reserve Fund	General Reserve	Retained Profit	Minority Interests		
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
NDB BANK							
Balance as at 1 January 2008	1,032,931	818,554	5,805,707	1,594,558	-	9,251,750	
Exchange difference on conversion of FCBU reserves	-	-	-	8,783	-	8,783	
Profit for the year	-	-	-	1,194,762	-	1,194,762	
Dividend paid	-	-	-	(491,132)	-	(491,132)	
Balance as at 31 December 2008	1,032,931	818,554	5,805,707	2,306,971	-	9,964,163	
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	
NDB GROUP							
Balance as at 1 January 2008	1,032,931	818,554	5,805,707	4,027,660	1,414,812	13,099,664	
Exchange difference on conversion of FCBU reserves	-	-	-	8,783	-	8,783	
Exchange gain from valuation of foreign associate	-	-	-	10,036	-	10,036	
Adjustment on additional investment in a subsidiary company	-	-	-	(155,324)	(905,263)	(1,060,587)	
Profit for the year	-	-	-	1,604,790	103,399	1,708,189	
Dividend paid	-	-	-	(491,132)	(44,531)	(535,663)	
Balance as at 31 December 2008	1,032,931	818,554	5,805,707	5,004,813	568,417	13,230,422	
Balance as at 1 January 2009	1,032,931	818,554	5,805,707	5,004,813	568,417	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	
Profit for the year	-	-	-	2,084,758	36,569	2,121,327	
Dividend paid	-	-	-	(552,523)	(14,621)	(567,144)	
Balance as at 31 December 2009	1,032,931	818,554	5,805,707	6,539,510	686,622	14,883,324	

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 2009, Statements of Income, Cash Flow and Changes in Equity for the year then ended, together with Accounting Policies and notes thereto; have been prepared on a historical cost basis, except for certain investments and investment properties as more fully described under the respective policies. These Financial Statements of NDB Bank 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 Bank have 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 including the reclassification of investment in Aviva NDB Insurance PLC, (formally known as Eagle Insurance PLC) under investments in Associate Companies (previously classified under Dealing Securities) and

Securities purchased under resale agreements on the face of the balance sheet (previously classified under Investments held for Trading) for purposes of better presentation and to conform to current years presentation.

1.2.1 Date of Authorization for Issue

The Financial Statements of National Development Bank PLC for the year ended 31 December 2009 were authorized for issue in accordance with a resolution of the Board of Directors on 15 February 2010.

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 and estimates

In the process of applying NDB Bank's 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. Judgments of management is required in the estimation of these amounts and such estimations are based on assumptions about a number of factors 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.

Significant Accounting Policies

Defined Benefit Plans:

The cost of defined benefit plans-gratuity is determined using an actuarial valuation. The actuarial valuation involves making 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. 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 their respective year-ends is accounted for in the Consolidated

Income Statement for the year. The carrying value of the investment in the Consolidated Balance Sheet is thereby increased or decreased to 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 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 a separate component of 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% (2008 - 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% on On-shore foreign currency transactions, and at 20%

on Off-shore foreign currency transactions. (2008 - On-shore 35%, 2008 - Off-shore 20%).

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

Significant Accounting Policies

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.

1.9 Impairment of 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.

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. In addition, NDB Bank also makes a 1% general provision on the performing portfolio as mandated by the Central Bank of Sri Lanka.

2.2 Leases

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

accrued to revenue, interest in suspense and provisions for bad and doubtful recoveries.

Assets leased to customers under agreements in which the NDB Bank retains substantially all the risks and rewards associated with ownership and legal title are classified as operating leases. The lease rentals receivable in the Balance Sheet include rental installments receivable, net of provisions for bad and doubtful recoveries.

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

2.3 Investments

2.3.1 Securities held for trading

Government Securities held for trading purposes are accounted for at market value at the balance sheet date, determined on a portfolio basis and interest is accrued. Adjustment for changes in the market value of these investments are recognized in the income statement as per the provisions under Sri Lanka Accounting Standards.

2.3.2 Dealing Securities

Dealing Securities comprise of shares and debentures quoted on the Colombo Stock Exchange and are accounted for at the lower of cost and market value as at the balance sheet date, determined on a portfolio basis.

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.

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.

2.3.5 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.

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.

2.5 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.

2.6. Cash and Cash Equivalents

Cash and Cash equivalents comprise of cash balances, short-term funds and balances with Central Bank of Sri Lanka. 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.

3. LIABILITIES AND PROVISIONS

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

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.

Significant Accounting Policies

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.

3.3 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 installments 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 installments 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 are 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 a cash basis.

4.1.7 Income from fee - based activities

Fees for underwriting, advisory work, loan syndication, management of funds and all other

fees and commissions are 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 with in the Income Statement.

5 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.

6 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.

7. Effect of Sri Lanka Accounting Standard issued but not yet effective:

The following standards have been issued by the Institute of Chartered Accountants of Sri Lanka and are effective for the accounting periods on the dates specified below.

- a) Sri Lanka Accounting Standard 44 Financial Instruments;Presentation (SLAS 44) and Sri Lanka Accounting Standard 45 Financial Instruments;Recognition & Measurement (SLAS 45)

SLAS 44 and 45 become effective for financial years beginning on or after 1 January 2011. Accordingly, the financial Statements for the year ending 31December 2011 will adopt SLAS 44 and 45, for the first time.

These two standards together provide comprehensive guidance on identification, classification, measurement and presentation of financial instruments (including Derivatives) into financial assets, financial liabilities and equity instruments.

In order to comply with the requirements of these standards, NDB Bank is in the process of assessing the effect of adaptation of the aforesaid two standards. Due to the complex nature of the effects of these standards, the impact of adoption can not be estimated as at the date of publication of these financial statements.

- b) Sri Lanka Accounting Standard 39-Share Based Payments (SLAS 39)-

SLAS 39-Share based payments, effective for periods beginning on or after 1st January 2010 will be first adopted in the year ending 31 December 2010. This standard requires an expense to be recognized where NDB Bank buys goods or services in exchange for shares or rights over shares (equity-settled transactions), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (cash-settled transactions). For equity settled share-based payment transactions, NDB Bank is required to apply SLAS 39 to grants of shares, share options or other equity instruments that were granted after January 2010.

NDB Bank is in the process of evaluating the impact of this standard, and the impact of the same can not be estimated as at the date of the publication of these financial statements.

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 2009 was 991. (2008 - 946)

The number of branches of NDB Bank as at 31 December 2009 was 44. (2008- 40)

On 28 January 2009 the Bank acquired a controlling interest in an investment banking operation in

Bangladesh (NDB Capital Limited) after obtaining the necessary approvals from regulatory authorities both in Sri Lanka and Bangladesh. Accordingly the effective holding by NDB Bank in NDB Capital Limited is 77.8%.

On 11 June 2009, Capital Development and Investment Company PLC (CDIC), the Bank' s 99.7% held subsidiary acquired a direct holding of 16.15% and an indirect holding of 34.85% through its investment in Aviva NDB Finance Lanka (Private) Limited, of the issued share capital of Eagle NDB Fund Management Limited (ENDB). Accordingly CDIC and NDB Bank acquired 51% and 50.8% respectively of the shares of ENDB. Through this acquisition and an ensuing shareholder agreement, NDB Bank effectively acquired a controlling interest in ENDB. Subsequent to this acquisition ENDB was renamed as NDB Aviva Wealth Management Limited.

	NDB BANK		NDB GROUP	
	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
2. GROSS INCOME	13,821,072	12,093,491	14,166,864	12,522,183
Interest income (Note 3)	11,233,423	10,522,663	11,606,877	10,860,240
Other income (Note 5)	2,587,649	1,570,828	2,559,987	1,661,943
	13,821,072	12,093,491	14,166,864	12,522,183
3. INTEREST INCOME				
Loans and advances	7,670,607	7,755,421	7,671,973	7,756,518
Treasury bills and bonds and placements with other banks	3,562,816	2,767,242	3,934,904	3,103,722
	11,233,423	10,522,663	11,606,877	10,860,240
4. INTEREST EXPENSES				
Long-term borrowings	1,514,872	1,590,888	1,514,872	1,590,888
Other term borrowings	2,074,505	3,030,937	1,929,882	2,736,138
Deposits	3,928,935	2,745,968	3,928,935	2,745,968
	7,518,311	7,367,793	7,373,688	7,072,994
5. OTHER INCOME				
Dividend income from securities				
- Quoted investments	32,575	49,990	32,575	49,990
- Non-quoted investments	128,268	232,660	153,979	258,371
Dividend income from subsidiaries/associates				
- Quoted investments	131,143	92,550	-	-
- Non-quoted investments	102,675	64,742	-	-
Gain/(loss) from dealing securities	196,232	10	196,232	10
Gain/(loss) from investment securities	4,162	(31,529)	4,162	(31,529)
Gain/(loss) from group investments	94,484	-	-	-
	689,538	408,423	386,947	276,842
Net gain/(loss) from sale of government securities	733,474	(939)	733,474	(939)
Fee and commission income	607,656	543,211	607,656	534,097
Income from other fee-based activities	11,050	13,578	285,979	236,274
Forex income	503,870	572,760	503,870	572,760
Income from other activities	42,061	33,795	42,061	42,909
	2,587,649	1,570,828	2,559,987	1,661,943

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

	NDB BANK		NDB GROUP	
	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
6. OPERATING EXPENSES				
Operating expenses include the following -				
Employees' Provident Fund	73,032	64,345	79,140	68,995
Employees' Trust Fund	14,620	12,873	16,050	13,954
Gratuity	14,746	20,015	18,676	22,104
Depreciation - Own assets	191,825	182,566	206,374	192,337
Legal charges	11,088	18,494	13,165	19,477

7. STAFF RETIREMENT BENEFITS

- a. 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 2009. Accordingly, the actuarial experience losses 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, provision has not 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, and the rate of increase in salaries, which have been estimated at 12%.

