

A world-class Sri Lankan

At home in the universe



12 million light-years from Earth, Messier 81, also known as Bode's Galaxy, shows the classic form of the spiral galaxy, common throughout the universe. On a human scale, this year's NDB Bank Annual Report describes a bank with a similarly universal approach to business, providing a full range of financial products and services.

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.

"AA (Ika) Fitch Rating"

Registered Name: National Development Bank PLC

Trade Name:  **NDB bank**

Company Registration No : PQ 27

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Executive Summary



The view from the top

Blue auroras flare and crackle at the north and south poles of Jupiter, hinting at the vast energies permeating its atmosphere - a potency fully befitting the planet acknowledged by astronomers as the giant of the solar system.

	NDB BANK			NDB GROUP		
	2008	2007	Per Cent Change	2008	2007	Per Cent Change
(Rs mn)						
Total Income	12,093	9,527	26.93	12,522	10,072	24.33
Net Interest Income	3,155	3,022	4.41	3,787	3,522	7.52
Net Other Income	1,571	1,295	21.31	1,662	1,473	12.83
Net Income	4,726	4,317	9.48	5,449	4,995	9.08
Profit Before Tax	2,359	2,342	0.70	3,118	3,058	1.96
Profit After Tax	1,195	1,104	8.24	1,708	1,637	4.34
Profit Attributable to						
Equity Shareholders	1,195	1,104	8.24	1,605	1,521	5.52
Shareholders' Funds	9,964	9,252	7.70	12,662	11,685	8.36
Deposits from Customers	31,914	25,624	24.55	31,091	25,624	21.34
Borrowings	26,102	26,402	(1.14)	24,432	25,304	(3.45)
Total Assets	82,340	73,212	12.47	83,280	76,143	9.37
Loans and Advances	56,515	51,799	9.11	56,534	51,820	9.10
Non-Performing Loans	1,275	1,183	7.72	1,276	1,183	7.86
Gross Dividend Paid	491	409	20.05	491	409	20.05
(%)						
Return on Average Equity	12.44	12.40	0.32	13.18	13.67	(3.58)
Return on Average Assets	1.54	1.62	(4.94)	2.01	2.16	(6.94)
Non-Performing Loans Ratio	2.29	2.29	-	2.28	2.29	0.44
Cost to Income Ratio	47.46	44.13	7.54	43.83	41.06	6.74
Effective Overall Tax Rate	49.34	52.88	(6.68)	45.21	46.48	(2.73)
Capital Adequacy						
Tier 1 (minimum ratio of 5%)	14.42	16.79	(14.11)	19.95	23.17	(13.90)
Tier 1 & 2 (minimum ratio of 10%)	17.29	19.46	(11.15)	23.63	26.15	(9.64)
Liquidity Ratio						
DBU (minimum ratio of 20%)	24.11	22.28	8.21	-	-	-
FCBU (minimum ratio of 20%)	21.53	28.84	(25.35)	-	-	-
(Rs)						
Earnings	14.60	13.48	8.31	19.61	18.59	5.48
Book Value	121.73	113.03	7.70	154.69	142.75	8.36
Dividends	6.00	5.00	20.00	6.00	5.00	20.00
Market Value (31 December)	86.00	170.00	(49.41)	86.00	170.00	(49.41)
(Times)						
Debt/Equity	6.88	6.58	4.56	5.22	5.12	1.95
Total Leverage	7.26	6.91	5.07	5.53	5.40	2.41
Interest Cover	1.43	1.58	(9.49)	1.54	1.69	(8.87)

Chairman's Message



Today, the NDB Group offers a full compendium of banking and financial services, including market driven and consumer-oriented retail banking, investment banking, corporate and commercial banking, leasing, project finance, development banking, and even insurance. Thus the NDB is truly a universal Bank in terms of its product range

The Economic Environment

The year 2008 was one of crisis for global banks. Massive sub-prime mortgage lending in the US indulged in by over-leveraged banks, was the proximate cause. The consequences were distributed around the world by large global investment banks, resulting in the destruction of the capital of financial institutions estimated at US\$ 1 trillion. Lending virtually stopped, as confidence in the banking system

was lost. Although, Governments globally acted in concert to prevent systemic collapse, the cost in terms of a painful global economic recession is now being paid.

The Sri Lankan economy once more demonstrated its resilience, with GDP growth for 2008 estimated at over 6%. The hope for the future is that military victories will translate into lasting peace and a new level of economic prosperity

for the nation. However, there is little doubt that the road ahead will not be easy. Sri Lanka is strongly co-related to the global economy through a high level of international trade, services and remittances. All these are likely to suffer in a recession. Domestic demand is also slowing as a result, and also because of high inflation, interest rates and a perceived overvalued exchange rate. The capacity of the Government to stimulate demand is limited by structural, fiscal

and external deficits. Financing of these deficits from international capital markets will also be much more problematic in adverse market conditions.

The Banking Industry in Sri Lanka

The growth of lending and deposit mobilization activities of the banking industry slowed considerably in 2008, compared with previous years and with nominal GDP growth. Since banks play an important role in fuelling economic activity, a fall in Balance Sheet growth of a comparatively large magnitude, is a cause for concern. This slowdown is due partly to the more adverse economic environment, which affected customer demand, and partly to the structural issues facing banks, as set out below.

Banks worldwide are increasing their capital to support loan growth and to provide a cushion of equity to absorb unforeseen losses with increased capital. However, most banks in Sri Lanka are operating at the limits of statutory capital requirements and do not have the capacity to increase loans, without a commensurate increase mainly in equity capital. The sources of new equity are twofold, namely from share issues in the domestic or global capital markets or from retained profits. It is well known that investor appetite for providing new equity for banks is now extremely limited, especially, where returns are below the risk-free rate. The low returns of banks in Sri Lanka also limit the availability of profit retention as a source of needed new capital. Returns are low for two broad reasons, namely the high level of overheads, and an effective tax rate of around 60% on banking profits.

The trend of rising non-performing loans in an economic downturn will put further pressure on profits. Overheads are high because of the lack of scale. It is an unaffordable extravagance in economic terms for 23 commercial banks to build individual fixed cost bases relating to branches, ATM technology, brand building, risk management and the like, in a small economy. Industry consolidation needs to happen if these costs are to be reduced. It is hoped that the Central Bank and the commercial banks will work together in 2009 to facilitate consolidation in the industry. Further, with the high Financial Services VAT applicable to banks, the effective tax rate on banking profits has been raised to a level, which makes it difficult to attract equity capital, which is needed to absorb unexpected losses, ensure systemic stability and underpin loan growth. Therefore it is suggested that the relevant authorities review the imposition of the Financial Services VAT which virtually results in the banks being taxed twice.

These are important structural policy issues which regulators, the Government and the banks themselves need to address without delay, if banks are to have the capacity to weather economic storms and to support growth of their customers, when the economic cycle reverses.

The National Development Bank Group

The earlier National Development Bank of Sri Lanka recognized in a timely manner, the limitations of the development banking model which had served it well in the decade or

so since its inception. Accordingly, it strategically established a new Bank, namely the National Development Bank PLC (NDB) as a commercial bank with a new corporate personality to meet the objectives of building sustainable growth based on diversification of funding sources, risks and product range. The complex restructuring of NDB in recent years has created four integrated businesses of corporate and SME banking, retail banking, capital markets and insurance, which are uniquely positioned to achieve those objectives. Each of these sectors, which combine the traditional project finance skills with new products and services to meet the changing demands of customers, is being built on well-designed and solid foundations. Today, the NDB Group offers a full compendium of banking and financial services, including market-driven and consumer-oriented retail banking, investment banking, corporate and commercial banking, leasing, project finance, development banking, and even insurance. Thus the NDB is truly a universal Bank in terms of its product range.

The performance of NDB in 2008 is reviewed in detail elsewhere in this report. In summary, much progress has been made in a year of difficult economic and competitive circumstances. NDB continued to focus on the fundamentals, namely building a high quality business franchise over the long term, ensuring that highest standards of solvency and liquidity are maintained, that costs are well contained and that an appropriate balance is struck between meeting

short-term profit expectations and investment for long-term benefit. Therefore, despite the very challenging environment that prevailed in 2008, the NDB has remained to be a strong, stable and profitable Bank.

The strength of NDB is demonstrated in particular by performance indicators such as its capital adequacy ratio (Tier 1 and 2 of 17.29% for the Bank and 23.63% for the Group, which compares well with the statutory minimum of 10%), a non-performing loan ratio of 2.3%, where the industry average is nearly 7% and a cost to income ratio of 47%, all of which are among the best in the industry. These strengths, combined with the advantages of a Board of Directors with commitment and diverse competencies, a highly-professional and efficient team of management and employees, and a clear strategy, enable NDB to face the future with confidence.

I wish to take this opportunity to express my gratitude to the Bank's Directors for their dedication, co-operation and guidance. I am also thankful to the management and the employees led by the Chief Executive Officer without whose commitment; skills and expertise the Bank would not have been able to achieve the results it did in 2008. We are grateful to the shareholders of the Bank who have always been a source of inspiration to the Board of Directors and the staff, and we expect their guidance in the discharge of our duties and responsibilities in the future too.



Manik Nagahawatte
Chairman

18 February 2009

Chief Executive's Review



The NDB which began as a Development Financial Institution (DFI) in 1979 commenced its journey to become a Universal Bank about a decade ago

I assumed responsibility as CEO in April 2008. I inherited a bank with a healthy balance sheet, which was largely the legacy of Nihal Welikala and S K Wickramasinghe who as CEO and Chairman had guided NDB Bank during the past few years.

However, as it turned out, 2008 was the beginning of a global economic recession and a financial meltdown not experienced since the 1930s. The demand for the country's major exports had declined, energy costs were at an all-time high and GDP growth slowed down. Many companies were experiencing severe cash flow constraints and financial

institutions had rapidly increasing non-performing loans (NPLs) and a shortage of liquidity. The financial crisis is expected to deepen in 2009 as there are no signs of global economic recovery.

Against this backdrop I am pleased to report that your Bank had its Profit After Tax (PAT) increased to Rs 1.2 bn from Rs 1.1 bn in 2007. We have maintained a steady Return on Equity (ROE) at 12.44%, one of the lowest Cost Income Ratios at 47% and the lowest NPL ratio of 2.29%, in an industry which averages a NPL ratio near 7%. In the period under review NDB Bank has also strengthened its liquidity position helped by customer deposits increasing by 25% over 2007 and by obtaining additional credit lines from multi-lateral agencies, thereby reducing the dependency on the inter-bank markets. The Central Bank's pragmatic decision to reduce the statutory reserve ratio and pump

additional liquidity into the market was commendable. NDB Bank remains the most well-capitalized Bank among local banks with Tier 1 and Tier 2 Capital Adequacy Ratios (CAR) of 14.42% and 17.29% respectively. The strong Balance Sheet and liquidity enables NDB Bank to weather the vagaries of a declining economy and financial markets. NDB Group's Profit After Tax also increased from Rs 1.64 bn to Rs 1.71 bn from 2007 to 2008, with Group PAT excluding exceptional equity capital gains recording a 19% growth.

NDB Bank which began as a Development Financial Institution (DFI) in 1979 commenced its journey to become a Universal Bank about a decade ago. In 2001, 100% of its lending was in medium and long-term projects. By end 2008, it had diversified its lending to comprise Commercial Banking of 47%, Project Finance of 30% and Retail Banking of

21.%. NDB Bank was funded almost entirely from government and multilateral sources in 2001. Today, customer deposits account for more than 47% of total funding. In 2008 Commercial Banking revenues have increased to Rs 1.5 bn from Rs 1.1 bn in 2007, contributing 32% of total revenues. Project Finance revenue was Rs 0.6 bn as against revenue of Rs 0.7 bn in 2007, contributing 13% of total revenues. The reorganized Emerging Corporates (also known as the Small and Medium Enterprises) business contributed 6% of the Commercial Banking revenues and 17% of Project Finance revenues. NDB Bank's investments over the past few years in Retail Banking now results in 21% of the total revenue of NDB Bank. Investments in distribution were curtailed in 2008 while investments in brand building continued, which resulted in an appreciable rise in brand awareness. A fuller analysis of the operations of NDB Bank is found elsewhere in the Annual Report.

In addition to its core Commercial Banking business NDB Group has continued to occupy the pre-eminent position in Investment Banking through its subsidiary NDB Investment Bank Ltd. While opportunities in the local market were scarce, we focused on giving birth to NDB Capital Limited (Bangladesh). We believe that the opportunities in Bangladesh when complemented by our expertise in Investment Banking will bear fruit over the years to come. Our capital market offering is enhanced by our stock broking operation in NDB Stockbrokers (Pvt) Ltd. We intend to add fund management capabilities to the offering in 2009. With NDB increasing its stake in Capital Development and Investment Company PLC (CDIC) during the year under review, CIDC is now well positioned as an effective vehicle for NDB's plans for local and regional growth. Our partnership with Aviva in

Eagle Insurance Company PLC gave us lower than expected returns in the year under review. However, we will continue to invest along with our partner as and when opportunities present themselves in the insurance market. We have achieved commendable internal rates of return on our investment over the past decade. Our strategy to become a retail brand is strengthened by our foray into insurance.

The centralization of processes and operations has contributed to efficient and cost-effective delivery of services. We look forward to further centralization of all support functions of NDB Group such as Operations, Legal, IT and HR services, further reducing cost and enhancing efficiency.

For most part of the year retention of talent was a key challenge, as professionals migrated both to the Middle East for employment and for permanent residency to other destinations. NDB Bank has reaffirmed its commitment to building superior quality human resources by undiminished investments in training, despite the cut in costs in other areas. Product innovation and world-class quality is a result of world-class human resources. I am proud to lead a team of committed professionals continuously striving to achieve high standards. A winning culture has been shaped with a heavy emphasis and Board level leadership on good Corporate Governance practices.

NDB Bank has focused its Corporate Social Responsibilities by defining its strategic CSR themes to be education and entrepreneurship. NDB Bank has enthusiastically embarked on many new initiatives which are detailed elsewhere in the Annual Report.

NDB Bank's transformation from a DFI into a Universal Bank is well underway.