- b. Provisions for retirement gratuities have been made based on the actuarial valuation carried out as at 31 December 2009. Please refer Note 34.1 for detailed disclosure and assumptions on the retirement benefit liability.

Notes to the Financial Statements

	NDB BANK		NDB GROUP	
	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
a. Reconciliation of Effective Tax Rate				
Profit before tax	3,492,516	2,358,556	4,275,579	3,117,552
Tax effect at the statutory income tax rates	1,221,207	823,088	1,663,582	7,341
Tax effect of exempt income	(297,499)	(177,454)	(297,499)	1,059,616
Statutory tax at 2%	-	-	2,346	2,187
Tax effect of non-deductible expenses	473,776	369,469	473,776	377,198
Tax effect of deductible expenses	(425,172)	(499,988)	(525,783)	(685,657)
Tax effect of leasing loss	306	52,288	213	52,287
Social Responsibility Levy at the rate of 1.5% of income tax	14,590	8,511	14,581	8,511
Under/(over) provision for previous years	7,257	(10,662)	7,257	(10,662)
Deferred taxation	(31,570)	40,996	(31,389)	40,996
Income Tax expense at effective rate of tax of 28% (2008-26%)	962,895	606,248	1,307,084	851,817
Effective overall tax rate (%)	52	49	50	45

The Bank is liable to VAT on financial services at 20%. (2008 - 20%)

NDB Investment Bank Ltd is liable to taxation at 35%. (2008 - 35%)

Ayojana Fund (Pvt) Ltd is liable to taxation at 20% (2008 - 20%)

NDB Stock Brokers (Pvt) Ltd is liable to taxation at 35% (2008- 35%).

The profits earned by Capital Development and Investment Co PLC is liable to taxation at 35%. (2008- 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% (2008 - 35%).

NDB Aviva Wealth Management Ltd is liable to taxation at 35% (2008- 35%).

NDB Capital Ltd is a company based in Bangladesh and is subject to taxation at 45% (2008-45%).

Aviva NDB Finance Lanka (Pvt) Ltd is liable to income tax at 35% (2008 - 35%).

Profits earned through the business of venture capital by NDB Venture Investments (Pvt) Ltd is taxed at 20% (2008-20%)

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

12. DIVIDENDS PAID

A first and final dividend of Rs. 6.75 per share was paid for the year ended 31 December 2008.

13. EARNINGS PER SHARE

The basic earnings per share for 2009 and 2008 have been calculated by dividing the profit after taxation and minority interests for each year by the number of ordinary shares in issue on a time basis as required by the Sri Lanka accounting Standard No.34 on Earnings per share.

	NDB GROUP	
	2009	2008
	Rs.'000	Rs.'000
Profit attributed to ordinary shareholders (Rs.'000)	2,084,758	1,604,790
Ordinary shares in issue (Number'000)	81,855	81,855
Earnings per ordinary share (Rs.)	25.47	19.61

	NDB BANK		NDB GROUP	
	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cash in hand	382,584	475,655	382,616	475,672
Dues from banks and other financial institutions	5,209,380	3,146,759	5,458,368	3,774,427
	5,591,964	3,622,414	5,840,984	4,250,099

14. CASH AND SHORT-TERM FUNDS

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 2009 (7.75% as at 31 December 2008). This reserve requirement is not applicable for the foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Foreign Currency Banking Unit.

	NDB BANK		NDB GROUP	
	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Treasury bills	8,237,363	3,682,319	8,237,363	3,682,319
Treasury bonds	3,148,576	4,142,764	3,148,576	4,142,764
	11,385,939	7,825,083	11,385,939	7,825,083

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. 11.3 Bn (2008- Rs. 10.6 Bn).

	NDB BANK				NDB GROUP			
	2009	2009	2008	2008	2009	2009	2008	2008
	Market Value/ Directors valuation Rs. '000	Rs. '000	Market Value/ Directors Valuation Rs. '000	Rs. '000	Market Value/ Directors Valuation Rs. '000	Rs. '000	Market Value/ Directors Valuation Rs. '000	Rs. '000
Treasury Bonds	7,535,665	7,975,822	5,285,898	5,173,317	9,397,951	9,762,178	5,285,898	5,173,317
Treasury Bills	323,540	327,299	235,570	241,428	323,540	327,299	235,570	241,428
Central Bank securities	8,390,202	8,390,202	-	-	8,390,202	8,390,202	-	-
Corporate securities	21,038	21,038	176,794	157,194	21,038	21,038	293,294	293,294
Investment securities (note 17.1)	582,289	637,693	833,923	1,019,624	728,715	784,119	1,082,349	1,345,050
Investments in								
Sinking Fund (note 17.3)	26,327	26,327	17,299	17,299	26,327	26,327	17,299	17,299
Less - Provision for								
fall in value of Investment	-	-	(19,600)	-	-	-	(19,600)	-
	16,879,061	17,378,381	6,529,884	6,608,862	18,887,773	19,311,163	6,894,810	7,070,388

17. INVESTMENTS HELD TO MATURITY

Treasury Bonds	7,535,665	7,975,822	5,285,898	5,173,317	9,397,951	9,762,178	5,285,898	5,173,317
Treasury Bills	323,540	327,299	235,570	241,428	323,540	327,299	235,570	241,428
Central Bank securities	8,390,202	8,390,202	-	-	8,390,202	8,390,202	-	-
Corporate securities	21,038	21,038	176,794	157,194	21,038	21,038	293,294	293,294
Investment securities (note 17.1)	582,289	637,693	833,923	1,019,624	728,715	784,119	1,082,349	1,345,050
Investments in								
Sinking Fund (note 17.3)	26,327	26,327	17,299	17,299	26,327	26,327	17,299	17,299
Less - Provision for								
fall in value of Investment	-	-	(19,600)	-	-	-	(19,600)	-
	16,879,061	17,378,381	6,529,884	6,608,862	18,887,773	19,311,163	6,894,810	7,070,388

Notes to the Financial Statements

	NDB BANK		NDB GROUP	
	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
17.1 INVESTMENT SECURITIES				
Non-quoted shares (note 17.2)	582,289	833,923	728,715	1,082,349
	582,289	833,923	728,715	1,082,349

	2009			2008		
	Number of Shares	Cost Rs.'000	Director's Valuation Rs.'000	Number of Shares	Cost Rs.'000	Director's Valuation Rs.'000
	17.2 Non-quoted Shares					
A. Ordinary Shares						
Credit Information Bureau of Sri Lanka	30,395	3,039	58,972	30,395	3,039	49,863
Fitch Ratings Lanka Ltd	62,500	625	96	62,500	625	899
Hethersett Hotels Ltd	-	-	-	1,500,000	15,000	6,000
Mahaweli Livestock Enterprises Ltd	600,000	6,000	-	600,000	6,000	6,000
Sampath Centre (Pvt) Ltd	-	-	-	1,000,000	10,000	20,021
South Asia Regional Fund	-	-	-	500	41	5,096
Suntel Ltd	11,729,794	117,297	-	11,729,794	117,297	213,745
Lanka Financial Services Bureau Ltd	112,500	1,125	1,125	-	-	-
Sub-total		128,086	60,193		152,002	301,624

	2009			2008		
	Number of Shares	Cost Rs.'000	Director's Valuation Rs.'000	Number of Shares	Cost Rs.'000	Director's Valuation Rs.'000
	B. Redeemable Cumulative Preference Shares					
Aqua Packaging Ltd	-	-	-	2,500,000	25,000	25,000
Dialog Telekom PLC	577,500,000	577,500	577,500	693,000,000	693,000	693,000
Total		705,586	637,693		870,002	1,019,624
Less : Provision for doubtful losses		(123,297)			(36,079)	
Total as at 31 December - Bank		582,289			833,923	
Investments in non-quoted shares by subsidiaries net of provision		146,426			248,426	
Total as at 31 December - Group		728,715			1,082,349	

The Directors valuation of non quoted shares is based on the net book value of these shares at 31 December 2009 and 31 December 2008.

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.

Notes to the Financial Statements

	NDB BANK		NDB GROUP	
	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
19. BILLS OF EXCHANGE				
Export Bills	2,477,846	2,192,573	2,477,846	2,192,573
Import Bills	61,556	54,753	61,556	54,753
Total	2,539,402	2,247,326	2,539,402	2,247,326

	NDB BANK		NDB GROUP	
	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
20. LOANS AND ADVANCES				
Project Finance	10,524,782	14,335,010	10,524,782	14,336,267
Short term loans	10,423,291	6,299,339	10,423,291	6,295,659
Overdrafts	7,839,894	8,671,869	7,839,717	8,671,870
Trade Finance loans	10,938,805	12,113,698	10,938,805	12,113,698
PCI loans	2,150,288	2,107,108	2,150,288	2,107,108
Consumer loans	4,187,913	3,702,588	4,187,913	3,702,587
Housing loans	3,846,440	3,560,525	3,846,440	3,560,525
Staff loans	784,386	712,999	808,955	733,570
	50,695,800	51,503,136	50,720,192	51,521,285
Less : Provision for bad and doubtful loans (note 20.1 and 20.2)	1,947,598	1,859,504	1,947,598	1,860,761
Net loans and advances	48,748,202	49,643,632	48,772,594	49,660,524

	Specific		General	
	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
20.1 Movement in Provision for Bad and Doubtful Loans - Bank				
At the beginning of the year	1,401,143	458,361	1,859,504	1,741,896
Amounts recovered / provisions written back	(539,286)	-	(539,286)	(816,208)
Amounts written off	(183,351)	-	(183,351)	(15,684)
Provision made during the year	795,469	15,262	810,731	949,500
At the end of the year	1,473,975	473,623	1,947,598	1,859,504

	Specific Rs.'000	General Rs.'000	2009 Total Rs.'000	2008 Total Rs.'000
20.2 Movement in Provision for Bad and Doubtful Loans - Group				
At the beginning of the year	1,402,400	458,361	1,860,761	1,751,896
Amounts recovered / provisions written back	(539,286)	-	(539,286)	(824,951)
Amounts written off	(183,351)	-	(183,351)	(15,684)
Provision made during the year	795,469	15,262	810,731	949,500
At the end of the year	1,473,975	473,623	1,947,598	1,860,761

	NDB BANK		NDB GROUP	
	2009 Total Rs.'000	2008 Total Rs.'000	2009 Total Rs.'000	2008 Total Rs.'000

20.3 Break up of the Provision for Bad and Doubtful Loans				
Provision as per CBSL rules	704,467	614,381	704,467	614,381
Specific provision against debts judgmentally classified as doubtful	769,508	786,762	769,508	788,019
General provision (1% of performing loans)	473,623	458,361	473,623	458,361
	1,947,598	1,859,504	1,947,598	1,860,761

	NDB BANK		NDB GROUP	
	2009 Rs.'000	2008 Rs.'000	2009 Rs.'000	2008 Rs.'000

21. LEASE RENTALS RECEIVABLE

Total rentals receivable	2,641,837	2,764,895	2,641,837	2,764,895
Less : Provision for doubtful recoveries (note 21.1)	86,055	86,731	86,055	86,731
Interest in suspense (note 21.3)	17,950	20,635	17,950	20,635
Unearned income	674,470	747,106	674,470	747,106
Net rentals receivable	1,863,362	1,910,423	1,863,362	1,910,423

21.1 Provision for Bad and Doubtful Recoveries

At the beginning of the year	86,731	64,188	86,731	64,188
Amounts recovered / provisions written back	(37,074)	(7,660)	(37,074)	(7,660)
Amounts written off	(15,509)	-	(15,509)	-
Provision made during the year	51,907	30,203	51,907	30,203
	86,055	86,731	86,055	86,731

	2009 Total Rs.'000	2008 Total Rs.'000
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21.2 Provision for Bad and Doubtful Recoveries

Provision as per CBSL rules	31,812	39,616
Specific provision against debts judgmentally classified as doubtful	36,107	29,411
General provision (1% of performing loans)	18,136	17,704
	86,055	86,731

Notes to the Financial Statements

	NDB BANK		NDB GROUP	
	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
21.3 Interest in Suspense				
At the beginning of the year	20,635	11,993	20,635	11,993
Amounts written back to profit	(37,049)	(18,694)	(37,049)	(18,694)
Amounts written off	(10,219)	(8)	(10,219)	(8)
Transfer to interest in suspense	44,583	27,344	44,583	27,344
At the end of the year	17,950	20,635	17,950	20,635

	Upto 1		1 to 5		Total
	year		years		
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
21.4 Maturity of Lease Rentals Receivable of the Bank					
Total rentals receivable		131,990	2,499,280	10,565	2,641,835
Provision for doubtful recoveries		(10,944)	(74,971)	(140)	(86,055)
Interest in suspense		(2,237)	(15,070)	(643)	(17,950)
Unearned income		(33,696)	(638,074)	(2,698)	(674,468)
Net rentals receivable		85,113	1,771,165	7,084	1,863,362

	NDB BANK		NDB GROUP	
	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
22. INTEREST RECEIVABLE				
Interest receivable	1,814,633	1,516,057	1,814,633	1,516,057
Less : Interest in suspense (note 22.1)	883,505	745,296	883,505	745,296
	931,128	770,761	931,128	770,761

	NDB BANK		NDB GROUP	
	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
22.1 Interest in Suspense				
At the beginning of the year	745,296	709,557	745,296	709,557
Amounts written back to profit	(125,144)	(110,028)	(125,144)	(110,028)
Amounts written off	(159,433)	(70,559)	(159,433)	(70,559)
Transfer to interest in suspense	422,786	216,326	422,786	216,326
At the end of the year	883,505	745,296	883,505	745,296

	NDB BANK				NDB GROUP			
	2009	2009	2008	2008	2009	2009	2008	2008
	Loan Loss Provision	Interest in Suspense						
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
23. ANALYSIS OF PROVISION FOR LOAN LOSSES AND INTEREST IN SUSPENSE								
Loans and advances	1,947,598	883,505	1,859,504	745,296	1,947,598	883,505	1,860,761	745,296
Lease rentals receivable	86,055	17,950	86,731	20,635	86,055	17,950	86,731	20,635
	2,033,653	901,455	1,946,235	765,931	2,033,653	901,455	1,947,492	765,931

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 has no exposure to Collateralised Debt Obligations (CDO's).

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.

	2009		2008	
	Rs.mn	%	Rs.mn	%
Food, beverages and tobacco	4,647	8.3	4,974	8.8
Agriculture, agro-business and fisheries	9,256	16.6	4,990	8.8
Textiles and garments	5,302	9.5	7,226	12.8
Wood and paper products	751	1.3	441	0.8
Rubber and leather products	4,031	7.2	4,931	8.7
Metals, chemicals and engineering	5,707	10.3	6,305	11.2
Hotels & Tourism	322	0.6	261	0.5
Utilities	1,137	2.0	2,730	4.8
Housing Finance	3,969	7.1	3,648	6.5
Services	9,849	17.6	9,555	16.9
Transport	1,438	2.6	3,726	6.6
Other	9,469	16.9	7,728	13.7
	55,877	100	56,515	100

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.

Notes to the Financial Statements

	NDB BANK		NDB GROUP	
	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
24.2(a) Asset quality				
Loans and advances	1,163,890	943,610	1,163,890	944,867
Overdrafts	150,028	142,417	150,028	142,417
Leases	133,978	188,653	133,978	188,653
	1,447,896	1,274,680	1,447,896	1,275,937

The capital balance outstanding on non-performing accounts are as follows -

Bank	Loans and	Lease	2009	2008
	Advances	capital	Total	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross	1,313,918	133,978	1,447,896	1,274,680
Net of tangible securities and Central Bank mandated specific provisions	419,415	11,965	431,379	292,709

Percentage Holding	2009	2009	Percentage Holding	2008	2008
	Cost	Directors' Valuation/ Market Value		Cost	Directors' Valuation/ Market Value
	Rs' 000	Rs' 000		Rs' 000	Rs' 000

25. INVESTMENTS IN SUBSIDIARY COMPANIES

Capital Development and Investment

Company PLC (Quoted)	99.66%	2,330,783	5,386,911	99.66%	2,330,783	4,403,147
Development Holdings (Pvt) Ltd	58.61%	228,150	784,232	58.61%	228,150	756,260
NDB Investment Bank Ltd	80.10%	32,040	73,808	80.10%	32,040	81,598
NDB Stock Brokers (Pvt) Ltd	100.00%	26,940	163,788	100.00%	26,940	144,634
NDB Capital Limited	77.80%	130,673	130,673	-	-	-
		2,748,586	6,539,412		2,617,913	5,385,639

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

On 28 January 2009 the Bank acquired a controlling interest in an investment banking operation in Bangladesh (NDB Capital Limited) after obtaining the necessary approvals from regulatory authorities both in Sri Lanka and Bangladesh. Accordingly the effective holding by the Bank in NDB Capital Limited is 77.8%.