In the early years the investments made in products, businesses, distribution and brand were funded largely by capital gains in investments. Those windfall gains have now reduced. The rising cost of funds due to repayment of low cost credit lines, the additional costs of maintaining statutory liquidity ratios on multilateral lending and the high marginal cost of deposits, reduces profitability. Declining margins coupled with probably the highest taxes on banks anywhere in the world result in a less than attractive return on equity. The challenge in the short term would be to reduce the overall costs while maintaining products, services and quality. In the long run the structural issues of the banking industry could be addressed only by building scale. Consolidation of the industry is desirable and inevitable. A few stronger, well-capitalized, low cost banks will emerge. It is my belief that NDB Bank is positioned to be amongst the surviving few particularly because of its proven ability to re-invent itself as has been observed over the past decade. A post-conflict Sri Lanka will require stronger banks to profit from opportunities and distribute the ensuing peace dividend. NDB Bank is well positioned in terms of its strategy, businesses and people to embrace the future.

In conclusion, I would like to thank the Chairman and the Board of Directors for their advice and guidance, the management and staff for their professionalism and commitment which makes us a World-Class Sri Lankan bank.

Thank You.



Eran Wickramaratne
Chief Executive Officer

18 February 2009



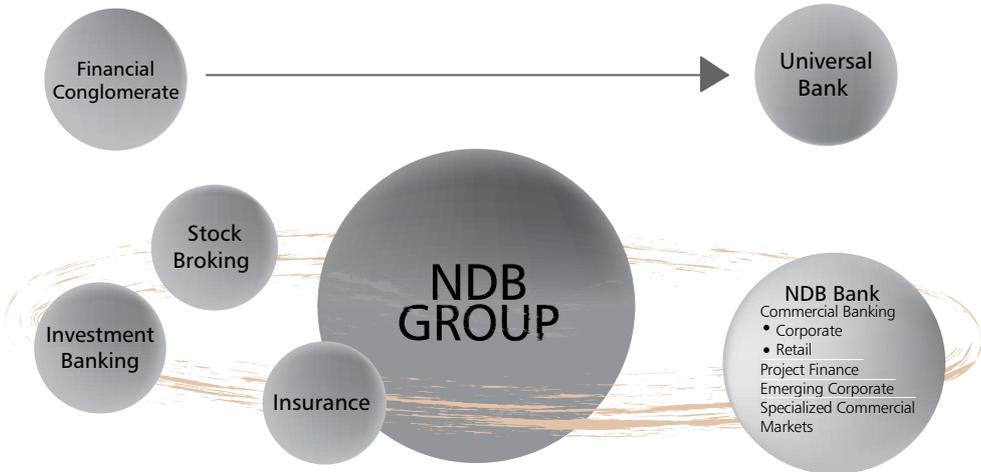
Management Discussion & Analysis



Insight into complexity

In this photograph of the distant Carina Nebula, stars are birthed and destroyed in titanic struggles between gravitational, electromagnetic and thermonuclear forces. The image offers an appropriate metaphor for the complexity of market forces, risk assessment and business imperatives that a universal bank must manage and exploit.

Universal Bank - NDB Group



Corporate Banking Group

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

- Commercial Banking
- Project Finance
- Specialized Commercial Markets
- Emerging Corporates

Commercial Banking

The Commercial Banking division at NDB Bank remains the youngest player in the commercial banking market, having acquired the business of ABN Amro Colombo in 2001. Now in its eighth year of operations, the division makes a considerable contribution to NDB Bank’s overall performance.

The Commercial Banking division continues to provide a variety of financial products to its base of large and medium-sized corporate clients. These products include working-capital facilities, securitization, commercial paper, cash management and transaction banking.

In 2008, it became clear that both the country, and in particular its banking sector, were heading for turbulent waters; the worrisome consequences of the global financial meltdown being compounded in the Sri Lankan economy by very high inflation and the depreciation in the value of the rupee.

Thus, NDB Bank is faced with the challenge of severe competition in an uncertain economic and political environment. In response, the Corporate

Banking division continues to focus on maintaining its corporate relationships and managing the consequences of turbulent change in the external environment. In these difficult times, there is greater focus on core values of NDB Bank: integrity, care, passion, service and teamwork.

Electronic Banking

Over 60% of NDB Bank customers now use our electronic-banking system to transact their business with us. Product features and facilities are continually being added to improve accessibility and convenience.

The popular and successful use of electronic-banking technology has successfully differentiated NDB Bank from the rest in the field even as it drives transaction volume and augments fee income of NDB Bank.

Portfolio

In spite of the adverse economic climate and aggressive competition, satisfactory progress was made over the last financial year. The Commercial Banking division showed an overall growth of 21% in total exposure. The commercial-services sector accounted for the largest share of portfolio: 42% of total exposure. This sector comprises printing and packaging, transportation and shipping, information technology, financial services, energy and construction. Its diversity mitigates the high sectoral concentration.

Another significant sector is textiles and garments, which accounts for 10% of exposure. The sector was faced with a number of challenges in 2008, including price pressure from buyers, rising production costs and uncertainty regarding its continued GSP+ status. Thus, NDB Bank remains vigilant with respect to changing trends of the industry.

The tea portfolio accounts for 9% of total exposure and includes most of the country's largest tea exporters. Sri Lanka's tea industry, the world's third largest, has been faced with a number of adverse developments including strikes and the effects of the recent drought, followed most recently by a decline in world tea prices. NDB Bank is closely monitoring changes in the industry and maintains close relationships with tea exporters, providing them with financial and advisory support as required.

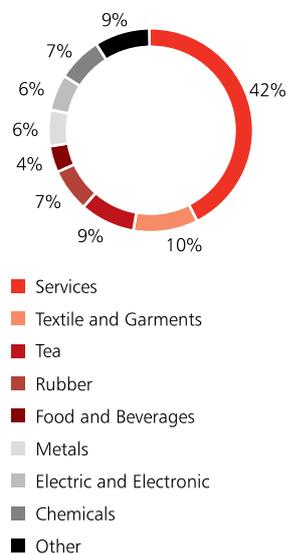
Chemical and rubber-based industries each account for 7% of exposure. The former, which includes the providers of fertilizers, pharmaceuticals and other chemical products, saw a growth of 27%. The rubber sector covers the plantation industry, which grows and harvests latex, the rubber-products

manufacturing industry and various rubber-wood-based industries. Exposure to the rubber sector grew by 10% over the last year.

Metals, electric and electronic sectors contributed to 6% each of NDB Bank's exposure followed by food and beverages sector contributing 4% to total exposure. Both have shown satisfactory growth trends over the years.

Other significant sectors for the Commercial Banking division are agriculture, leather, plantations, wood, paper- and plastics-based products, gems and jewellery.

Total Exposure of the Commercial Banking Division by Client Sector



Project Finance

Economic and Social infrastructure development is essential for creating new avenues for investment, improving accessibility across regions and opening new markets, which in turn will generate new employment opportunities and support sustainable economic growth. The strategy adopted by Sri Lanka for

economic and social infrastructure development throughout its post-independence history has been for the public sector to provide basic essential services, through direct budgetary allocation or foreign donor support. However, widening budget deficits and increasing Government debt have encouraged direct private-sector participation in financing infrastructure projects, which is a popular method in most developing and emerging economies. In this context, the Project Finance Division at NDB Bank inevitably plays a pivotal role in economic and social development.

Project Finance continued to be one of the core business activities of NDB Bank in the year under review. The division specializes in offering project loans tailored to suit corporate clients by considering their unique needs and business cycles. Leveraging its industry knowledge and financial expertise, the Project Finance division can structure long-term loans to finance any type of project. Most advantageously, it can bring to bear the resources of the entire Group in order to structure the most appropriate package of financial services for a client. NDB Investment Bank Ltd., the NDB Group's investment-banking subsidiary, has structured several securitizations for industries ranging from plantations to leasing and finance. The Project Finance division reaped many of the benefits of such synergy in 2008.

Economic uncertainty, heightened security concerns, worldwide financial turmoil and fluctuating international commodity prices created a less conducive environment for long-term lending in 2008. Thus it was a challenging year for Project Finance, and for NDB Bank.

Portfolio

NDB Bank followed a strategy of selective growth under these turbulent global and domestic economic conditions, and recorded a moderate portfolio growth during the year. The strategy of consolidating the portfolio in terms of quality, adopted in the recent past was maintained. This was evident in the portfolio with a higher rating, increasing both in percentage and absolute terms. NDB Bank extended significant financial assistance to the financial services and plantation sectors in 2008, with facility approvals totalling approximately Rs 3.2 bn. Lending to these sectors were through debt instruments and long-term loans at concessionary rates.

NDB Bank also extended financial assistance to regional plantation companies under the Asian Development Bank's credit line for the plantation sector, known as the Plantation Development Project. NDB Bank has provided much-needed financing for the development of these national assets, which are significant in terms of earning foreign exchange to the country and as sources of employment.

Environmental and Social Management

NDB Bank believes that environmental and social factors are key elements in project evaluation. Accordingly, NDB Bank's policy is to incorporate these factors formally in the credit evaluation process. 2008 was a significant year in this regard; NDB Bank's Environmental and Social Management System was successfully implemented on 5 June, World Environment Day. The system 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.

Strength of Core Competencies

The Project Finance division is the successor to the original National Development Bank of Sri Lanka set up in 1979. It thus possesses a comprehensive array of project financing skills and expertise, developed and refined over 29 years. NDB Bank places great emphasis on the retention and augmentation of these core competencies.

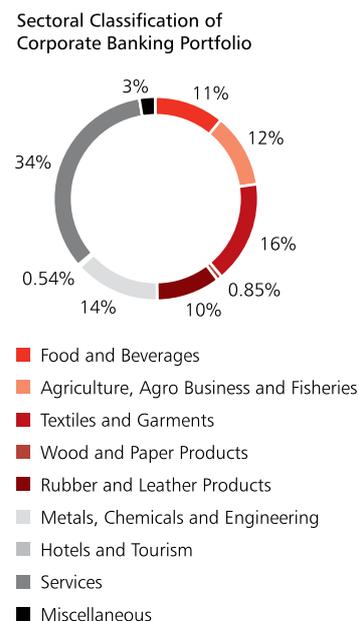
Project Finance division is supported by dedicated, highly motivated and multidisciplinary professionals who command a wide range of expertise and experience. NDB Bank has been successful in combining this project-finance expertise with investment banking and specialized legal skills to structure a number of landmark transactions (deals) in the country. Leveraging these competencies, NDB Bank is presently involved in evaluating greenfield infrastructure projects in the national energy sector.

Performance by Sector

The corporate banking portfolio at the end of the review period amounted to Rs 40.4 bn. The portfolio has been maintained despite the interest rate hikes, inflation and other local economic challenges as well as global recession/financial crisis. Due to these factors our focus for the year under review was asset quality.

The corporate banking portfolio remains well diversified, avoiding excessive exposure to any particular sector.

The accompanying chart presents a breakdown of portfolio by sector:



The services sector accounted for the largest share of the portfolio of 34% during the period under review with financial services sub-sector accounting for 33% of services sector portfolio.

NDB Bank participated in several securitizations structured by its subsidiary, NDB Investment Bank. The balance 67% is represented by telecommunications, energy, transport, shipping, printing, healthcare, construction and warehousing. NDB Bank funded three telecommunications projects aggregating to Rs 420 mn during the period under review.

Textiles and garments sector portfolio at Rs 6,529 mn amounted to 16% of the corporate banking portfolio and posted a growth of 22%. Growth was largely on account of NDB Bank extending trade



Scarcely denser than vacuum itself, gas-clouds light-years in extent are the nurseries of new stars, providing the raw elements from which they are formed. Through its development-banking activities, NDB Bank, too, is involved in the nurture of new 'stars' - small and medium entrepreneurs who hope to be the business leaders of tomorrow.

finance facilities. Growth momentum of this sector will be impacted by any negative changes to the GSP + scheme and the global economic slow down.

Metals, chemicals and engineering sector accounted for 14% of the corporate banking portfolio with a growth of 13%. Growth was largely on account of enhanced long-term and trade facilities to the chemical sector. Demand for steel, cement, paint, tiles will depend on the construction industry, which in turn depends on the economic environment in the country, Government policy, foreign aid and interest rates etc. The glut of apartments in the country will invariably dampen growth prospects for the metal industry.

Agriculture, agribusiness and fisheries sector portfolio expanded significantly 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 sub-sector, which recorded a growth of 35%. Recession in the Tea buying countries (CIS, UK etc.) and instability in the Middle East will have an adverse impact on this sector.

The food, beverage and tobacco sector accounted for 11% of the portfolio. This portfolio increased by 4% during the period under review with the extension of trade facilities. This sector is expected to provide good business prospects especially for the provision of working capital finance.

Specialized Commercial Markets

The Specialized Commercial Markets (SCM) unit continued to expand and consolidate its business activities in 2008. The unit portfolio increased from Rs 2,956 mn in December 2007 to Rs 3,517 mn in December 2008. The textile and garments sector continued to be the most significant contributor.

During the year, several new structured, cash-flow-based products were added to the portfolio. They were made available

to clients in the Commercial Banking and Emerging Corporates sectors. These products aim to improve and strengthen the supply and distribution channels of corporate and emerging-corporate clients. The portfolio of these new products stood at Rs 186 mn at the end of December 2008.

The unit will focus on consolidating its market position in 2009 while managing growth in line with NDB Bank's overall strategy.

Emerging Corporates

NDB Bank pioneered project lending to the SME sector; it has supported over 35,000 ventures and created more than 500,000 employment opportunities. With the restructuring of SME operations in 2007, NDB Bank is now better equipped to handle the particular needs of the sector, focusing more closely on customers' needs and cash-flow issues. SME-sector products consist of medium- to long-term project-financing facilities, cash-flow-based structured financing products, commercial banking and trade finance products.

NDB Bank maintained its position as Sri Lanka's premier financial institution serving SMEs in 2008, continuing to introduce innovative financial products. The focus was mainly on financing the short-term working capital requirements of enterprises. Structured facilities were offered to the tea industry, importers, distributors, dealers, exporters and several other growth sectors of the economy. Long-term financing concentrated on credit lines at concessionary rates (SMERDB and Smile II revolving).

Refinance Operations

NDB Bank continued to extend concessionary funding through other financial institutions and its own banking network by playing the role of an apex organization to support the much needed capital of the micro, small and medium enterprises in the country. NDB Bank also participated in refinancing schemes operated by the Central Bank of Sri Lanka and other lending agencies. The resources for the apex operations were mobilized from multi-lateral and bi-lateral international organizations such as Asian Development Bank (ADB), Japan Bank for International Corporation (JBIC) and the German Development Corporation (KfW) with the initiation and active support received from the Government of Sri Lanka.

During the year under review, the Bank operated 6 such refinance schemes the salient features of which are given below:

a. The revolving fund under the Southern Province Regional Economic Advancement Project (SPREAP) commenced during the year after fully committing the first generation of SPREAP funds.