On 11 June 2009, Capital Development and Investment Company PLC (CDIC), the Bank's 99.7% held subsidiary acquired a direct holding of 16.15% and an indirect holding of 34.85% through its investment in Aviva NDB Finance Lanka (Private) Limited, of the issued share capital of Eagle NDB Fund Management Limited (ENDB). Accordingly CDIC and the Bank acquired 51% and 50.8% respectively of the shares of ENDB. Through this acquisition and an ensuing shareholder agreement, the Bank effectively acquired a controlling interest in ENDB. Subsequent to the acquisition of ENDB the company was renamed as NDB Aviva Wealth Management Limited.

	Percentage Holding	2009 Cost Rs.'000	2009 Directors' Valuation / Market Value Rs.'000	Percentage Holding	2008 Cost Rs.'000	2008 Directors' Valuation / Market Value Rs.'000
26. INVESTMENTS IN ASSOCIATE COMPANIES						
(a) NDB Bank						
Ayojana Fund (Pvt) Ltd	50.00%	100	15,062	50.00%	100	32,404
Maldives Finance Leasing Co (Pvt) Ltd	35.00%	165,462	227,372	35.00%	165,462	275,202
NDB Venture Investments (Pvt) Ltd	50.00%	18,525	28,317	50.00%	35,000	57,725
Aviva NDB Insurance PLC	5.00%	268,373	267,000	5.00%	268,373	172,500
		452,460	537,751		468,935	537,831

	As at 01.01.09 Rs.'000	Change in Investments Rs.'000	Exchange gain on Revaluation Rs.'000	Profit net of Dividend Received Rs.'000	As at 31.12.09 Rs.'000
(b) NDB Group					
Ayojana Fund (Pvt) Ltd	32,404	-	-	(17,342)	15,062
Maldives Finance Leasing Co (Pvt) Ltd	275,202	-	3,208	(51,039)	227,371
NDB Venture Investments (Pvt) Ltd	52,401	(16,475)	-	(7,609)	28,317
Aviva NDB Insurance PLC	914,933	-	-	146,264	1,061,197
Aviva NDB Finance Lanka (Pvt) Ltd	386,328	(42,904)	-	48,438	391,862
	1,661,268	(59,379)	3,208	118,712	1,723,809

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

(c) Summarised Financial Information of the NDB Group's Investment in its Associates

	2009 Rs.'000	2008 Rs.'000
Total Assets	4,622,866	3,921,592
Total Liabilities	4,070,215	3,380,192
Net Assets	552,650	494,061
Revenue	1,777,340	1,226,345
Profits	525,818	172,403

	NDB BANK		NDB GROUP	
	2009 Rs.'000	2008 Rs.'000	2009 Rs.'000	2008 Rs.'000

27. GROUP BALANCES RECEIVABLE

Maldives Finance Leasing Co (Pvt) Ltd	1,373	347	1,373	347
NDB Industrial Estates Ltd	-	2,038	-	-
NDB Stock Brokers (Pvt) Ltd	-	18	-	-
	1,373	2,403	1,373	347

	NDB BANK		NDB GROUP	
	2009 Rs.'000	2008 Rs.'000	2009 Rs.'000	2008 Rs.'000

28. OTHER ASSETS

Sundry Receivables	612,570	543,340	806,887	668,084
Payments in advance	176,452	119,241	196,169	130,933
Employees Share ownership Plan (ESOP)	114,579	126,037	114,579	126,037
	903,601	788,618	1,117,635	925,054

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.

Notes to the Financial Statements

	Land and Buildings Rs.'000	Motor Vehicles Rs.'000	Furniture and Equipment Rs.'000	Total Rs.'000
29. PROPERTY, PLANT & EQUIPMENT				
29.1 NDB Bank				
Cost				
Freehold Assets				
As at 1 January 2009	624,386	288,897	949,905	1,863,188
Additions during the year	35,939	406	90,047	126,392
Disposals during the year	-	-	(13,110)	(13,110)
As at 31 December 2009	660,325	289,303	1,026,842	1,976,470
Depreciation / Amortisation				
Freehold Assets				
As at 1 January 2009	245,304	246,636	612,931	1,104,871
Charge for the year	39,973	22,677	129,175	191,825
On disposals	-	-	(12,797)	(12,797)
As at 31 December 2009	285,277	269,313	729,309	1,283,899
Written down value as at 31 December 2009 (a) - (b)	375,048	19,990	297,533	692,571
Written down value as at 31 December 2008	379,082	42,261	336,974	758,317
	Land and Buildings Rs. '000	Motor Vehicles Rs. '000	Furniture and Equipment Rs. '000	Total Rs. '000
29.2 NDB Group				
Cost				
Freehold Assets				
As at 1 January 2009	624,386	305,531	1,065,245	1,995,162
Additions during the year	38,513	10,135	113,990	162,638
Acquisition of group companies	-	165	17,089	17,254
Disposals during the year	-	(223)	(13,110)	(13,333)
As at 31 December 2009	662,899	315,608	1,183,214	2,161,721
Depreciation / Amortisation				
Freehold Assets				
As at 1 January 2009	245,304	255,455	713,774	1,214,533
Acquisition of group companies	-	165	16,540	16,705
Charge for the year	40,134	26,720	139,520	206,374
On disposals	-	(76)	(12,797)	(12,873)
As at 31 December 2009	285,438	282,264	857,037	1,424,739
Written down value as at 31 December 2009 (a) - (b)	377,461	33,344	326,177	736,982
Written down value as at 31 December 2008	379,082	50,076	351,471	780,629

	NDB GROUP	
	2009	2008
	Rs.'000	Rs.'000
30. 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 the NDB Bank, whose principal activity is renting out premises for commercial use, adopted the Sri Lanka Accounting Standard No. 40, Investment Property.

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.

	2009	2008
	Rs.'000	Rs.'000
	31. GOODWILL	
Net assets of subsidiary companies acquired during the year	19,458	-
Fair value adjustment on acquisition	23,788	-
Goodwill on acquisition	4,330	-

- (a) The Goodwill arises on the newly acquired subsidiary NDB Aviva Wealth Management Ltd.
- (b) 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.
- (c) 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.

	NDB BANK		NDB GROUP	
	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
32. DEPOSITS				
Savings deposits	6,541,041	3,566,201	6,541,041	3,566,201
Time deposits	38,333,002	23,633,264	38,333,002	22,810,715
Certificate of deposits	49,096	48,693	49,096	48,693
Demand deposits	4,767,256	4,421,313	4,767,256	4,421,313
Margins	257,194	244,475	257,194	244,475
	49,947,589	31,913,946	49,947,589	31,091,397

	2009 Rs.'000	2008 Rs.'000
33. BORROWINGS		
(a) NDB Bank		
Government of Sri Lanka loans under ADB, IDA, KfW and JBIC credit lines	11,444,138	13,324,519
Other Government of Sri Lanka loans	1,433,379	1,192,241
Foreign borrowings	4,617,450	2,558,250
Local borrowings	2,188,887	8,582,964
Listed Debentures	250,000	250,000
Amounts due to foreign banks	303,026	193,781
	20,236,880	26,101,755

	Upto 1 year Rs.'000	1 to 5 years Rs.'000	More than 5 years Rs.'000	Total Rs.'000
(a.1) Maturity of Borrowings				
Government of Sri Lanka loans under ADB, IDA, KfW and JBIC credit lines	1,868,968	6,825,550	2,749,620	11,444,138
Other Government of Sri Lanka loans	209,134	921,892	302,353	1,433,379
Foreign borrowings	915,200	3,048,850	653,400	4,617,450
Other local borrowings	1,966,913	25,000	500,000	2,491,913
Listed Debentures	250,000	-	-	250,000
	5,210,215	10,821,292	4,205,373	20,236,880

	2009 Rs.'000	2008 Rs.'000
(b) NDB Group		
Government of Sri Lanka loans under ADB, IDA, KfW and JBIC credit lines	11,444,138	13,324,519
Other Government of Sri Lanka loans	1,433,379	1,192,241
Foreign borrowings	4,617,450	2,558,250
Local borrowings	711,848	6,913,511
Debentures	250,000	250,000
Amounts due to foreign banks	303,026	193,781
	18,759,841	24,432,302

	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	1,868,968	6,825,550	2,749,620	11,444,138
Sri Lanka loans	209,134	921,892	302,353	1,433,379
Foreign borrowings	915,200	3,048,850	653,400	4,617,450
Local borrowings	489,874	25,000	500,000	1,014,874
Listed Debentures	250,000	-	-	250,000
	3,733,176	10,821,292	4,205,373	18,759,841

	NDB BANK		NDB GROUP	
	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
34. OTHER LIABILITIES				
Interest payable	2,033,767	1,852,779	2,033,767	1,852,779
Accrued expenses	351,265	227,446	368,794	253,327
Retirement benefit liability (Note 34.1)	43,396	21,192	59,053	39,825
Other liabilities	1,471,401	1,196,758	1,528,133	1,218,196
	3,899,829	3,298,175	3,989,747	3,364,127

34.1 The movement in the retirement benefit liability of NDB Bank is given below.

	2009	2008
	Rs.'000	Rs.'000
Present value of defined benefit Obligation	86,787	68,543
Outstanding balance of transitional liability [Note (c)]	(11,523)	(15,364)
Unrecognised net actuarial (loss) or gain	(31,868)	(31,987)
Retirement benefit liability as at 31 December	43,396	21,192

(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:

Rate of interest	- 12%
Rate of salary increase	- 12%
Retirement age	- 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. i.e. 1 January 2008.

35. DEFERRED TAXATION

	Balance sheet				Income Statement			
	BANK		GROUP		BANK		GROUP	
	2009	2008	2009	2008	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Deferred tax liabilities								
Accelerated Depreciation for tax purposes	170,978	108,775	169,542	108,381	62,203	(31,430)	62,384	(31,430)
	170,978	108,775	169,542	108,381	62,203	(31,430)	62,384	(31,430)
Deferred tax assets								
Provision for bad and doubtful debts	179,094	93,091	179,094	93,091	(86,002)	68,781	(86,002)	68,781
Other liabilities	15,189	7,417	15,189	7,417	(7,771)	3,645	(7,771)	3,645
	194,283	100,508	194,283	100,508	(93,773)	72,426	(93,773)	72,426
Net deferred tax liability/(asset)	(23,305)	8,267	(24,741)	7,873				
						Number	2009	2008
							Rs.'000	Rs.'000

36. STATED CAPITAL

Issued and fully paid

Balance as at 1 January and 31 December	81,855,385	1,032,931	1,032,931
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37. STATUTORY RESERVE FUND

The Statutory Reserve Fund was created out of revenue reserves to comply with a direction issued to Licensed Banks in 1998 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	
	2009	2008	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 1 January and 31 December	818,554	818,554	818,554	818,554

Notes to the Financial Statements

	General Reserves Rs.'000	Retained Profit Rs.'000	Total Rs.'000
38. REVENUE RESERVES			
(a) Bank			
As at 1 January 2009	5,805,707	2,306,971	8,112,678
Profit after taxation	-	1,682,453	1,682,453
Dividends paid	-	(552,523)	(552,523)
Exchange equalisation reserve	-	531	531
As at 31 December 2009	5,805,707	3,437,432	9,243,139
(b) Group			
As at 1 January 2009	5,805,707	5,004,812	10,810,519
Exchange gain from valuation of foreign associate	-	2,927	2,927
Profit after taxation	-	2,084,758	2,084,758
Dividends paid	-	(552,523)	(552,523)
Acquisition of a subsidiary company	-	(996)	(996)
Exchange equalisation reserve	-	531	531
As at 31 December 2009	5,805,707	6,539,509	12,345,216

39. 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						
Cash in hand and with banks	382,584	-	-	-	-	382,584
	382,584	-	-	-	-	382,584
Investments held for trading						
Treasury Bills	8,237,363	-	-	-	-	8,237,363
Treasury Bonds	3,148,576	-	-	-	-	3,148,576
	11,385,939	-	-	-	-	11,385,939
Securities purchased under resale agreements	1,662,193					1,662,193
Bills of exchange	2,477,181	62,222	-	-	-	2,539,402
Commercial paper	-	-	-	-	-	-
Investments held for maturity						
Sinking Fund investments	-	-	-	-	26,328	26,328
Other securities	15,646	5,392	-	-	-	21,039
Central Bank securities	8,390,202	-	-	-	-	8,390,202
Treasury Bonds	657,955	3,424,528	3,014,192	438,987	-	7,535,662
Treasury Bills	323,939	-	-	-	-	323,959
	9,387,742	3,429,920	3,014,192	438,987	26,328	16,297,170
Loans and advances						
Direct loans (Gross)	19,117,067	4,357,060	4,127,390	5,529,095	6,781,184	39,911,796
Refinance loans (Gross)	207,790	500,590	866,140	429,610	146,160	2,150,290
Staff loans	46,087	811	6,094	89,738	64,165	784,386
Overdrafts	7,839,894	-	-	-	-	7,839,894
Provisions for bad and doubtful debts	(1,731,798)	(43,703)	(39,765)	(53,954)	(68,944)	(1,938,163)
	25,479,040	4,814,759	4,959,859	5,994,489	7,500,056	48,748,203
Interest receivable	931,128	-	-	-	-	931,128
Lease rentals receivable	38,402	57,653	811,938	1,034,196	7,228	1,949,417
Provision for bad and doubtful debts	(10,944)	-	(74,971)	-	(141)	(86,056)
	51,733,265	8,364,554	8,711,018	7,467,672	7,533,471	83,809,980

	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
Non-Interest Earning Assets						
Balances with Central Bank	2,402,173	-	-	-	-	2,402,173
Dues from Banks	5,209,380	-	-	-	-	5,209,380
	7,611,553	-	-	-	-	7,611,553
Investment held to maturity						
Quoted shares	22,140	-	-	-	-	22,140
Non-quoted shares / debentures	-	192,500	385,000	-	4,790	582,290
	22,140	192,500	385,000	-	4,790	604,430
Investments in Subsidiaries & Associates	-	-	-	-	3,201,046	3,201,046
Group balances/Other assets	904,974	-	-	-	-	904,974
Deferred taxation	-	-	-	-	23,305	23,305
Property, plant and equipment	-	-	-	-	692,571	692,571
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						
Borrowings						
Government of Sri Lanka loans						
under ADB,IDA,KfW and JBIC credit lines	595,611	1,273,349	5,250,237	1,575,312	2,749,628	11,444,137
Other Government of Sri Lanka loans	555	208,578	625,668	296,224	302,353	1,433,379
Foreign borrowings	915,200	-	2,025,550	1,023,300	653,400	4,617,450
Debentures	-	250,000	-	-	-	250,000
Other local borrowings	1,193,647	773,266	25,000	-	500,000	2,491,913
	2,705,013	2,505,193	7,926,455	2,894,836	4,205,381	20,236,880
Securities purchased under repurchase						
agreements	7,658,816	3,132,867	9,567	-	-	10,801,250
Deposits	31,312,876	17,100,668	756,177	777,869	-	49,947,590
	41,676,605	22,738,728	8,692,199	3,672,705	4,205,381	80,985,718
Non-Interest Bearing Liabilities						
Group balances/Sundry creditors	3,899,829	-	-	-	-	3,899,829
Taxation	523,130	-	-	-	-	523,130
Dividends payable	344,158	-	-	-	-	344,158
Shareholder Funds	-	-	-	-	11,094,623	11,094,623
	4,767,117	-	-	-	11,094,623	15,861,741
As at 31 December 2009	46,443,822	22,738,728	8,692,199	3,672,705	15,300,004	96,847,460

40. COMMITMENTS AND CONTINGENCIES**40.1 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	
	2009 Rs.'000	2008 Rs.'000	2009 Rs.'000	2008 Rs.'000
Undisbursed financing commitments	5,202,972	3,691,817	5,202,972	3,691,817
Guarantees	9,005,965	7,214,525	9,005,965	7,214,525
Commitments on account of letters of credit	4,003,292	2,575,972	4,003,292	2,575,972
Forward exchange contracts - purchases	17,604,961	11,927,990	17,604,961	11,927,990
Forward exchange contracts - sales	(17,366,231)	(11,035,333)	(17,366,231)	(11,035,333)
Forward exchange contracts - net	238,730	892,657	238,730	892,657
Acceptances	3,125,732	1,852,852	3,125,732	1,852,852
Travellers cheques	309	213,175	309	213,175
	21,577,000	16,440,998	21,577,000	16,440,998

40.2 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 twenty 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.

40.3 "During the year, NDB Venture Investments (Pvt) Limited, a subsidiary of NDB Bank divested its investment in Millennium Information Technologies Limited to London Stock Exchange Group Holdings Limited. Under the Share Purchase Agreements, the sale is subject to a contingent consideration dependent upon the finalization of certain predetermined conditions not wholly within the control of the subsidiary. Accordingly as at 31 December 2009, the above flow of funds is uncertain thereby, the contingent asset cannot be estimated due to the non finalization of the agreed conditions."