- b. The credit component under the ADB-funded Aquatic Resources Development and Quality Improvement Project (Miridiya Sampath) promoted inland fisheries and aquaculture activities.
- c. ADB came forward with a new line of credit targeting SMEs outside the Western Province, which was operationalised during the year. The Bank also participated under this credit line, which was named as Small and Medium Enterprise Regional Development Project (SMERDP) and received a direct allocation of US\$ 10.0 mn.
- d. Small and Micro Industries Leader and Entrepreneur Promotion Project I (SMILE I) revolving scheme funded by JBIC continued to support the development of Small and Medium Enterprises (SME) all over the country.
- e. JBIC continued its support to the SME sector by providing further funding under the SMILE schemes. The Small and Micro Industries Leader and Entrepreneur Promotion Project II (SMILE II) revolving fund commenced operations during the second half of the year, which supplemented the operations of other SMILE credit line funds.
- f. The KfW micro scheme funded by German Development Corporation (KfW) helped grass root level micro and small enterprises raise their level of operations and improve productive capacity. The funds under this scheme was channelled to end users directly by the Bank

The total refinance approvals to other financial institutions and the Bank's own network of Branches during the year

amounted to Rs 1,090.87 mn for 715 projects. Aggregate withdrawals by the Bank under refinance schemes operated by other apex institutions amounted to Rs 394.5 mn for 35 projects.

During the year NDB Bank successfully completed the project for empowering the poorest of the poor women in remote regions of southern and north-eastern Sri Lanka. The World Bank approved a sum of US\$ 0.9 mn in 2003 under the grant provided by Japan Social Development Fund (JSDF) for this project. The GOSL entrusted the administration of this grant to NDB Bank. The work in the south and north-east was carried out by two NGOs, the Women Development Federation (WDF) and Sewa Lanka Foundation (SLF) respectively. The main objectives of the grant were to; (a) promote capacity building of the village women at the community level; (b) empower more poor women to take charge of their economic, social and financial affairs; and (c) promote 'women run' social and community based organizations (CBOs) and small village level sustainable banking through broader partnership. The grant was supplemented by a further sum of US\$ 1.0 mn later by the JSDF to assist the tsunami affected members and CBOs of the two NGOs. The overall utilization of the grant was 89%.

Retail Banking

Introduction

The global financial crisis has dramatically reshaped the world's banking landscape during the year under review. Despite standing to the pressures, the Sri Lankan banking sector has not entirely escaped the crunch. Given this background the focus in the Retail Banking business during the year was twofold. While the



Light echoes from a stellar explosion allow scientists to study the dust-clouds surrounding it, gaining valuable insights in cosmology. Similarly, customer feedback and sales figures reflect market trends, allowing our retail bankers to fine-tune products and services for our customers.

aggressive drive for deposits was an area of focus throughout the year, the strategy on retail lending shifted more towards portfolio consolidation and selective asset backed lending based on quality and not quantity during the latter half of the year. More attention paid to stringent lending criteria has reflected in low NPLs. The focus this year was on leveraging the existing branch network and expanding reach through non-traditional channels such as partners, m-commerce, etc. Implementation of the strategic five-year plan developed in 2007 continued with focused attention on selected areas.

Deposit Drive

In the current turbulent environment, the focus this year was on deposit growth, mainly through a savings drive. The total customer deposit base of the retail sector showed a steady growth despite the general down trend in the economy. The retail deposit portfolio showed a growth of 32% year-on-year compared to the industry growth of 7.5% for the year. This substantial growth was made possible by focused

sales and marketing efforts and by leveraging NDB Bank's branch network to expand distribution through multiple channels. In addition, liability-sales teams were introduced at branches to augment deposit growth during the first half of the year, while centralized sales teams began focusing on deposits during the second half of the year.

Several new products were added to NDB Bank's deposit product portfolio during the year. With 'Premium Plus', the latest addition to the Savings product portfolio, the account holders are entitled to a high interest rate.

NDB Bank also introduced Special Foreign Investment Deposit Accounts (SFIDA) with special benefits designed for its customers. SFIDA gives the opportunity to non-Sri Lankan citizens to invest in NDB Bank in foreign currency and in Sri Lankan Rupees. While all investments in SFIDA are exempt from income tax, withholding tax and debit tax, it is also freely convertible.

Loans and Advances

Despite the prevailing market conditions, loans and advances of the retail sector showed a growth of 23% year-on-year, as compared to the 6% growth in the industry. The focus was more on asset-backed loans and advances, while more stringent criteria were introduced for personal loans to ensure that portfolio quality remained at a high level. Pawning was rolled out during the year in many of the branches and it has shown a remarkable growth in the short span of ten months.

Personal Loans

The Personal Loan portfolio in the product range recorded another year of excellent performance. Two new product variants were introduced during the year under review. A mortgage-backed education loan scheme was introduced, targeting students wishing to study overseas. NDB Bank also entered into an agreement with the Sri Lanka Institute of Information Technology (SLIIT) to partner its degree programmes by providing 'Dream Maker' Education Loan Facilities for its students.

Home Loans

Home Loans showed a steady growth during the year further strengthening our market share, which was a result of focused marketing efforts and leveraging the branches to a greater extent. Employment of a Centralized Sales Team to promote Home Loans during the second half of the year also contributed to the growth. Specialized promotions for Professionals and several branch-centric promotions were carried out. Worksite marketing was strengthened during the year which resulted in entering into partnerships with a few of the leading companies as the exclusive home loans provider for their employees. A new product called 'NRSL Home Loans' was launched during



the year where customers are offered three loan options based on their risk profile. Another new product was launched, through which ETF members can obtain Home Loans at a special rate. A new product feature was offered to customers with the option of combining a fixed rate and a floating rate when obtaining a Home Loan.

Leasing

Leasing came under the Retail umbrella at the beginning of the year. The branch network was leveraged to reach a wider section of the customers. The staff in the branch network renders a professional guidance to prospective Lessees in selecting vehicles, structuring leases and

obtaining insurance. NDB Bank entered into a few promotional tie-ups with popular vehicle dealers which enhanced the value for the customers in the form of attractive terms of financing as well as discounts in selling prices.

Other Income

Reach of Western Union money transfer system was further expanded after tying up with Singer Sri Lanka as a partner, which has increased the number of Western Union partners to seven. NDB Bank has now expanded the reach for Western Union to 470 centres island-wide. Partnerships were entered into with remittance agents in the UAE, which has helped increase the remittance income. Further, NDB Bank has initiated discussions with several more parties on remittance partnerships, which are expected to be finalised during the course of 2009.

Personal Banking Products

Debit Card

NDB Bank Debit Card was re-launched during the last quarter with a new tariff structure. A monthly draw with cash prizes on Debit Cards was also introduced for the first time in Sri Lanka.

eZ-Pay

The first-ever m-Commerce initiative in South Asia, enables the customers to pay for goods and services through their Dialog mobile connections at any time of the day from anywhere. In 2008, eZ-Pay expanded its merchant network and tied up with a number of leading companies for utility bill payments.

Privilege Banking

Privilege Banking, NDB Bank's exclusive private-banking service for high-net-worth individuals, continued its growth

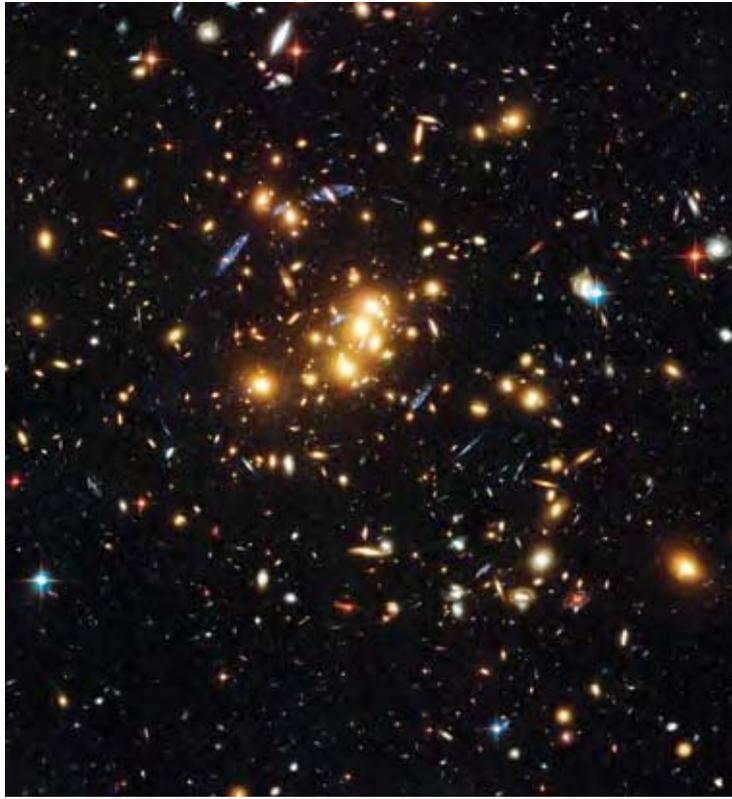
momentum in 2008 making a significant contribution to the retail business. Privilege Banking offers a range of banking products and services to its clientele and continues to expand with advisory services and product offerings. Aggressive marketing efforts facilitated Privilege Banking to close the year on a high note. In the year under review, facilities at the unit were expanded to include a refurbished floor, offering more convenience and a superior banking experience to its clientele.

Marketing

Continued focus on marketing was directed at building brand equity, primarily through the launch of a new corporate campaign. The brand awareness was further strengthened through intensified localized promotions called 'Dorin Dorata'. Schools in many localities were leveraged through the popular television programme 'Tikiri Peaya'. The Savings Promotion 'Badu Malla' was launched in the second half of the year where a daily draw was held for a period of 6 months.



With the launch of Education Loans in 2008, NDB Bank joined hands with EDEX 2008, as the official sponsor for the



Astronomers can only detect that mysterious cosmological phenomenon, dark matter, by the way it deflects light from more distant sources - in this case, to form a faint ring shape. Bankers, like astronomers, are expert detectives, identifying hidden value from the behaviour of markets and customers.

first time, with the aim of contributing to the economic development in Sri Lanka and ensuring the long-term stability of the younger generation. Organized annually in collaboration with the Ministry of Education, EDEX functions as the largest Higher Education and Career Guidance Fair in Sri Lanka.



During the Sinhla-Tamil New Year season NDB Bank joined Sri Lanka Rupavahini Corporation's Avurudu programme 'Apey Gama' reaching out to the masses during the season. A branch promotion was also initiated giving its customers a gift for 'Avurudu Ganu-Denu'.

NDB Bank's Telemarketing Unit was launched in 2008 with the aim of increasing its deposit base. The unit is responsible for personally calling its

existing customers as well as non-customers to update them on NDB Bank's products and services as well as newly introduced campaigns.

24-hour Customer Service Centre

NDB Bank's Call Centre provides an increasingly important channel for the dissemination of information on NDB Bank's products and services, for both existing and potential customers. Queries and suggestions are also handled by the Call Centre, avoiding long queues at branches and other departments for such purposes. Having a central point of contact has also benefited NDB Bank in providing a better, professional, high-quality service.

Operational Improvements

During the year, focused attention was given to improving branch operations and customer service standards, with independent research being done to measure the latter. Recoveries and Collections unit was also strengthened to support the business growth. Process flows and procedures were

also streamlined in line with the new IT system (FinnOne) introduced for retail assets in the latter part of 2007.

Equity Investments

Quoted Equity Investments

The Colombo bourse did not perform well in the year under review. The All-Share Price Index recorded a decline of 41% to stand at 1,503 on 31 December 2008. The Milanka Price Index declined by 50% to 1,631.

Faced with a declining market, NDB Bank adopted a limited divestment strategy. With the divestments done over the years that resulted in substantial capital gains, NDB Bank's non-strategic quoted equity portfolio consist of investments in three (03) quoted companies. As of end 2008, the cost of these investments amounted to Rs 37.47 mn while the market value amounted to Rs 203.68 mn. The ratio of market value to cost was 1:5.4.

Dividends from the non-strategic quoted equity portfolio amounted to Rs 45.8 mn. NDB Bank intends to intensify its

divestment programme in the coming year to reduce the holding cost of the portfolio and divert the proceeds to assets yielding higher returns. However, this is subject to an improvement in the market.

Non-Quoted Equity Investments

During the year, NDB Bank adopted an overall strategy of divestment for its non-quoted equity portfolio, 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 a Central Bank directive limiting the equity holdings of private companies.

The adoption of a more active portfolio-management strategy culminated in the realization of divestments of shareholding in 5 companies amounting to Rs 1.1 mn in capital gains. The returns earned through dividends also contributed positively. Rs 14.2 mn was received as dividends from ordinary share investments and Rs 144.38 mn from preference-share investments.

The size of the non-quoted equity portfolio, which stood at Rs 1,141 mn (net of provisions) on 31 December 2007, was reduced to Rs 834 mn by 31 December 2008, comprising Rs 141 mn in ordinary share capital and Rs 693 mn in preference share capital.

Treasury Operations

The performance achieved in the Treasury area was exceptional, with foreign exchange revenues well in excess of expectations. Moreover, this was achieved in a very competitive environment. Market volumes grew considerably, to a daily average of US\$ 60 mn. The forward markets were very active, extending the period to one-year quotes. Gains in the

rupee exchange rate in the first quarter were sustained until the end of the third quarter despite huge fluctuations in G7 currencies and depreciation in Asian ones. The Central Bank played a prominent role in managing exchange-rate volatility but left the rupee to depreciate by 1.8% in the beginning of the fourth quarter. During this quarter the Central Bank also imposed certain restrictions that reduced trading activity in the market.

During the last quarter, Treasury mainly focused on managing the liquidity position of NDB Bank in both local and foreign currency. Treasury played a prominent role in identifying such needs and securing funding to meet all liquidity needs of NDB Bank. By the end of the last quarter, NDB Bank had become one of the largest liquidity providers to the rupee market (large lender) and managed to reduce dependency on the interbank market for foreign currency significantly.

NDB Bank further strengthened its position as a market-maker in the USD/LKR currency pair in both spot and forward markets. Pricing advantages thus gained were translated into customer positions by attracting significant business volumes from importers and exporters through the offer of more competitive rates.

Debt trading was conducted with a low maturity mismatch between investments and funding re-purchase agreements (repos) due to the rise in rupee interest rates. Selective strategies were employed to optimize results on LKR yield-curve shifts. However, yields on Government securities rose sharply during the second half of the year as an effect of the global liquidity crisis. Foreign investors liquidated large rupee bondholdings, further affecting rates and liquidity.

Treasury currently adopts a duration-based management discipline for interest-rate risk.