41 SEGMENTAL ANALYSIS - GROUP

For the twelve months ended 31 December

	Banking income		Equity Income		Property Investment		Insurance		Others		Consolidated	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Revenue												
External income	13,131,533	11,685,068	266,752	251,131	156,679	148,163	-	-	611,899	437,822	14,166,864	12,522,183
Inter-segment income	-	-	-	-	26,955	23,830	-	-	145,468	299,339	172,423	323,169
Total income	13,131,533	11,685,068	266,752	251,131	183,634	171,993	-	-	757,367	737,161	14,339,287	12,845,352
Segment expenses	(10,096,716)	(9,487,862)	(94,183)	56,469	(51,974)	(50,465)	-	-	(174,230)	(95,177)	(10,417,103)	(9,577,034)
Inter-segment expenses	-	-	-	-	(26,955)	(23,830)	-	-	(145,468)	(299,339)	(172,423)	(323,169)
Segment results	3,034,817	2,197,206	(172,569)	307,600	104,705	97,698	-	-	437,669	342,645	3,749,761	2,945,149
Share of associate companies profit before taxation	(34,007)	27,857	138,346	(7,674)	-	-	421,479	152,219	-	-	525,818	172,403
Taxation											(1,307,084)	(851,818)
VAT on financial services											(847,168)	(557,545)
Profit after taxation											2,121,327	1,708,189
Other information												
Segment assets	91,767,895	78,380,782	624,973	1,157,265	1,257,438	1,242,625	-	-	3,869,002	1,106,682	97,519,309	81,887,349
Investment in associates	227,372	275,202	43,380	84,805	-	-	1,495,963	1,032,889	-	-	1,766,714	1,392,895
Consolidated total assets											99,286,023	83,280,244
Segment liabilities	84,275,797	69,883,073	-	-	55,717	23,105	-	-	71,185	143,646	84,402,700	70,049,823
Consolidated total liabilities											84,402,700	70,049,823
Segmental Cash flows												
Cash flows from operating activities	2,703,315	1,587,952	394,661	341,210	102,645	34,555	-	-	147,305	210,005	3,347,926	2,173,722
Cash flows from investing activities	5,730,723	(2,814,615)	233,222	(307,748)	(88,852)	(25,342)	-	-	(520,206)	96,242	5,354,887	(3,051,463)
Cash flows from financing activities	(6,323,106)	(936,790)	-	-	(13,793)	(9,214)	-	-	(5,764)	(40,811)	(6,342,663)	(986,815)

42. POST BALANCE SHEET EVENTS

There have been no events subsequent to the end of the reporting period that require disclosure.

43. RELATED PARTY DISCLOSURES

43.1 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 the 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.

43.1.1 Key management personnel of the Bank and their close family members had the following accounts/deposits/ facilities with NDB Bank as at 31 December.

	Balances as at end of year	
	2009 Rs.'000	2008 Rs.'000
Deposits	98,569	7,724
Loans and advances	24,609	23,868

43.1.2 Compensation includes directors fees, and emoluments.

Compensation paid by the bank for key management amounted to Rs 115.2 Mn during the year 2009. (Rs. 108.6 Mn in 2008).

43.1.3 Key management personnel have increased their shareholding by 346,300 shares. (2008 - Key Management Personnel have reduced their shareholding by 286,300 shares)

43.2 Transactions with Related Companies

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	
	2009 Rs.'000	2008 Rs.'000	2009 Rs.'000	2008 Rs.'000	2009 Rs.'000	2008 Rs.'000	2009 Rs.'000	2008 Rs.'000
Balance sheet								
Assets								
Loans and advances	24,507	3,679	14,093	3,413	46,293	111,672	78,983	83,795
Group company receivables	-	2,038	1,019	10,679	1,373	346	860	392
Liabilities								
Deposits placed	3,263,829	2,540,381	2,902,105	1,872,987	711,361	642,005	676,683	642,005
Other payables	4,761	790	2,776	483	-	-	-	-
Equity								
Investment in ordinary shares	2,748,586	2,617,913	2,683,467	2,037,298	452,460	468,935	460,698	468,935
Dividends paid	155,102	124,444	155,102	124,444	78,718	32,850	78,718	32,850

Notes to the Financial Statements

	Subsidiaries of the Group*		Associates of the Group*	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Income Statement				
Interest received / (paid) - net	(349,728)	(300,784)	94,137	97,905
Rent received	6,542	4,822	-	-
Rent paid	10,268	9,832	-	-
Management fees received	11,086	13,716	-	-
Bancassurance Income	-	-	18,922	10,801
Insurance paid	-	-	31,821	27,267

*Refer note 25 and note 26 for details of subsidiary and associate Companies.

43.2.1 NDB Bank had the under mentioned financial dealings during the year with the NDB Provident Fund.

	2009 Rs. '000	2008 Rs. '000
The excess funds with NDB Bank	31,453	57,038
Interest paid on excess Funds during the year	4,765	5,711
Contribution made by the Bank	73,126	64,344
Deposits placed	85,057	-

43.2.2 NDB Aviva Wealth Management Limited, a subsidiary of NDB Bank had the undermentioned financial dealing with NDB Provident Fund.

	2009 Rs. '000	2008 Rs. '000
Portfolio managed by NDB Aviva Wealth Management Limited on behalf of NDB Provident Fund	616,022	508,708

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 II). 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	
	2009 Rs.'000	2008 Rs.'000
Tier I : Core Capital		
Stated Capital	1,032,931	1,032,931
Statutory Reserve fund	818,554	818,554
Published retained profits	3,437,432	2,306,971
General & other reserves	5,805,707	5,805,707
Minority interests	-	-
	11,094,624	9,964,163
Deductions - Tier I		
Net deferred tax assets	23,305	-
50% Investments in unconsolidated banking & financial subsidiaries	1,260,218	1,194,882
50% Investments in capital of other banks & financial institutions	237,301	259,285
Total Tier I Capital	9,573,800	8,509,997
Tier II : Supplementary Capital		
General Provision	491,759	476,065
Approved Subordinated term debt	2,558,250	2,558,250
	3,050,009	3,034,315
Deductions - Tier II		
50% Investments in unconsolidated banking & financial subsidiaries	1,260,218	1,194,882
50% Investments in capital of other banks & financial institutions	237,301	259,285
	1,497,519	1,454,167
Eligible Tier II Capital	1,552,490	1,580,149
Capital Base	11,126,290	10,090,145

RISK WEIGHTED ASSETS AND OFF BALANCE SHEET EXPOSURE

	NDB BANK				
	Principal Amount of On-Balance Sheet Items		Risk weights	Risk weighted Asset Amount	
	2009 Rs. 000	2008 Rs. 000	%	2009 Rs. 000	2008 Rs. 000
Cash ,treasury bills & other securities with Central Bank	20,715,070	10,245,420	0%	-	-
Loans secured against Sri Lanka Government guarantees	12,902	77,410	0%	-	-
Loans against cash deposits & gold	4,758,803	6,743,121	0%	-	-
Loans guaranteed by foreign sovereign	33,332	100,000	0%	-	-
Loans guaranteed by OECD incorporated Banks	-	286,667	20%	-	57,333
Claims on Banks Exposures	7,570,970	5,386,078	20-100%	1,773,530	1,336,970
Claims on Financial Institutions	2,397,616	4,368,119	50-100%	1,521,871	2,698,383
Loans secured by Primary Mortgage	4,098,462	3,775,012	50-55%	2,049,231	1,887,506
Other Claims	41,836,624	39,582,090	20-150%	40,149,412	37,527,741
Property and equipment	692,571	758,315	100%	692,571	758,315
Other receivables	790,397	664,984	100%	790,397	664,984
Total Assets considered for credit risk	82,906,747	71,987,216		46,977,012	44,931,233

Capital Adequacy

OFF - BALANCE SHEET EXPOSURE

	Credit Conversion Factor, %	Principal Amount of off -Balance Sheet Items		Risk weights %	Risk weighted Asset Amount	
		2009	2008		2009	2008
		Rs. 000	Rs. 000		Rs. 000	Rs. 000
General guarantees of indebtedness	100	6,323,011	4,608,955	100	6,323,011	4,608,955
Stand by LCs relating to particular transactions	50	570,290	609,761	100	285,145	304,881
Performance Bonds, Bid Bonds	50	1,262,311	958,495	100	631,156	479,248
Trade Related Acceptances	20	3,125,732	1,852,851	100	625,146	370,570
Shipping guarantees	20	473,548	549,025	100	94,710	109,805
Documentary letter of credit	20	3,433,002	1,966,209	100	686,600	393,242
other commitments with an original maturity up to 1 year	20	1,764,019	786,912	100	352,804	157,382
Other commitments & contingencies	20 & 50	309	498,194	100	62	185,145
Undrawn term loans	20 & 50	333,923	675,857	100	166,962	337,929
FX contracts	2	321,128	1,110,437	100	6,423	22,209
Undrawn Overdrafts	-	3,105,030	1,944,029	100	-	-
Total off balance sheet exposure		20,712,304	15,560,725		9,172,019	6,969,365
Total risk weighted assets equivalent for Market Risk					2,039,351	1,512,171
Total risk weighted assets equivalent for Operational Risk					7,147,295	6,244,037
Total Risk Weighted Assets and Off Balance Sheet Exposure					65,335,677	59,656,806

Risk Weighted Capital Ratios

Tier I (Required statutory minimum ratio is 5%)	14.65	14.26
Tier I & Tier II (Required statutory minimum ratio is 10%)	17.03	16.91