Asset and Liability Management Committee (ALCO)

Treasury drives NDB Bank's asset-and-liability-management process by providing ALCO with interest and exchange rate updates as well as data on other macroeconomic developments. Based on these inputs, the Committee sets parameters for the management of maturity-mismatch risks in the Balance Sheet. It also fixes product-transfer pricing rates based on prevailing market-conditions. The ALCO process ensures that various internal business units are made aware of the numerous balance-sheet and funding challenges of the NDB Group. This promotes consensus in the process of allocating available resources to various lines of business.

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 commission consultants from Deutsche Bank to carry out a risk management gap analysis and to provide an implementation plan to address the gaps identified for a best practice market risk management and asset liability management framework.

The objectives of the project are to support NDB Bank to achieve better results in:

1. International best-practice compliant market-risk-management system;
2. enhanced risk management;
3. enhanced shareholder value.

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. The project is expected to be completed by mid-2009.

Operations and Administration Transaction Management and Support Services

NDB Bank's overarching operations strategy is to centralize all possible activities. Expected benefits of this strategy include efficiency, consistency in service standards, tighter focus on and better control of operational risk, and the assurance of regulatory compliance through better administrative and supervisory control.

During the year the Consumer Loan Processing function was further strengthened with the completion of implementation of a new IT application, which has resulted in improved efficiency and control.

All functions of Operations have a competency mapping process, which ensures that adequate numbers of staff are familiar with the processing and other regulatory requirements providing staff backup for each job function.

Security

In response to the challenge of preserving security in the current environment, numerous provisions were made and procedures streamlined during the year including the strengthening of the Security Management section by the recruitment of an ex-police officer. Among other initiatives was the expanding of coverage of the closed-circuit television cameras (CCTV) at critical locations in branch

offices as well as at the head office building. In addition, as per NDB Bank's Business Continuity Plan regular training and drills were carried out by expert professionals to enable all staff and security officials to face a security crisis or disaster situation with confidence, for the resumption of business without extended interruptions.

ISO Certification for the Trade Finance Department

During the year, the Trade Finance Department achieved re-certification of its processes to ISO 9001: 2000 standard, the certificate being awarded by SGS under UKAS accreditation. The unit continues to be a leading player in the market, taking a prominent place in terms of customer satisfaction.

Other Initiatives

In order to ensure compliance with international regulations and sanctions, NDB Bank has taken the precautionary measure of subscribing to an internationally accepted data base of high risk and sanctioned individuals and institutions, against which all vulnerable transactions are validated.

NDB Bank also obtained the service of an external professional to look at its processes to ensure that NDB Bank does not violate or misinterpret any local regulations including those of Exchange Control.

Information Technology

The IT Department focused during the year on enabling the Management of the Bank to access timely and accurate information for decision making and on developing systems to mitigate risk.

Multidimensional Profitability System

The system was enhanced to provide adequate management information for effective decision making and to further

enhance the quality of statutory and internal reporting. The focus was on the following dimensions:

- Business line profitability
- Unit profitability
- Relationship Manager's profitability
- Customer profitability

This system was developed on a web platform enabling on-line access to users.

eZ-Pay

The eZ-Pay system has further strengthened to provide smooth operation in relation to mobile commerce. The following features were introduced to further enhance customer convenience:

- Utility bill payments
- Cash withdrawals/top-ups
- Remote on-line sales

Services were also extended towards merchants to enable them to initiate m-Commerce transactions through cash registers. The IT department has also taken the initiative to provide a system for other banks to participate as m-Commerce issuers, and thus providing wider coverage for m-Commerce users. The IT department is planning to implement this during the first quarter of 2009.

Group Companies Capital Development and Investment Company PLC (CDIC)

The Capital Development and Investment Company PLC is the strategic investment arm of NDB Bank. With a view to maintaining its dominant position in the financial-services industry, NDB Bank consolidated its holding in CDIC in July 2008 with the purchase of 23.86% shareholding held by the Bank of Ceylon in CDIC. NDB Bank now holds 99.66% of CDIC. The remaining shares are held by the public.

The principal business of CDIC is to hold and manage the strategic investments of NDB Bank with the aim of realizing superior returns in the long term. The most important of these strategic investments is in Aviva NDB Finance Lanka Ltd., through which CDIC holds a 36.27% stake in Eagle Insurance. In addition to the above, the Company invested in selected securitizations, debentures and commercial papers during the year.

The market capitalization of CDIC as at 31 December 2008 was Rs 3,289 mn, yielding earnings per share of Rs 12.49 mn as recorded in the Company's Financial Statements for the year ended 31 December 2008. The market value on 31 December 2008 was Rs 75 per share, based on the last traded price (on 26 November 2008). The highest traded price of CDIC shares was Rs 95 (on 9 September 2008) and the lowest price was Rs 75 (on 26 November 2008).

For the year ended 31 December 2008, the Company recorded a net profit after tax of Rs 548 mn, compared with a figure of Rs 498 mn recorded for the year ended 31 December 2007.

NDB Investment Bank (NDBIB)

The overall performance of NDB Investment Bank during 2008 was satisfactory, considering the prevailing environment. NDBIB was able to maintain its leadership position in investment banking and its strength in the domestic capital market. In spite of the recent downturn in capital markets and consequent negative investor sentiment, NDBIB successfully executed a number of significant deals in the year under review.

Debt Unit Operations

The Debt Unit experienced a successful year, raising Rs 8.5 bn for its clients by way of securitizations, debentures, structured loans and commercial papers. Amongst these were a loan syndication for a leading company in the leasing industry, which was executed with the participation of foreign banks, and a Rs 500 mn debenture issue for a consumer goods company. A total of thirty securitizations of hire-purchase and lease receivables were also undertaken, while Rs 700 mn was successfully raised for the tea industry via securitized future tea receivables.

NDBIB is proud of having designed and introduced several novel structured-debt instruments over the course of the year, in response to challenges in the current financial and economic environment. These instruments were well received by institutional investors. Collaboration with NDB Stockbrokers helped us increase our retail investor base for these structured instruments and attract several high-net-worth clients. The Company was also able to place these products with other leading banks and institutional investors.

Corporate Advisory Operations

NDBIB's Corporate Advisory unit faced a challenging year. Although NDBIB secured several IPO mandates from a diverse clientele, market and liquidity conditions made it inadvisable to launch any issues in 2008. These IPOs have therefore been deferred in expectation of an improvement in overall market conditions.

With public issues temporarily on hold, NDBIB is working on several private placement mandates to enable its clients to raise capital in the interim. It also carried out several business valuations and advised clients in several

sectors on corporate restructuring. The sectors included telecommunications, plantations, textiles and power & energy. In addition, the Corporate Advisory Unit was able to structure a syndicate loan for a leading Sri Lankan manufacturer with the participation of both local and foreign banking institutions.

New Product Development

2008 saw a major emphasis on new products, developed in response to current market realities. For example, new derivatives products such as interest rate swaps were structured for banks and leading finance companies to help them manage interest rate risk. The Product Development Unit also successfully structured a product for the securitization of Islamic Leases or *Ijarah*, taking into account the intricacies of the Sri Lankan tax and legal environment. The product has been mandated by a leading leasing company in Sri Lanka.

NDBIB also undertook an awareness and education campaign for the corporate sector on the subject of derivatives, with a view to developing the fledgling local market in these instruments.

NDB Stockbrokers (NDBS)

The All Share Price Index (ASPI) and Milanka Price Index (MPI) declined during the year by 41% and 50% respectively. The ASPI, which stood at 2,541 at the beginning of the year increased by a 5.5% to 2,681 in April 2008. The continuing high interest rates, inflation, ongoing military operations, declining corporate earnings compounded by the global finance crisis resulted in a continuous decline in the ASPI thereafter, reaching a low of 1,503 as at 31 December 2008. A similar trend was witnessed in the movement of MPI, which dropped from 3,268 as at 1 January 2008 to 1,631 as at 31 December 2008.

Despite adverse market conditions NDBS had a profitable 2008. During the year NDBS adopted certain strategies required to reposition itself in the market and to prepare itself to meet the anticipated market turnaround.

Experienced staff with multidisciplinary qualifications were recruited and trained to improve the quality of research. Databases and business models were developed to provide continuous updated information to customers.

Steps were also taken to improve the quality of sales staff by recruiting qualified advisors and continuous training is being provided to convert the sales force to reliable and credible financial advisors.

Internet trading facilities were implemented during 2008. It will enhance volumes during increased market activities as retailers could be serviced more effectively through this system.

In 2008, NDBS introduced fixed income securities by placing fixed income instruments structured by NDBIB. The strategy is to convert NDBS staff to be financial advisors who can market a range of products and increase fee income.

NDBS and NDB Bank are presently working on the process and procedure of expanding the retail customer base via the branch network. This would not only broaden the distribution network, but also enable to disseminate the benefit of capital markets to a wider clientele who hitherto did not have access to capital markets.

Substantial investment will also be made to upgrade the computer system in order to improve efficiency and provide a superior service to customers.

The above strategies would enable NDBS to meet future challenges and move towards being a leading stockbroker and be prepared to benefit from a turnaround scenario in the capital market.

Eagle Insurance Corporate Performance

Eagle Insurance PLC recorded a consolidated revenue of Rs 7,265 mn in 2008, a 24% growth over the previous year. The gross written premium of Life and General Businesses grew by 15% and 10% respectively. The Company's profit before tax was Rs 605 mn. Total net assets grew by 10%, to over Rs 2,224 mn. The Company delivered a return on net assets of 27%. A final dividend of Rs 7/- per share has been recommended by the Board.

The profit before tax of Rs 605 mn is an increase of 11% over 2007. This profit includes a credit of Rs 171 mn resulting from grossing up of withholding tax on investment income. When this is excluded, profit before tax stands at 79% of the previous year's recorded profit.

In an environment where inflation has been high, the Company has maintained its expense growth within a satisfactory level of 11% which has been a key contributor to the bottom line. The Company has maintained its financial strength at a very healthy level, important in the context of the financial crisis being experienced by many institutions. The solvency position was further strengthened by maintaining a margin of 1.32 and 3.19 times the required levels for Life and General Businesses respectively.

The bancassurance channel where Eagle has first-mover advantage continues to contribute to Eagle's top line performance. The Company will

continue to invest in the bancassurance channel whilst leveraging on Aviva's global expertise. With three strong bancassurance relationships presently in place, the performance of this channel currently contributes to nearly 7% of gross written premium of the Company.

Milestones Reached during the Year

In 2008 Eagle maintained a steady focus on enhancing customer centricity. The Company upgraded its Call Centre into a state-of-the-art facility to provide greater convenience and enhanced 24-hour service to all its valued policyholders. Now, customers simply dial one number - 2310310, for all their insurance needs. Eagle also partnered with Cargills Food City, the largest supermarket chain to provide policyholders with the added convenience of paying their Life Insurance premiums at any of the 130 outlets island-wide.

Eagle launched LiveSmart, the innovative retirement plan with investment choice, designed for the evolving market segments aspiring towards early retirement. LiveSmart has generated great interest in the marketplace and has positively contributed to sales.

For its deep commitment to corporate social responsibility the Company was adjudged 2nd in the 'less than Rs 10 bn turnover' Category, by the Ceylon Chamber of Commerce at the 'Best Corporate Citizens Awards 2008'. In addition Eagle was once again recognized at the SAFA (South Asian Federation of Accountants). Best Presented Accounts Awards - NDB Bank's Annual Report won the Bronze Award in the Non-Banking Financial Sector.

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.

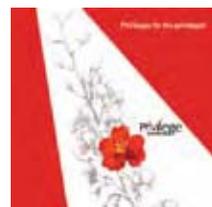


NDB Bank Children's Savings

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.



Premium Plus

'Premium Plus' savings product was introduced in 2008 in order to offer you an interest rate of up to 14% p.a. when you maintain a balance of over Rs 100,000/-.



WESTERN UNION MONEY TRANSFER SERVICE

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

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.



eZ Pay service is ground breaking not just in Sri Lanka but also in the rest of South Asia. This service authorizes you to pay for goods and services through your Dialog mobile phone thereby complementing your full and vigorous lifestyle.



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
- Debit cards (Visa)
- Phone banking
- ATM facilities
- Bancassurance products

Financial Review

Overview

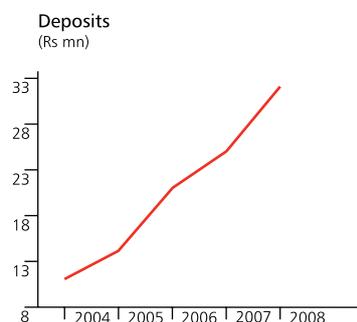
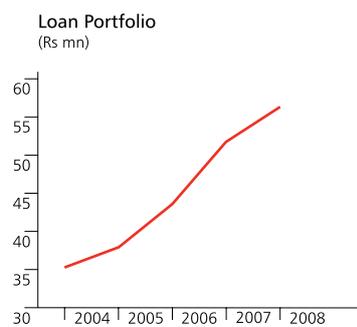
The Group reported a profit attributable to shareholders of Rs 1.60 bn for the year ended 31 December 2008 as compared to Rs 1.52 bn for the previous year. The profit after tax of the group was Rs 1.71 bn as compared with Rs 1.64 bn for the previous year. The profit before tax and the profit after tax of the NDB Group, excluding the exceptional equity capital gains earned by NDB Bank during the previous year increased by 11% and 19% respectively over the last year.

The products and services offered to the customers of the NDB Group include Insurance from Eagle Insurance Company PLC (Eagle), Stock Broking from NDB Stockbrokers (Pvt) Ltd. and Investment Banking from NDB Investment Bank Ltd., among others. NDB Bank took another step towards consolidating its position in the financial sector by purchasing 23.86% of the shares owned by Bank of Ceylon in Capital Development & Investment Company PLC (CDIC) for Rs 1.16 bn on 11 July 2008. Prior to this purchase, NDB Bank owned 75.8% of CDIC, a public quoted company in the Colombo Stock Exchange. The recent purchase of CDIC shares by NDB Bank increases its effective shareholding in Eagle from 32.4% to 41.1%. CDIC is now positioned as an effective vehicle for NDB Bank's plans for local and regional growth.

The results of NDB Investment Bank Ltd., NDB Stockbrokers (Pvt) Ltd., Capital Development & Investment Company PLC and Development Holdings (Pvt) Ltd., representing the spectrum of Group businesses, have been consolidated.

The core banking revenue (net interest income, forex and commissions, etc.) of NDB Bank grew by 12% over the previous year. The profit before tax and the profit after tax of NDB Bank, excluding the exceptional equity capital gains earned by NDB Bank during the last year increased by 13% and 32% respectively over the last year.

NDB Bank's loans and advances grew by 9% over the last year. The deposit portfolio grew by 25% over the last year-end. The growth in both the lending and deposit portfolios of NDB Bank is commendable despite the prevailing global and local economic environment, in which NDB Bank operates.



Net Interest Income (NII)

The net interest income of NDB Bank grew by 4% from Rs 3,022 mn in 2007, to Rs 3,155 mn for 2008. This was due to the significant increase in the gross lending portfolio of NDB Bank from Rs 51.8 bn as at 31 December 2007 to Rs 56.5 bn as at 31 December 2008.

The total assets of NDB Bank grew from Rs 73.2 bn as at 31 December 2007 to Rs 82.3 bn as at 31 December 2008, an increase of 12%. There was also a significant increase in the customer deposits, which was Rs 31.9 bn as at 31 December 2008 as compared with Rs 25.6 bn as at 31 December 2007 (an increase of 25%).

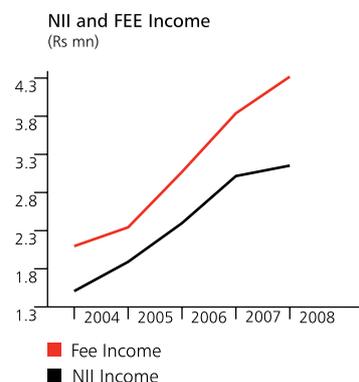
At the NDB Group level, contribution to NII primarily came from interest income earned by Capital Development & Investment Company PLC.

Net Other Income

Net other income of NDB Bank, excluding equity income for the year, was Rs 1,162 mn as compared with Rs 821 mn for the comparative year (a significant increase of 42%). This was mainly due to the 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.

The Equity income net of provisions was Rs 465 mn as compared with Rs 471 mn for the previous year. In the previous year this included an exceptional capital gain received on the sale of non-quoted ordinary shares of Coats Thread Exports (Pvt) Ltd. and Coats Thread Lanka (Pvt) Ltd. in June 2007 amounting to Rs 249 mn.

At the NDB Group level, net other income, excluding provisions for equity losses, increased by 13% during the year. The net other income of the Group increased by 36% over the last year, excluding the exceptional capital gain mentioned above.



Operating Expenses Excluding Provisioning

The operating expenses, excluding provisioning, increased by 18% over the previous year. The increased expenditure was mainly due to the effect of the

total cost of branches that were opened during the last quarter of 2007 being reflected in the expenditure for 2008 and inflationary pressure. NDB Bank's staff strength increased from 858 as at 31 December 2007 to 948 as at 31 December 2008 due to the expansion of the retail distribution network.

Despite the increased expenditure, NDB Bank's cost income ratio of 47% for the current year still compares very favourably with the ratio of other local Banks.

At Group level operating expenses, excluding provisioning, increased by 16% for the year when compared with the previous year.

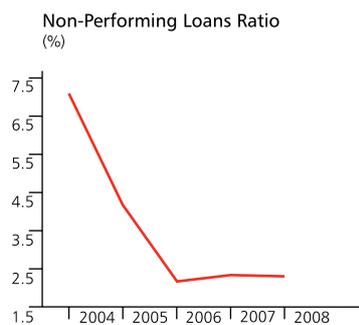
Provision for Credit Losses and Non-Performing Loans (NPLs)

The Bank has adopted stringent policies to maintain the quality of the loan book throughout the year and as a result the NPLs to the gross lending portfolio remained at 2.3% both at the beginning and at the end of the year. This compares very favourably with the local banking industry norm. The NPLs as at 31 December 2008 was Rs 1,275 mn as compared with Rs 1,183 mn as at 31 December 2007.

As per the recent Banking Act Direction No. 9 of 2008 issued by the Central Bank of Sri Lanka, the criteria relating to the requirement to classify loans as NPLs were relaxed. However the Bank opted to follow the more stringent earlier basis. Had NDB Bank followed the new basis, the non performing loans would have declined by Rs 193 mn to Rs 1,082 as at 31 December 2008. Accordingly the NPL ratio would have been 1.95%.

The Central Bank mandated specific provisions for credit losses at the year-end amounted to Rs 630 mn compared with Rs 306 mn as at the previous year-end. The percentage of such specific provisions to NPLs increased from 27% to 49% during the year. Total specific provisions including the judgemental provisions made over and above the minimum Central Bank mandated provisions at the year-end amounted to Rs 1,470 mn compared with Rs 1,369 mn as at the previous year-end.

Total specific and general provisions together amounted to Rs 1,946 mn at the year-end compared with Rs 1,806 mn at the previous year-end.



During the last quarter of 2006, the Central Bank of Sri Lanka mandated a 1% provision on the performing portfolio of each Bank. The bank's have been given time to make this provision over ten quarters ending on 31 March 2009. However, NDB Bank reached the 100% general provision requirement, by 30 September 2007 and has been complying with the 1% requirement since then. Accordingly the general provision as at 31 December 2008 was Rs 476 mn.

The charge for the year amounted to Rs 39 mn as compared with a provision of Rs 181 mn for the previous year.

Taxation

The effective overall tax rate of NDB Bank inclusive of the Financial Services VAT was 49% for the current year compared with 53% for the previous year. Tax on banking operations (i.e., excluding equity income) was 57% as compared with 61% for the previous year.

The overall tax rate of NDB Group inclusive of the VAT charge was 45% for the current year compared with 46% for the last year.

Capital Adequacy

The Tier 1 and 2 ratios of NDB Bank was 14.43% as compared with 17.29% for the previous year. The ratio for NDB Group was 19.83% as compared

with 26.15% for the previous year. The reduction in the capital adequacy ratios was due to the increased shareholding in Capital Development and Investment Company PLC.

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 19.61 as compared with Rs 18.59 for the previous year. The Group's return on equity for the year was 13.18% compared with 13.67% in 2007. Capital Development & Investment Company PLC and NDB Investment Bank Ltd. contributed towards the improved performance of the NDB Group.

Share Price

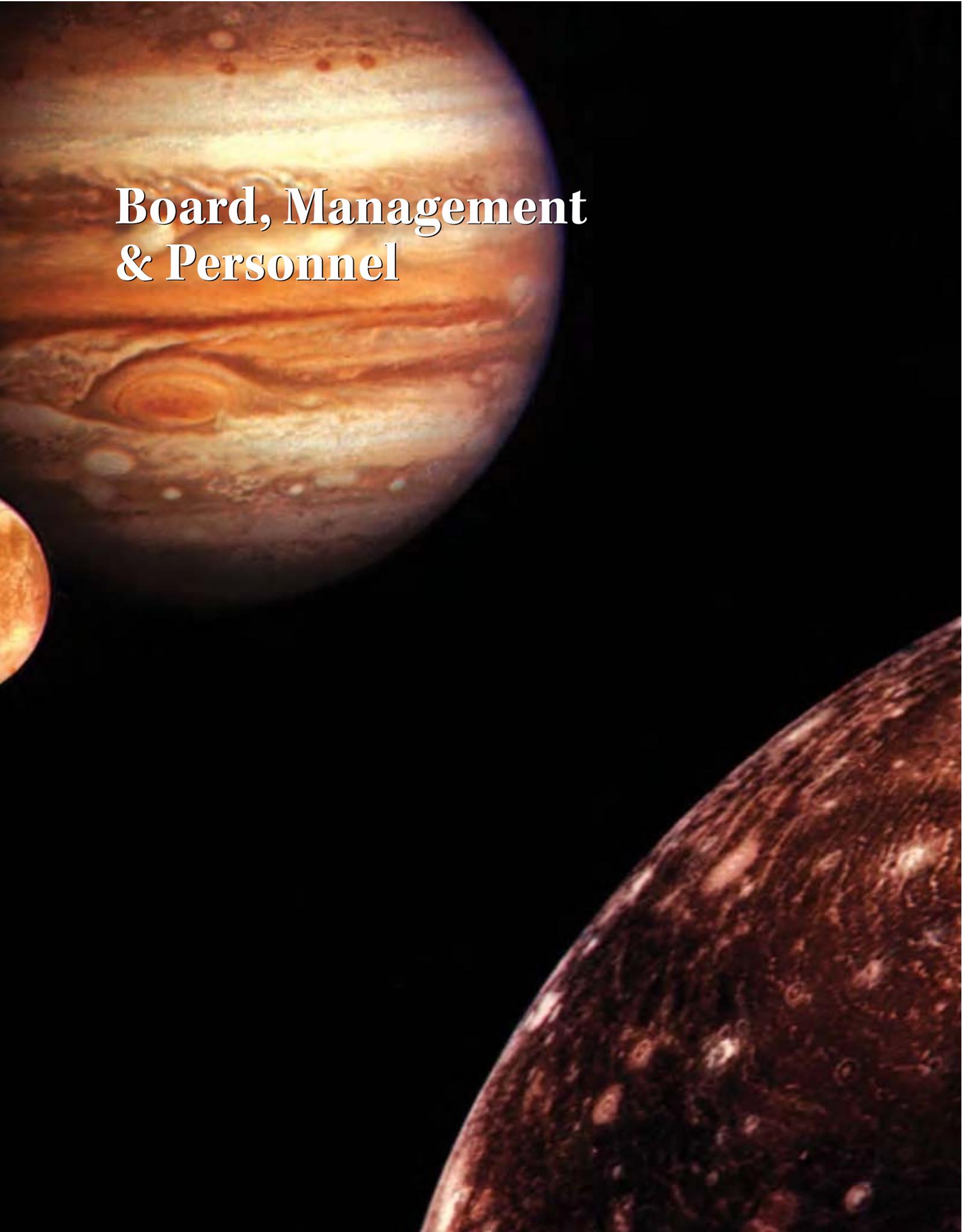
The Bank's share price closed at Rs 86/- as compared with Rs 170/- at the end of 2007 which reflected the general downward trend in the market. The price/book value (PBV) at the year-end was 0.56 compared with 1.19 at the previous year-end. The PE ratio for the year 2008 was 4.39 times as compared with 9.14 times for the previous year.

Post Balance Sheet Events

The NDB Bank obtained the necessary approvals from regulatory authorities both in Sri Lanka and Bangladesh to make an investment in Capital Market Services Ltd., Bangladesh. Accordingly, the Bank invested in Capital Market Services Ltd., Bangladesh and acquired a controlling interest in the investee company in January 2009.

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



A composite image featuring three celestial bodies against a black background. In the upper left, a large portion of Jupiter is visible, showing its characteristic orange and white horizontal bands and the Great Red Spot. In the lower left, a smaller portion of the Moon is visible, showing its orange-tinted surface. In the lower right, a large portion of Mars is visible, showing its reddish-brown surface and numerous impact craters.

Board, Management & Personnel

Board of Directors



01. P M Nagahawatte

Chairman

Mr Nagahawatte holds a Bachelor of Laws (Hons.) Degree and a Master of Laws Degree. He was the Senior Legal and Banking Advisor of the Ministry of Finance and Planning immediately before accepting the appointment as Chairman of the National Development Bank PLC on 1 January 2008.

He 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.

He has been Chairman of Bank of Ceylon and of the Credit Information Bureau of Sri Lanka, a Commissioner of the Securities & 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 a company Chairman/Director.

02. Eran Wickramaratne

Director/Chief Executive Officer (Appointed with effect from 1 April 2008)

Prior to the merger of the National Development Bank and NDB Bank PLC, Mr Wickramaratne functioned as Director/Chief Executive Officer of the NDB Bank PLC. From 1999 to 2001, he was 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.

03. H D S Amarasuriya

Director

Mr Amarasuriya brings to NDB Bank an impressive range of management, marketing, industrial and business skills from his tenure as Chairman of the industrial and retailing conglomerate Singer Sri Lanka, and his experience on the Boards of such companies as Regnis Lanka, Commercial Leasing and Bata Shoe Company of Ceylon. He also brings with him substantial experience in international management as a Senior Vice President of Singer Asia Ltd. and Retail Holdings Ltd., USA. He is also involved in regional management and human resource development programmes across the Asian Region.

04. Dr G C B Wijeyesinghe

Director

Dr Wijeyesinghe is a Fulbright Scholar 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 the Commonwealth

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.

05. L de Mel

Director

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

06. S R de Silva

Director

Mr de Silva is a Lawyer, holding an LL.B. (Hons.) Degree. He was the Chief Executive of the Employers' Federation of Ceylon which he served for 25 years till end-1989. He served the International Labour Organization from 1990 until his retirement in July 2001, as Deputy Director of the Employers' Bureau in Geneva. From August 2001 to July 2003 he was Senior

Advisor to the International Organization of Employers in Geneva. He is a Director of Lanka Walltile Ltd., Lanka Tiles Ltd., Ceradec (Pvt) Ltd., Lanka Tiles Trading (Pvt) Ltd. and Lanka Walltile (Meepe) Ltd. He is the author of several books and other publications on labour law and relations, human resource management, globalization, the informal economy and other related subjects.

07. 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 7 years with Coopers & Lybrand in Zambia and Botswana before leaving as an Audit Senior Manager. He then joined the Lloyd's 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 operations in Africa, Australasia and the Far East. On returning to Sri Lanka in 1994, he joined NDB Bank, and retired as its Chief Financial Officer in 2004. He is also a Director of Trans Asia Hotels PLC.

08. S T Nagendra

Director

Mr Nagendra is presently Chairman and Director of several public and private limited companies. He was formerly Chairman of the James Finlay Group, one of Sri Lanka's oldest-established business houses. He is a former Chairman of the Employers' Federation of Ceylon and the British Business Association and has served on the Committees of the Planters' Association of Ceylon and the Ceylon Chamber of Commerce.

09. R B Thambiayah

Director

Mr. Thambiayah educated at the University of Madras, where he received a Degree in Economics. His early career was in tourism. He was the President of Colombo City Tourist Hotels Association and Vice-President of the Tourist Association of Sri Lanka. He

was appointed to the Board of NDB Bank in February 2006. He is Chairman and Managing Director of several companies in the Renuka Hotels Group as well as of the Cargo Boat Development Company Ltd. and sits on the Board of a number of other companies. He is a Fellow of the Chartered Management Institute (UK).