NDB GROUP

Capital Base as at 31 December	2009 Rs.'000	2008 Rs.'000
Tier I : Core Capital		
Stated Capital	1,032,931	1,032,931
Statutory Reserve fund	818,554	818,554
Published retained profits	6,539,509	5,004,813
General & other reserves	5,805,707	5,805,707
Minority interests	686,622	568,417
	14,883,323	13,230,422
Deductions - Tier I		
Goodwill	4,330	-
Net deferred tax assets	24,741	-
50% investments in the capital of other banks and financial institutions	872,976	855,451
Total Tier I Capital	13,981,276	12,374,971
Tier II : Supplementary Capital		
General Provision	491,759	476,065
Approved Subordinated term debt	2,558,250	2,558,250
	3,050,009	3,034,315
Deductions - Tier II		
50% investments in the capital of other banks and financial institutions	872,976	855,451
Capital Base	16,158,309	14,553,835

RISK WEIGHTED ASSETS AND OFF BALANCE SHEET EXPOSURE

	NDB GROUP				
	Principal Amount of On-Balance Sheet Items		Risk weights	Risk weighted Asset Amount	
	2009 Rs. 000	2008 Rs. 000	%	2009 Rs. 000	2008 Rs. 000
Cash ,treasury bills & other securities with Central Bank	22,577,388	10,680,010	0%	-	-
Loans secured against Sri Lanka Government guarantee	12,902	77,410	0%	-	-
Loans against cash deposits & gold	4,758,803	6,743,121	0%	-	-
Loans guaranteed by foreign sovereign	33,332	100,000	0%	-	-
Loans guaranteed by OECD incorporated Banks	-	286,667	20%	-	57,333
Claims on Banks Exposures	7,819,955	5,489,627	20-100%	1,823,327	1,357,680
Claims on Financial Institutions	2,397,616	4,649,165	20-100%	1,521,871	2,883,679
Loans secured by Primary Mortgage	4,098,462	3,775,012	50-55%	2,049,231	1,887,506
Other Claims	41,928,215	39,544,258	20-150%	40,133,003	37,360,309
Property and equipment	736,981	780,625	100%	736,981	780,625
Other receivables	2,204,429	1,999,362	100%	2,204,429	1,999,362
Total Assets considered for credit risk	86,568,083	74,125,257		48,468,842	46,326,495

OFF - BALANCE SHEET EXPOSURE

	Credit Conversion Factor , %	Principal Amount of Off-Balance Sheet Items		Risk weights	Risk weighted Asset Amount	
		2009 Rs. 000	2008 Rs. 000	%	2009 Rs. 000	2008 Rs. 000
		General guarantees of indebtedness	100	6,323,011	4,608,955	100
Stand by LCs relating to particular transactions	50	570,290	609,761	100	285,145	304,881
Performance Bonds, Bid Bonds	50	1,262,311	958,495	100	631,156	479,248
Trade Related Acceptances	20	3,125,732	1,852,851	100	625,146	370,570
Shipping guarantees	20	473,548	549,025	100	94,710	109,805
Documentary letter of credit	20	3,433,002	1,966,209	100	686,600	393,242
other commitments with an original maturity up to 1 year	20	1,764,019	786,912	100	352,804	157,382
Other commitments & contingencies	20 - 50	309	498,194	100	62	185,145
Undrawn term loans	20 - 50	333,923	675,857	100	166,962	337,929
FX contracts	2	321,128	1,110,437	100	6,423	22,209
Undrawn Overdrafts	-	3,105,030	1,944,029	100	-	-
Total off balance sheet exposure		20,712,304	15,560,725		9,172,018	6,969,365

Total risk weighted assets equivalent for Market Risk **2,079,807** 1,512,171

Total risk weighted assets equivalent for Operational Risk **8,140,916** 7,639,671

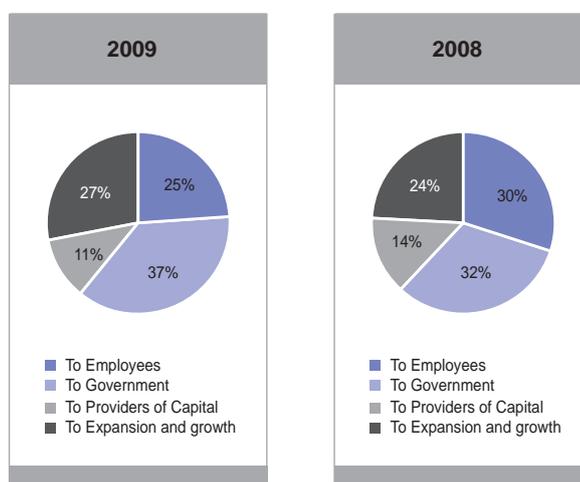
Total Risk Weighted Assets and Off Balance Sheet Exposure **67,861,584** 62,447,702

Risk Weighted Capital Ratios

Tier I (Required statutory minimum ratio is 5%)	20.60	19.82
Tier I & Tier II (Required statutory minimum ratio is 10%)	23.81	23.31

Statement of Value Added

	2009	%	2008	%
VALUE ADDED				
Gross Income	13,821,072		12,093,491	
Cost of Borrowings and Services	(8,558,258)		(8,337,839)	
Provision for losses	(373,495)		(124,450)	
	4,889,319		3,631,202	
DISTRIBUTION OF VALUE ADDED				
To Employees				
Remuneration and benefits	1,204,978	25	1,090,068	30
To Government				
Income tax	1,810,063	37	1,163,794	32
To Providers of Capital				
Dividend to shareholders	552,523	11	491,132	14
Retained in the Business				
Retained profit	1,129,930	23	703,630	19
Depreciation	191,825	4	182,578	5
	1,321,755	27	886,208	24
	4,889,319	100	3,631,202	100



Investor Information

1. Stock Exchange

The consolidated Income Statement for the year ended 31 December 2009 and the Balance Sheet of the Bank and the Group as at that date have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

2. Ordinary Shareholders as at 31 December 2009

Individuals

No. of Shares	No.	Resident			Non-Residents			Total		
		No.	Shares	%	No.	Shares	%	No.	Shares	%
0 - 500	4,566	835,878	1.02	43	8,951	0.01	4609	844,829	1.03	
501 - 1,000	972	727,924	0.89	17	13,503	0.02	989	741,427	0.91	
1,001 - 5,000	972	2,075,938	2.54	21	50,404	0.06	993	2,126,342	2.60	
5,001 - 10,000	144	991,043	1.21	8	55,377	0.07	152	1,046,420	1.28	
10,001 - 20,000	63	872,906	1.07	2	24,971	0.03	65	897,877	1.10	
20,001 - 30,000	19	485,057	0.59	-	-	-	19	485,057	0.59	
30,001 - 40,000	11	385,101	0.47	2	61,002	0.07	13	446,103	0.54	
40,001 - 50,000	6	259,648	0.32	1	43,400	0.05	7	303,048	0.37	
50,001 - 100,000	6	367,815	0.45	-	-	-	6	367,815	0.45	
100,001 - 1,000,000	7	1,424,567	1.74	-	-	-	7	1,424,567	1.74	
1,000,001 - Over	-	-	-	4	12,088,750	14.77	4	12,088,750	14.77	
SUB TOTAL	6,766	8,425,877	10.29	98	12,346,358	15.08	6,864	20,772,235	25.38	

Corporate

0 - 500	137	18,643	0.02	2	561	0.00	139	19,204	0.02
501 - 1,000	42	33,792	0.04	1	723	0.00	43	34,515	0.04
1,001 - 5,000	75	188,357	0.23	1	3,000	0.00	76	191,357	0.23
5,001 - 10,000	18	139,025	0.17	1	8,300	0.01	19	147,325	0.18
10,001 - 20,000	28	427,813	0.52	2	35,100	0.04	30	462,913	0.57
20,001 - 30,000	8	200,077	0.24	4	95,265	0.12	12	295,342	0.36
30,001 - 40,000	9	300,459	0.37	-	-	-	9	300,459	0.37
40,001 - 50,000	1	50,000	0.06	2	97,800	0.12	3	147,800	0.18
50,001 - 100,000	11	817,991	1.00	5	430,000	0.53	16	1,247,991	1.52
100,001 - 1,000,000	18	4,451,862	5.44	15	4,453,899	5.44	33	8,905,761	10.88
1,000,001 - Over	6	23,686,239	28.94	7	17,502,788	21.38	13	41,189,027	50.32
SUB TOTAL	353	30,314,258	37.03	40	22,627,436	27.64	393	52,941,694	64.67
TOTAL	7,119	38,740,135	47.32	138	34,973,794	42.72	7,257	73,713,929	90.05

Notes on unregistered/unallotted shares

Out of the 81,855,385 shares issued, 8,141,456 representing 9.95% are either not registered or not allotted, the details of which are given below :

- 7,854,250 bonus shares which were issued in 2006, remain unallotted.
- 28,500 shares of the capital are not registered in the books of NDB Bank and as such the holder is not a member of NDB Bank.
- 258,706 shares of the capital are not registered in the books of NDB Bank pending compliance with statutory requirements.

3. Share Valuation

The market value of the National Development Bank PLC ordinary shares on 30 December 2009 was Rs. 206/- per share. The highest and lowest values recorded during this 12 month period were Rs. 208/- on 21 December 2009 and Rs. 88/- on 7 January 2009 respectively.