10. Dr R W A Vokes

Director

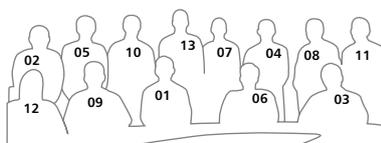
Richard Vokes is an economist by training with over 30 years' experience working on development in Asia. He joined the Asian Development Bank in 1991 and was Senior Economist in the Office of the Vice President East between 1995 - 1997. Since 1997 he has worked as the Senior Economist and Senior Desk Officer for India, Country Director for Nepal and Director of Operations Co-ordination for South Asia. He has been the Country Director for ADB's Sri Lanka Resident Mission since November 2006. Prior to joining Asian Development Bank, Dr Vokes held teaching positions at the University of Kent in the United Kingdom and at the Asian Institute of Technology in Bangkok. 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).

11. Dr S Yaddehige

Director

Dr Sena Yaddehige is a 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 China, Europe and the United States. In addition to the Companies in the Richard Pieris Group, Dr Yaddehige 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.

Leadership Team



01. Eran Wickramaratne

Chief Executive Officer

For details please refer page 28.

02. 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 Specialized Commercial Markets divisions on the corporate-banking side of NDB Bank. He was also instrumental in successfully setting up NDB Bank's Specialized Commercial Markets division. He counts 27 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.

03. Russell de Mel

Vice-President

Head of Risk Management, Credit Administration & Special Projects

Mr de Mel has served NDB Bank over 28 years, largely in the field of corporate banking. An Associate of the Chartered Institute of Management Accountants (UK), he worked for several private sector organizations prior to joining the Bank.

04. 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 24 years experience in IT, 18 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 currently the Chairman of British Computer Society Sri Lanka Section.

05. Nilam Jayasinghe

Vice-President

Head of Group Audit & Compliance

Mr Jayasinghe joined NDB Bank twelve 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 trained at KPMG Ford, Rhodes, Thornton & Co. Before joining NDB Bank, he worked at Aitken Spence & Co. as Group Treasurer and Director, Aitken Spence Corporate Finance Ltd. Prior to this, he was Finance and Commercial Manager at Lanka Tiles Ltd.

Mr Jayasinghe is a past President of CIMA (Sri Lanka division) and has been awarded the Institute's Bronze Medal. He has served as a member of the Sri Lanka Accounting and Auditing Standards Monitoring Board and the Company Law Reforms Commission and counts twenty-five years experience in the areas of Finance and Treasury.

06. Chrisanthi Jayawardena

Vice-President

Head of Legal

She is an Attorney-at-Law who counts over 27 years experience at the NDB Bank. Mrs Jayawardena was employed at Messrs F J & G De Saram, Attorneys-at-Law before joining the NDB Bank.

07. Niran Mahawatte

Vice-President

Head of Treasury

Mr Mahawatte holds a B.Sc. degree 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 15 years' banking experience.

08. 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 Jayawardenapura. He is an Associate Member of the Chartered Institute of Bankers, UK. His 29 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 currently the President of the Association of Professional Bankers, Sri Lanka. [APB]

09. Kumar Weerasuriya

Vice-President

Head of Operations

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

10. Indrajit Wickramasinghe

Vice-President

Head of Retail Banking & Marketing

He holds a Master's Degree in Business Administration from the University of Sri Jayawardenapura, a Postgraduate Diploma from the Chartered Institute of Marketing, UK and is a Fellow of the Chartered Institute of Marketing, UK. Before joining NDB Bank eight 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.

11. Ajith Wickremaratne

Vice-President

Head of Corporate Banking

Mr Wickremaratne holds an Engineering Degree from the University of Peradeniya and a Postgraduate Diploma in Business and Financial Administration from the Institute of Chartered Accountants of Sri Lanka. He has been with NDB Bank for 22 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.

12. Ishani Navaratne Bandara

Assistant Vice-President

Head of Human Resources

Having joined the organization in 1995, Ms Navaratne Bandara counts 14 years of experience in all areas of HR management and development. She holds a B.Sc. degree in Economics and Management from the University of London.

13. Dhanan Senathirajah

Assistant Vice-President

Head of Finance & Planning

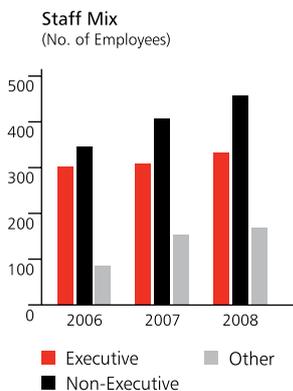
Mr Senathirajah is an Attorney-at-Law and a Fellow of The Chartered Institute of Management Accountants, UK. Before joining NDB Bank in 1998, he worked at the Maharaja Organization and Reckitt and Colman of Ceylon. He counts 22 years' experience in finance and accounting.

Within Our Orbit

A composite photograph of Jupiter and its principal satellites symbolizes the NDB Bank family - Board, management and other staff members, all tightly linked and interdependent on one another, working together to create and sustain Sri Lanka's universal bank.

Corporate Demographics

As NDB Bank continues to evolve and change, it has come to give ever-greater prominence to its human capital. Over the past several years, NDB Bank has fortified and expanded its services through various strategic coalitions and joint ventures with eminent global financial institutions. At forty branches island-wide, the primary activities of NDB Bank now consist of the wide gamut of both corporate and retail banking operations. Investment banking and insurance are significant businesses of the NDB Group. In its operations, NDB Bank currently employs 792 permanent staff as at 31 December 2008. The changing demographics of this employee base reflect a growing diversity. Similarly, the significant change in the management structure and a percentage increase in the numbers of executive and non-executive staff confirms that the employee base is not only diverse but will become more so in the future.



Human Resources Policy

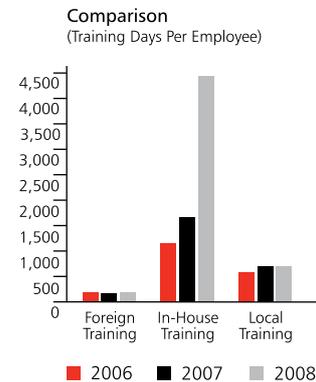
The Human Resources policy, strategies and practices of NDB Bank have evolved from a vision of shared knowledge, skills and experience. It is reflected in the bank's strategic approach to human capital, which involves preparing the workforce, jointly and severally, to meet the growing challenges of the industry.

NDB Bank's Human Resources Department aims to respond promptly and effectively to the business needs of NDB Bank and by attracting, placing, retaining and developing a diverse workforce in which every individual is encouraged and enabled to contribute as fully as possible. It also strives to build an atmosphere of mutual respect and co-operation. In HR planning, NDB Bank has taken the two-pronged approach of working towards its goals while concurrently adapting to change by renewing its organizational structure and work culture.

Training and Development

The training and development philosophy of NDB Bank is based on providing skills and competencies that its people need to know, rather than those that are simply good to know. It is anchored in the business priorities of NDB Bank. Training needs are identified yearly in discussion with the senior management, with other inputs obtained by performance review mechanisms, brainstorming and more formal business and training needs analysis. NDB Bank treats training and

development as a collective responsibility of the organization and its employees. In 2008, NDB Bank increased its focus on training. The average number of training days per employee rose to 6.1 per employee, a 70% increase over 2007. Training is business-focused, with a concentration in the year on the review on retail-banking skills, since (for historical reasons) this is a relatively new area for many of NDB Bank's staff.



Rewards and Recognition

NDB Bank's rewards and recognition policy honours outstanding efforts by individuals, teams and departments to further the goals and objectives of the organization. The Human Resources Department follows an approach to compensation that incorporates base and variable pay, benefits, other incentives where appropriate, and non-financial rewards. Individual remuneration packages are based on merit, aligned to business requirements and sufficiently attractive to recruit and retain the best people.

Employee Welfare

A happy worker is a productive worker. In order to enhance the performance of its workforce and streamline productivity, NDB Bank invests heavily in staff welfare. The Staff Recreation Club organizes events for the leisure and welfare of employees. The club conducts its activities through sub-committees responsible for particular activities, such as sports, welfare, maintenance and operation of the staff gym, the annual staff trip, social activities and death donations.

The object of the Staff Recreation Club is to be a change agent in an environment of rapid expansion and diversity. It aims to encourage staff participation and increase interaction between different departments, building a sense of belonging and identity with the culture of NDB Bank. The club also offers benefits to employees by organizing social events, the costs of which are subsidized by NDB Bank and which bring an element of fun and excitement to the workplace.

Performance Management

NDB Bank endeavours to provide career-development opportunities to all employees in keeping with their abilities, commitment, job performance and the availability of suitable openings. The performance management process is known by the abbreviation PRO, which stands for 'performance review by objectives'. According to this system,

the overall rating of an employee's performance is based on the achievement of set objectives and an evaluation of personal attributes. The delineators of the process are the values, strengths and culture of NDB Bank. A robust performance-management system aligns organizational objectives to those of employees. Similarly, performance-linked pay arrangements including the Variable Bonus Scheme have established a clear relationship between bank performance and each employee's contribution.



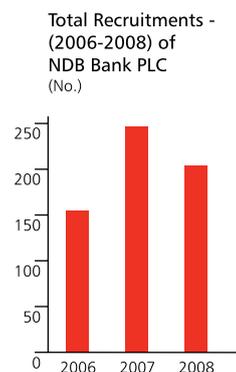
Promoting Innovation

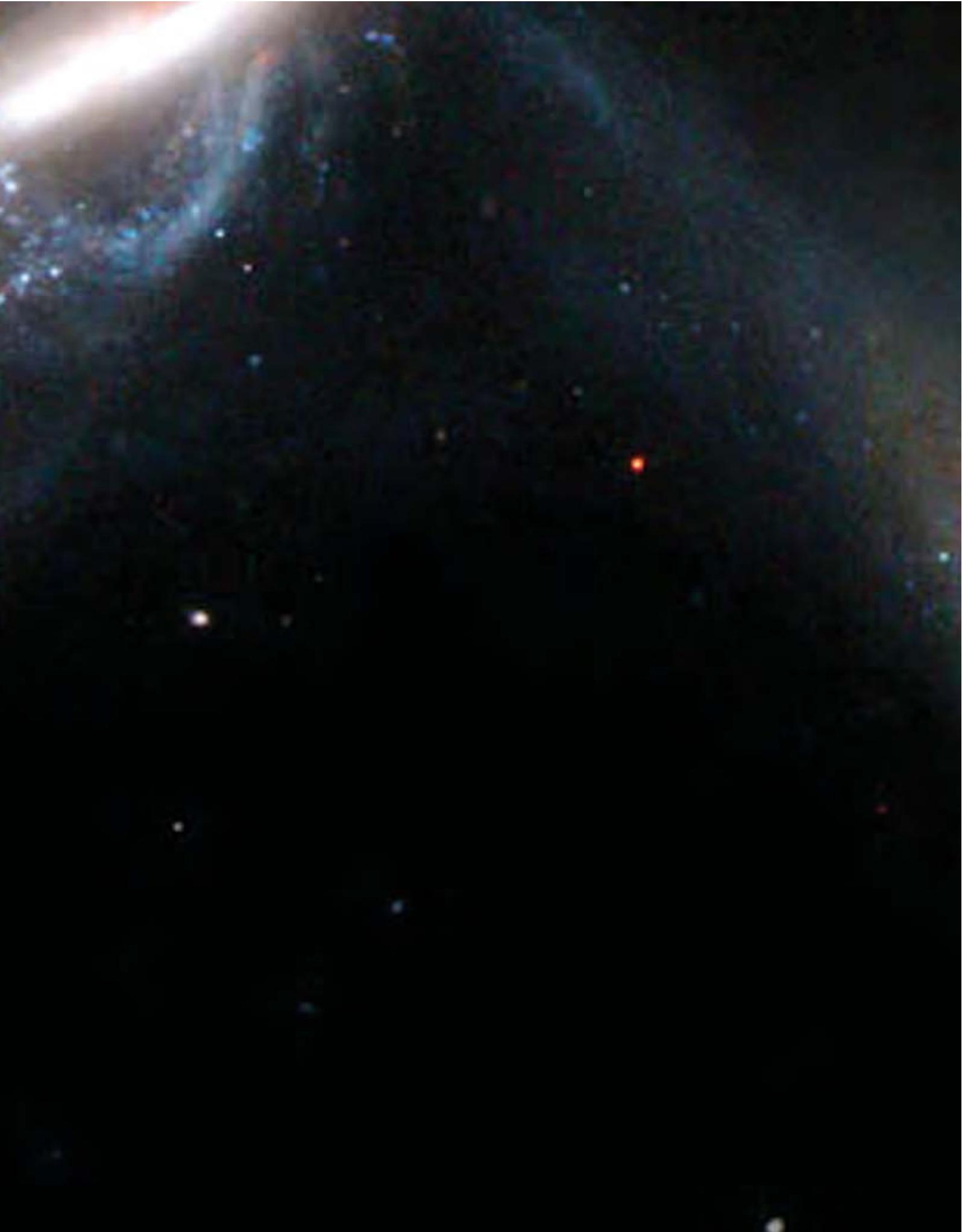
Innovation is not only an engine of growth: it is a state of mind, influenced by culture, values and behaviour. Company culture has a definitive effect on innovation, for better or worse. Good managers are aware of this, and many companies have attempted to develop and put in place systems and processes intended to encourage innovation. NDB Bank's IdeaXpress initiative encourages employees to make suggestions on any area of bank operations. Such suggestions may relate to product development, revenue generation, cost reduction, service development, process improvement - anything, indeed, that might lead to enhanced profitability and shareholder value. In addition to fostering innovation, the process also promotes employee participation in corporate culture irrespective of age, seniority

or experience. IdeaXpress promotes 'boundaryless thinking', involving employees in the constant search for new business opportunities. Such a process is essential to NDB Bank as it increases its presence in the relatively new field of commercial banking. It behoves senior management to be constantly mindful of the importance of innovation, so that their every action and word reflects a real desire to encourage and develop new ideas. Thus it is crucial that managers actively encourage, listen to and act upon the ideas and insights of their subordinates.

Recruitments

NDB Bank continues its policy of hiring by recruiting preferentially for relevant skills and experience rather than academic and professional qualifications alone. Further, activities intended to position NDB Bank as an employer of choice have included mass recruitment drives at job fairs, etc. As a result of these activities, NDB Bank has begun using a variety of recruitment tools to test young talent with: aptitude tests, simulation exercises, individual and group presentations, and so on.





Corporate Social Responsibility



Helping Hands and Shared Resources

Stars, gas and dust flowing from a large spiral galaxy form an enveloping arm around its smaller companion. The incoming matter sustains the smaller galaxy and helps it grow. The universal bank, too, gives its resources to help sustain and develop underserved individuals and communities in the space that surrounds it.

Introduction

Caring for the community is an integral part of NDB Bank's corporate values. While operating at the highest ethical standards and following socially and environmentally responsible business practices, NDB Bank has, over the years, committed itself to several social-responsibility initiatives, going that extra mile to offer a positive benefit to the community and its members.

In terms of its basic operational mandate, NDB Bank helps uplift society by contributing to economic development, delivering innovative solutions with 'best in industry' service excellence.

NDB Bank's Corporate Social Responsibility (CSR) initiatives harmonize with NDB Bank's vision, mission and values. Funds are allocated and spent where they will do the most good, and most effectively, in terms of these.

Responsible practice helps maintain morale and motivates our workforce. It also helps build effective community relationships, and has a positive spin-off effect on recruitment and staff morale. Judiciously-chosen CSR activity also helps us develop stronger relationships with our stakeholders.

What does CSR mean to us?

At NDB Bank, the concept of corporate social responsibility has many facets, including:

- the consideration of environmental, ethical and society impacts when making business decisions;
- undertaking activities that have a social or environmental benefit;
- minimizing our environmental impact; and
- ensuring that employees understand NDB Bank's values and code of conduct

Effective CSR, we believe, demands the commitment of senior managers. Thus, responsible business practice is integrated into the decision-making process.

NDB Bank's CSR committee includes representatives from several business units and Senior Managers. NDB Bank's CSR agenda for the year and specific initiatives are discussed and agreed prior to obtaining Board approval. Our sustainability initiatives have four areas of focus, each essential to our success:

1. *Conduct our Business Responsibly*

Such has been the corporate culture

and strategy of NDB since its inception in 1979. This covers all areas from business ethics to human-resource management to support and sustenance for stakeholder communities.

2. *Manage the Environmental Impact of our Operations*

Much attention has been paid to this aspect in the year under review; NDB Bank established an environmental policy, environmental management system and governance model that integrates environmental-impact considerations into business decisions of NDB Bank in project financing.

3. *Create Innovative Products*

NDB Bank one of the fastest-growing commercial banks in Sri Lanka, offers a broad range of products and services in the fields of corporate and retail financing.

4. *Amplify our Social Impact by Participating in Social Partnerships*

NDB participates in social partnerships with the authorities and other organizations, thus broadening its reach and amplifying the impact of our efforts through synergy.

Caring for the community is an integral part of NDB Bank's corporate values. While operating at the highest ethical standards and following socially and environmentally responsible business practices, NDB Bank has, over the years, committed itself to several social-responsibility initiatives, going that extra mile to offer a positive benefit to the community and its members

NDB Bank's Approach to CSR

NDB Bank's approach to CSR is categorized as follows:

1. Strategic CSR

NDB Bank concentrates on issues that are critical for sustaining economic growth and the success of our business. The focus under this category is on Education and Entrepreneurship. The overall goal is to empower the young people of our nation to face tomorrow's challenges and improve the quality of the Sri Lankan workforce.

2. Corporate Philanthropy

Here, the focus is on uplifting and supporting the most vulnerable. This is the *raison d'être* of the two Trusts managed by NDB Bank, the Prevention of Child Abuse Trust and the NDB Bank Cancer Aid Trust Fund. In addition, a yearly allocation is made for charitable donations to deserving charitable organizations in areas such as education, healthcare, rehabilitation and community development. Employee voluntarism is also encouraged and supported.

3. Operational CSR

Operational CSR is concerned with upholding the principles of sustainable development in the workplace. Initiatives in these areas include measures to ensure ethical business practice, reduce or recycle waste and enhance employee satisfaction.

Initiatives Under Strategic CSR Library Project

In partnership with the Asia Foundation, NDB Bank donates educational books in English to rural schools. The project is carried out through NDB Bank's

branch network, helping build good local-community relations. These books constitute high-quality supplementary reading material on various subjects and helps readers improve their knowledge in English and are of a broad range of general-knowledge and academic subjects, such as mathematics, science, health, natural studies and geography, helping broaden children's view of the world. Advanced texts in mathematics, science, nature and other subjects were also donated for the benefit of the pupils in higher grades.

English Communication Programme

NDB Bank has also made arrangements to sponsor an English Communication Programme (ECP) in partnership with AFLAC International for underprivileged students at three levels: school, university and employment. The object of this project is to provide beneficiaries with an opportunity to learn to communicate effectively in English, giving them the competence to face job interviews and interact socially. The programme also includes a 'personality development' component, which focuses on empowerment and confidence-building. Students are also given guidance on how to write CV's and office memos, manage job interviews, and other 'soft' skills.

Improved English communication is one of the key ingredients in the development of a globally-competitive Sri Lankan labour force. Gaps in the current education system handicap the majority of Sri Lankans in this regard, especially when it comes to securing employment in the private sector-dominated economy. NDB Bank makes a contribution towards rectifying this fundamental shortcoming through this initiative.

Women Empowerment

In partnership with the SewaLanka Foundation and the Women's Development Federation, Hambantota, NDB Bank facilitated and managed a World Bank project whose focus was empowering poor women and young girls in impoverished remote areas of North-Eastern and Southern Regions. The project was funded by the World Bank and executed by NDB Bank together with its partners.



CEO Mr Eran Wickramaratne handing over the project completion report to Ms Naoko Ishii - World Bank Director

Supporting Tsunami Orphans

In partnership with the Women Development Federation, Hambantota, NDB Bank provided a monthly stipend to forty deeply impoverished children orphaned by the 2004 tsunami. NDB Bank grant was towards their education, health and nutrition. NDB Bank has also previously opened Savings Accounts for these children to inculcate the savings habit as well as ensuring a secure future for them financially.

Initiatives under Corporate Philanthropy

NDB Bank Cancer Aid Trust Fund

A major initiative was the establishment of the NDB Bank Cancer Aid Trust Fund (CATF) in October 2007 in partnership with the National Cancer Hospital at Maharagama. This fund addresses the plight of cancer victims with limited means for whom the high cost of

therapy prevents them from completing the full treatment process, often with tragic results.

Given below is a success story of a cancer victim who received assistance from the CATF:

- Pradeepa is a young mother of 2 from Mannar. Her husband is a poor labourer and the meagre income he earns is barely sufficient to clothe and feed his family.
- Pradeepa was pregnant when diagnosed with Carcinoma Rectum Cancer in June 2007. However Pradeepa refused to undergo the operation as she couldn't afford to purchase the 'Staplers' which was essential for her therapy.
- A Stapler Kit, which cost Rs 15,000/-, was way beyond her means. The only alternative was to undergo the operation and have a permanent bag connected to her body to drain and collect all bodily waste.
- This young mother knew she couldn't endure this terrible discomfort and trauma and therefore opted to suffer knowing that her condition would only get worse and soon reach a critical stage.
- Meanwhile, NDB Bank established the Cancer Aid Trust Fund in October 2007 and the first item donated was the Stapler Kits. Pradeepa who suffered for over 6 months was finally able to undergo the operation, which was a success.
- She is now on the road to recovery and eagerly waiting to get back to her normal day-to-day domestic activities. The generous donation

from the CATF has given this young mother a new lease of life and she now faces the future with a smile on her face and a heart full of hope.

The Prevention of Child Abuse Trust

NDB Bank is committed to leading the way in the fight against child abuse. Working closely with the Department of Probation and Childcare over the years, the Trust has initiated several programmes to help eradicate child abuse. In recent years, it has conducted awareness and prevention programmes among schoolchildren, teachers and parents, programmes for the Police Department and numerous publicity initiatives.



An official of the Department of Probation and Childcare Services addressing the parents during the programme

In the year under review, an awareness programme was conducted for 100 children from twenty schools in the Maharagama District on Universal Children's Day and over 600 parents of children in several schools in areas where high incidents of child abuse had been reported. Taking the issue to the media, two Child Rights Promotion Officers of the Department of Probation and Childcare Services were featured in live discussion on ITN's *Pahandora* children's programme in September. The Trust intends to continue with such awareness-raising activities in the foreseeable future.

Other Philanthropic Activities

NDB Bank continued its support to the Sanhinda Girls' Home at Meegoda, which houses over 20 young girls, former street children who have suffered abuse and privation. The Home is financed mainly by charitable donations.



Donation to Sanhinda Girls Home - Meegoda

NDB Bank also opened savings accounts for 50 children at the Ceylon School for the Deaf and Blind.



NDB Bank officials together with some of the sight impaired children

Charitable Giving

NDB Bank has also made donations to charitable concerns dealing with education, healthcare, rehabilitation and community-development, benefiting such groups as the disabled, the economically-disadvantaged, women, the elderly and orphans.

Initiatives under Operational CSR Core Beliefs and Values

Our core beliefs and values are based on the following principles:

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

- *Care.* We will never lose the human touch. We will care for our colleagues, our customers, our community and our environment.
- *Passion.* We will embrace challenges with passion and aggressively pursue our goals.
- *Teamwork.* We will work together as a team, supporting each other, respecting every individual and drawing strength from our diversity.
- *Service.* We will always strive for excellence in serving our internal and external customers through professionalism, innovation and creativity.

Corporate Governance

NDB Bank makes every effort to maintain strong due-diligence procedures in all its transactions and activities. (See the Chapter on Corporate Governance for details.)

Compliance and Code of Conduct

Our Compliance policy and Code of Conduct clearly define the standards of responsibility and ethical conduct expected of NDB Bank employees in relation to the business of NDB Bank. In our view, conformity with these provisions is an integral part of good corporate citizenship.

Ethical Business

NDB Bank's goal is to operate at the highest level of integrity, responsibility and accountability, building on the goodwill it has earned over the years.

Employees

NDB Bank considers its employees its greatest asset. We strive to create an environment in which individuals feel valued and develop their abilities to their

full potential. We regard it as essential that all employees are treated in a manner that is fair and non-discriminatory and that consideration is given to all aspects of employment. We work to create a collaborative culture of mutual respect and every effort is made to give our employees the training they need.

Customer Satisfaction

NDB Bank has an online complaints and tracking system that handles all customer complaints.

Waste Reduction/Recycling

NDB Bank, in collaboration with Neptune Papers (Pvt.) Ltd., makes every effort to collect and recycle the waste paper generated by its day-to-day operations.

A successful waste-reduction and recycling drive supports these efforts.

17,678 Kgs of NDB Bank's waste paper was collected and shredded for the year 2008. This paper which was provided for recycling has saved:

- 300 Trees
- 561,805 Litres of Water
- 70,712 kWh of Electricity
- 31,024 Litres of Oil
- 53 Cubic metres of Land Fill

Further all usable assets that are replaced in upgrading (such as computers and furniture) are donated to deserving institutions.

Innovation

Process Innovation

NDB Bank has developed process improvements by automating document workflows which minimizes paper usage while greatly improving turnaround time.

Product Innovation

As one of the fastest-growing commercial banks in Sri Lanka, NDB Bank offers a broad range of products and services in the fields of corporate and retail financing. NDB Bank contributes to national economic and industrial development by mobilizing capital and credit through innovative products and services.

Environmentally and Socially Responsible Lending

NDB Bank's lending policies ensure that facilities are not extended to industries that engage in illegal activities, pollute the environment, are involved in the sale or manufacture of arms or carry out activities involving forced labour or child labour.

NDB Bank's environmental and social management policy bars funding to certain sectors. Additionally, there are ten major sectors in which NDB Bank undertakes a social and environmental risk analysis on each project before lending and thereafter takes measures to avoid, mitigate or minimize the risks involved. Funding will proceed only if the identified risks can and are thus dealt with.



Risk Management



An Astronomical Risk

This violent, chaotic-looking mass of gas and dust is all that remains of a star fifty times as big as the Sun that exploded around 160,000 years ago in Magellanic Cloud A, a satellite of our own Milky Way galaxy. ‘Supernovas’ like this one are a common type of cosmic catastrophe, yet scientists are unable to predict when and where one might occur: they constitute a form of universal risk.

The Global Financial Crisis

Following the onset of the international financial crisis, banks now operate in a vastly altered and still rapidly-changing environment. Risks, in particular credit, market and liquidity, risks have increased significantly. Markets in general have become more volatile. Market sentiment has reacted sharply against the deterioration of credit standards over the past few years, especially in sub-prime and leveraged lending. The financial problems that became evident in late 2007 and 2008 throttled liquidity in global credit markets and the international banking system. The downturn in the US housing market, risky lending and borrowing practices and excessive individual and corporate debt have had multiple adverse effects on the world economy. The crisis has since passed through various stages, exposing pervasive weaknesses in the global financial system and regulatory framework.

Major banks and other financial institutions around the world have reported losses. In addition, the ability of corporations to obtain funds through the securitization of debt was affected. Liquidity concerns drove central banks around the world to intervene by bailing out defaulting financial corporations at the expense of taxpayers in order to encourage lending. The funding structure at many banks has changed, making it difficult for them to issue debt

beyond the very short term. Longer-term debt offerings have become expensive or impossible to execute. Competition for retail deposits continues to increase in many areas as market funds become less available or more expensive.

The Importance and Objectives of Risk Management

These global financial misadventures enhance the need for effective Risk Management by banks. A strong and pervasive integrated risk-management culture provides a bank with the foundations of a sound process. The framework is so designed that risk (which is inherent in the operations of any bank), is managed in a way consistent with a bank’s objectives, risk tolerance, control standards and management philosophy. As outlined in the Central Bank’s *Mandatory Code of Corporate Governance for Licensed Banks in Sri Lanka*, the Board of Directors is responsible for the overall level of risk assumed and the risk management policies of a bank. The Board charges the management with developing, communicating and implementing these policies and with assigning limits to appropriate business units within the framework of the authority and responsibility assigned to the Management and the Integrated Risk Management Committee. Senior management plays a pivotal role in the daily evaluation and handling of all risks, working closely with line units.

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. Yet, though banks are in the business of taking risk, it is recognized that they need not operate in a manner that unnecessarily exposes them to risks; nor should they absorb risks that might prudently be transferred to other participants. Rather, a bank should accept and manage those risks that attach uniquely and unavoidably to its specific portfolio of products and services.

The main objectives of risk management at any bank are thus to:

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

Clearly, effective risk management is fundamental to the success of any 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.

Integrated Risk Management at NDB Bank

During the year under review, NDB Bank formed a Credit and Market Risk Policy Committee and an Operational Risk Policy Committee, respectively 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 NDB Bank's risk policy framework *vis-à-vis* overall performance and the potential risks faced by specific lines of business.