Ten Year Summary

Group Income Statement

Rs. mn	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Income										
Interest Income	4,896.4	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
Interest Expenses	3,662.2	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
Net Interest Income	1,234.2	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
Other Income	615.8	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
Net Income	1,850.0	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
Less Operating Expenses										
Personnel Costs	289.0	382.1	412.7	588.0	916.3	1,131.5	830.0	949.3	1,151.1	1,299.8
Provision for Bad & Doubtful Debts and Fall in Value of Investments	547.9	526.8	476.8	787.0	278.6	153.5	13.4	65.1	115.7	373.5
Other Administrative & General Expenses	300.1	534.4	520.9	817.6	1,266.9	1,473.3	929.5	1,103.5	1,237.2	1,370.1
Total Operating Expenses	1,137.1	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
Less: Exceptional Items	-	-	-	-	-	171.8	-	-	-	-
Operating Profit	712.9	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
Share of Associate Co's Profit	124.8	72.4	113.7	113.2	31.3	21.7	214.5	179.4	172.4	525.8
Profit Before Taxation	837.7	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
Taxation	(281.9)	(226.2)	(251.0)	(305.2)	(481.1)	(593.0)	(1,220.4)	(1,421.4)	(1,409.4)	(2,154.3)
Profit After Taxation	555.8	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
Minority Interest	(6.7)	40.1	(112.3)	(98.0)	(102.4)	(236.6)	(176.4)	(115.4)	(103.4)	(36.6)
Profit Attributable to Group	549.1	598.7	930.6	1,123.1	703.0	1,036.0	2,030.5	1,521.4	1,604.8	2,084.8
Earnings per share	10.2	11.1	17.3	20.9	13.1	22.4	24.8	18.6	19.6	25.5
Dividends (Rs. mn) - Proposed/paid	241.9	456.9	295.6	309.1	309.1	322.5	327.4	409.3	491.1	552.5
Dividends per share - Proposed/paid	4.50	8.50	5.50	5.75	5.75	6.00	4.00	5.00	6.00	6.75
Dividend cover	2.3	1.3	3.1	3.6	2.3	3.2	6.2	3.7	3.3	3.8

Ten Year Summary

Group Balance Sheet

Rs. mn	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Assets										
Cash & Short Term funds	1,305.8	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
Balances with Central Bank	-	-	-	-	-	818.7	1,575.3	1,692.2	1,632.9	2,402.2
Investments	4,093.3	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
Bills of Exchange			-	-	943.4	970.8	1,591.9	2,121.5	2,247.3	2,539.4
Loans & Advances	29,514.7	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
Lease Rentals & Receivables	4,253.4	3,504.3	2,884.7	573.3	609.4	731.3	1,449.1	1,820.0	1,910.4	1,863.4
Investments in Associate Companies	410.2	454.0	798.6	413.1	225.1	241.2	1,179.0	1,209.9	1,392.9	1,723.8
Property & Equipment	1,646.1	1,747.1	1,667.8	1,166.5	1,658.0	1,162.0	691.5	804.4	780.6	737.0
Investment Property	-	-	-	-	-	1,040.9	1,200.0	1,200.0	1,200.0	1,200.0
Other Assets	965.6	1,815.7	889.0	1,865.4	2,445.6	3,006.3	1,276.2	660.8	925.4	1,143.2
Intangible Assets	(53.4)	(43.6)	2.9	904.9	1,535.1	872.7	-	-	-	4.3
Total Assets	42,135.8	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
LIABILITIES										
Borrowings	33,129.7	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
Deposits with customers			-	-	11,085.1	13,953.7	21,161.1	25,623.7	31,091.4	49,947.6
Non life insurance reserves	-	-	-	420.8	485.8	858.8	-	-	-	-
Longterm Insurance Fund			-	6,612.8	7,985.4	9,238.2	-	-	-	-
Taxation	480.2	401.0	550.1	350.8	300.1	220.4	640.4	521.6	351.7	560.1
Other Liabilities	1,807.1	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
Dividend Payable	244.1	245.8	300.2	4.6	7.5	8.0	107.9	170.1	249.9	344.2
Total Liabilities	35,661.1	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
SHAREHOLDERS' FUNDS										
Stated Capital	629.2	629.2	629.2	629.2	629.2	760.1	1,032.9	1,032.9	1,032.9	1,032.9
Statutory Reserves	537.5	537.5	537.5	537.5	546.5	545.7	818.6	818.6	818.6	818.6
Revaluation Reserve	-	131.7	131.7	-	86.2	-	-	-	-	-
Revenue Reserves	4,654.3	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
Total Shareholders' Funds	5,821.0	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
Minority Interest	653.7	1,016.0	1,052.6	741.9	1,093.2	1,214.9	1,314.2	1,414.8	568.4	686.6
Total Funds Employed	6,474.7	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
Total Liabilities & Funds Employed	42,135.8	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
Return on average assets (%)	1.4	1.3	2.5	3.2	1.6	2.0	3.1	2.2	2.0	2.3
Return on equity (%)	9.7	10.0	14.4	15.3	8.6	14.3	21.0	13.7	13.2	15.5
Return on equity (%) (exclu. Exceptional items)	9.7	10.0	14.4	15.3	8.6	14.3	10.5	13.7	13.2	15.5
Book value per share	108.30	114.20	126.94	146.92	155.84	159.60	129.09	142.75	154.69	173.44
Book value per share (exclu. Exceptional items)	108.30	114.20	126.94	146.92	155.84	159.60	116.68	142.75	154.69	173.44

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: 2437701, 2437350, 2523966
Fax: 2341044, 2440262
Telex: 21399 NDB CE

Board of Directors

P M Nagahawatte
H D S Amarasuriya
G C B Wijeyesinghe
Lal De Mel
A R Gunasekara
R W A Vokes
Dr S Yaddhegige
N S Welikala (Appointed w.e.f. 25.01.2010)
T L F Jayasekara (Appointed w.e.f. 10.02.2010)
E Wickramaratne
S T Nagendra (Resigned w.e.f. 15.12.2009)
R B Thambiayah (Resigned w.e.f. 21.01.2010)
S R De Silva (Resigned w.e.f. 27.07.2009)

Integrated Risk Management Committee

Mr Lal de Mel (Chairman)
Mr A R Gunasekera
N S Welikala (Appointed w.e.f. 25.01.2010)
T L F W Jayasekara (Appointed w.e.f. 10.02.2010)
Mr R B Thambiayah (Resigned w.e.f. 21.01.2010)
S R De Silva (Resigned w.e.f. 27.07.2009)
S T Nagendra (Resigned w.e.f. 15.12.2009)

Audit Committee

Mr G C B Wijeyesinghe
Mr A R Gunasekara (Chairman)
Mr Lal de Mel
Mr R Vokes
T L F Jayasekara (Appointed w.e.f. 10.02.2010)
Mr S T Nagendra (Resigned w.e.f. 15.12.2009)

Strategic Issues Committee

Mr P M Nagahawatte (Chairman)
Mr G C B Wijeyesinghe
Mr A R Gunasekara
Mr R Vokes
H D S Amarasuriya
N S Welikala (Appointed w.e.f. 25.01.2010)
Mr S T Nagendra (Resigned w.e.f. 15.12.2009)

Remuneration & Human Resources Committee

Mr H D S Amarasuriya (Chairman)
Mr G C B Wijeyesinghe
Mr R Vokes
T L F W Jayasekara (Appointed w.e.f. 10.02.2010)
S R De Silva (Resigned w.e.f. 27.07.2009)
Mr R B Thambiayah (Resigned w.e.f. 21.01.2010)

Nominations Committee

Mr P M Nagahawatte (Chairman)
Mr H D S Amarasuriya
Mr Lal de Mel
Mr A R Gunasekara
T L F Jayasekara (Appointed w.e.f. 10.02.2010)
S R De Silva (Resigned w.e.f. 27.07.2009)

Corporate Governance & Legal Affairs Committee

Mr Lal de Mel (Chairman)
Mr P M Nagahawatte
Mr R Vokes
Mr A R Gunasekara
N S Welikala (Appointed w.e.f. 25.01.2010)
Mr S R de Silva (Resigned w.e.f. 27.07.2009)

Subsidiary Companies as at 31.12.2009

Capital Development & Investment Co. Ltd
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 Company Ltd

Associate Companies as at 31.12.2009

Ayojana Fund (Pvt) Ltd
Maldives Finance Leasing Co. Pvt. Ltd
NDB Venture Investments (Pvt) Ltd
NDB Finance Lanka (Pvt) Ltd

Stock Exchange Listing

The shares of the Bank are listed with the Colombo Stock Exchange

Company Secretary

C L Jayawardena
Attorney at Law

Auditors

Ernst & Young
201 De Saram Place, Colombo 10

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. The present stated capital of the Bank is Rs. 1,032,931,000/- and the number of shares issued are 81,855,385. 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.

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