In addition to the above, Risk Management was further strengthened by the appointment of the members of the Integrated Risk Management Committee by the Board of Directors, in terms of the Banking Act Directions No. 11 of 2007. The Charter of the Integrated Risk Management Committee was formulated and approved by the Board of Directors during the course of the year. The role of the Integrated Risk Management Committee (IRMC) is to assess all risks faced by NDB Bank, through appropriate risk indicators and management information. According to its charter, the committee shall recommend prompt corrective action to mitigate the effects of specific risks whenever they rise above the level defined by the committee as prudent on the basis of Bank's policies and regulatory and supervisory requirements. The committee shall submit regular risk assessments to the Board, seeking its views, concurrence or specific directions.

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

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

NDB Bank's management of each type of risk is given below.

Credit Risk

Credit risk is defined as the potential for loss arising from the failure of a counter-party to perform according to its contractual arrangements with a 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 2.3% as at 31 December 2008.

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 limits of 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, 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 and the Board. Non-performing assets are identified at an early stage, enabling management to take action as appropriate.

NDB Bank follows a prudent provisioning policy, which exceeds the minimum requirements of the Central Bank of Sri Lanka (CBSL).

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 adequacy of controls and identify areas for improvement. The 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 the 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 IRMC and the Board. Its main responsibilities are as follows:

- to monitor the structure and composition of 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 the Bank; and
- to evaluate market risk involved in launching new products.

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.

ALCO's recommendations were positively viewed by the IRMC and approved by the Board of Directors. Accordingly, an approved independent overseas consultant with an outstanding track record in providing similar services throughout the region was selected during the year under review to address the following:

1. Carry out a risk management gap analysis
2. To provide an implementation plan for a best-practice market risk management
3. To 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 compliant market risk management systems - this will enable NDB Bank to elevate its market risk management techniques to the most advanced level 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 to NDB Bank's staff who are involved in the day-to-day operations.
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 the NDB Bank's requirements. The project is expected to be completed by mid-2009.

Liquidity Risk

Liquidity risk is the potential for loss to an institution arising either from its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable costs or losses. It arises when the cushion provided by the institution's liquid assets is insufficient to meet its obligations. In such a case, a bank will often 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 counter-parties, as well as to ensure that a 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' and 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.

The policy of NDB Bank has always been to maintain an optimum liquidity position, substantially above the minimum liquid assets-to-liability ratio of 20% specified by the Central Bank of Sri Lanka. Market and liquidity risks are addressed at IRMC meetings on a quarterly basis.

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 management policies of the 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 risk.

Basel II Compliance

NDB Bank has been fully compliant with Basel II since 1 January 2008 and currently reports its capital-adequacy ratio on a quarterly basis as specified by CBSL guidelines.

As a way forward in order to separate regulatory information requirements and maintain ease of reporting, NDB Bank is looking at improving its existing core banking system.

Internal reviews of the reporting of capital-adequacy ratios are carried out by the internal audit on a regular basis.

Corporate Governance

The Governance Framework

Corporate governance is the process and system by which business corporations are directed and controlled.

The corporate governance structure specifies the distribution of rights and responsibilities among different participants in an enterprise, such as the Board of Directors, management and shareholders. It also spells out rules and procedures for making decisions on corporate affairs. By doing so, corporate governance provides the policies, practices and structures through which the Company's objectives are set, and means of attaining those objectives and monitoring performance. NDB Bank considers good corporate governance to be the cornerstone of a well-managed organization and aspires to the highest standards of governance at all levels from the Board of Directors downward. Cognizant of its responsibility to shareholders and other stakeholders, it is committed to the highest standards of business integrity, ethics and professionalism.

NDB Bank adopted its own Code of Corporate Governance in January 2007. Additionally, the following measures have been in place:

- a well-articulated corporate strategy and overall policy framework geared to measure the success of the overall performance of the organization and the contribution of individuals;
- an organizational structure that clearly defines the assignment of responsibilities and accountability, backed by appropriate financial compensation set at competitive levels;
- an appropriate Board structure and accountability of the Directors with respect to proper stewardship

of NDB Bank's assets, who bring independent judgement to bear on issues of strategy, performance, resources and conduct;

- strong internal control systems including internal audit, which is independent of business lines, compliance and risk-management functions;
- effective internal and external information flows and appropriate financial reporting; and
- promotion of fairness and transparency within NDB Bank.

NDB Bank, being committed to the highest standards of corporate governance, complies with and is guided by regulations relating to corporate governance issued from time to time by the Central Bank of Sri Lanka, the Securities and Exchange Commission, the Colombo Stock Exchange, the Institute of Chartered Accountants of Sri Lanka and the Best Practices on Corporate Governance issued by the Basel Committee on Bank Supervision.

The Bank has complied with the provisions in the Banking Act Direction No. 11 of 2007 with regard to corporate governance, which were required to be complied with, by the end of 2008. Further, it has also endeavoured to progressively develop and improve internal practices.

Board of Directors

Directors represent all shareholders of NDB Bank. Their duty is to ensure that the Corporate Management acts in the best interest of all of stakeholders.

The Board of NDB Bank comprises of eleven Directors, of whom the Chairman and nine others 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 operations and business. The positions of the Chairman and CEO are held separate and based on the annual declarations by the Directors there are no relationships between the members of the Board. The Chairman does not engage in activities involving the direct supervision of the Corporate Management or perform any other executive duties. Vacancies among elected Directors are filled on the recommendation of the Board Nomination Committee.

The Directors of NDB Bank are professionals and eminent persons from both the private and public sectors who are able to add value to NDB Bank and its corporate governance process. The Board has also formulated appropriate checks and balances to ensure that the corporate governance process is upheld at all times. The Board lays strong emphasis on the transparency, accountability and integrity of transactions, in line with NDB Bank's Code of Corporate Governance. While the Board is responsible for providing leadership in respect of the strategic aims of NDB Bank, it is the responsibility of the corporate management to ensure its implementation. To this end, the Board has delegated its authority in operational areas to the corporate management, albeit within clearly defined limits.

The Board met thirteen times during the year under review. Matters considered at these meetings included the approval and review of the corporate strategy, budgets and forecasts, as well as operational and

financial performance, delegation of authority, portfolio quality, approval of loans and reporting to shareholders.

The Board of Directors operate through the following committees: 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 these committees and their membership is detailed in the pages that follow. The Board also delegates its authority to management, which also works 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 the Bank by ensuring the implementation of its overall

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

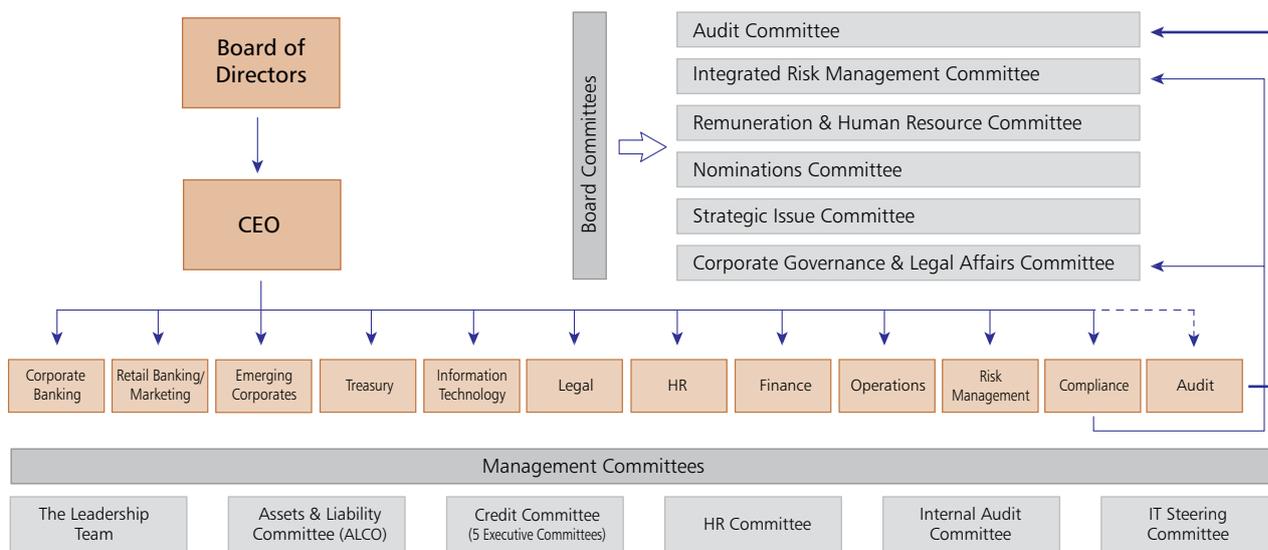
Periodically, the Board reviews the adequacy and the integrity of NDB Bank's internal control systems and management information systems, as well as the implementation of a policy with regard to communication with stakeholders.

Management personnel with significant authority and responsibility for the operations of NDB Bank are identified by the Board and the parameters of their authority defined. Through various

processes, the Directors ensure that there is appropriate oversight of the affairs of NDB Bank by the Corporate Management in line 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 the long-term continuity of NDB Bank, it formulated appropriate succession plans for the Corporate Management. The Board is in constant dialogue with these individuals to ensure that corporate policies and plans are effectively executed.

The Board endeavours to keep abreast of the regulatory environment, maintain sound and effective relationship between NDB Bank and the regulatory authorities and exercise due diligence in the hiring and oversight of external auditors with the assistance of the Audit Committee.



Corporate Governance Requirements Under the Listing Rules of the Colombo Stock Exchange.

Section 6 of the listing rules renders it mandatory for a listed company to publish a table in its Annual Report relating to the financial year

commencing on or after 1 April 2007, setting out in detail its degree of compliance with the CSE's rules of corporate governance as at the date of publication of the Annual Report. Additionally, it requires a company to comply with the aforesaid rules with effect from the financial year

commencing on or after 1 April 2008. Though this requirement only applies to NDB Bank with effect from the year commencing 1 January 2009, NDB Bank nevertheless complies with Section 6, as set out in the table below:

Rule	Present status	Remarks
<p>6.1 Non-Executive Directors</p> <p>(a) The Board of Directors of a listed company shall include at least two Non-Executive Directors; or such number of Non-Executive Directors equivalent to one-third of the total number of Directors, whichever is higher.</p> <p>(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.</p> <p>(c) Any change occurring to this ratio shall be rectified within 90 days from the date of the change.</p>	Complied	Of the eleven Directors' ten are Non-Executive Directors except for the CEO, who is an ex-officio member of the Board.
<p>6.2 Independent Directors</p> <p>Where the constitution of the Board of Directors includes only two Non-Executive Directors in terms of Clause 6.1 above, both such Non-Executive Directors shall be 'independent'. In all other instances two or one-third of Non-Executive Directors appointed to the Board of Directors, whichever is higher shall be 'independent'.</p> <p>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.</p>	Complied Complied	Of the eleven Directors, six Directors are independent. The Board has adopted a scheme of self-assessment based on SEC recommendations of best practice to be undertaken by each Director annually.
<p>6.3 Disclosure Relating to Directors</p> <p>(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'.</p> <p>(b) In the event a Director does not qualify as 'independent' against any of the criteria (provided by the CSE in the Listing Rules) 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.</p>	Complied Not Applicable	Refer page 53 Based on the declarations received from the Directors at year-end, the following Directors are independent. P M Nagahawatte A R Gunasekara S R de Silva R Vokes S T Nagendra R B Thambiayah

Rule	Present status	Remarks
<p>(c) In addition to disclosures relating to the independence of a Director set out above, the Board shall publish in its Annual Report a brief resumé of each Director on its Board which includes information on the nature of his/her expertise in relevant functional areas.</p> <p>(d) Upon appointment of a new Director to its Board, the company shall forthwith provide to the Exchange a brief resumé of such Director for dissemination to the public. Such resumé shall include information on the matters itemized in paragraphs (a), (b) and (c) above.</p>	<p>Complied</p> <p>Complied to the extent of informing the CSE.</p>	<p>Pages 28/29 includes profiles of Directors. In addition to Section 42 of the Banking Act No.30 of 1988 as amended, the provisions set out in the Banking Act Directions No.11 of 2007 on corporate governance have been used to establish the propriety of those who serve as Directors. Additionally, approval of the Central Bank is also obtained when Directors are appointed to the Board.</p>
<p>6.5 Remuneration Committee A listed company shall have a Remuneration Committee in conformity with the following:</p> <p>(a) <i>Composition</i>, The Remuneration Committee shall comprise a minimum 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> <ul style="list-style-type: none"> ● In a situation where both the parent company and the subsidiary are 'listed companies', the Remuneration Committee of the parent company may be permitted to function as the Remuneration Committee of the subsidiary. ● However, if the parent company is not a listed company, then the Remuneration Committee of the parent company is not permitted to act as the Remuneration Committee of the subsidiary. The subsidiary should have a separate Remuneration Committee. ● One Non-Executive Director shall be appointed as Chairman of the Committee by the Board of Directors. <p>(b) <i>Functions</i>, The Remuneration Committee shall recommend the remuneration payable to the Executive Directors and Chief Executive Officer of the listed company and/or equivalent position thereof to the Board of the listed company, which will make the final determination upon consideration of such recommendations.</p> <p>(c) <i>Disclosure in the Annual Report</i>, The Annual Report should set out the names of Directors (or persons in the parent company's committee in the case of a Group company) comprising the Remuneration Committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors.</p> <ul style="list-style-type: none"> ● The term 'remuneration' shall make reference to cash and all non-cash benefits whatsoever received in consideration of employment with the listed company (excluding statutory entitlements such as Employees' Provident Fund and Employees' Trust Fund). 	<p>Complied</p> <p>Complied</p> <p>Not applicable</p> <p>Complied</p> <p>Complied</p> <p>Complied</p>	<p>The Remuneration Committee has five members, three of whom are independent.</p> <p>H D S Amarasuriya is the Chairman of the Committee</p> <p>Remuneration of the CEO and emoluments to Directors is recommended by the Remuneration Committee.</p> <p>Aggregate remuneration is provided in page 60.</p>

Rule	Present status	Remarks
<p>6.6 Audit Committee A listed company shall have an Audit Committee in conformity with the following:</p> <p>(a) <i>Composition</i>, The Audit Committee shall comprise 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> <ul style="list-style-type: none"> ● In a situation where both the parent company and the subsidiary are 'listed companies', the Audit Committee of the parent company may function as the Audit Committee of the subsidiary. ● However, if the parent company is not a listed company, 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. ● One Non-Executive Director shall be appointed as Chairman of the Committee by the Board of Directors. ● Unless otherwise determined by the Audit Committee the Chief Executive Officer and the Chief Financial Officer of the listed company shall attend Audit Committee meetings. ● The Chairman or one member of the committee should be a Member of a recognized professional accounting body. <p>(b) <i>Functions</i> shall include</p> <ul style="list-style-type: none"> ● Oversight of the preparation, presentation and adequacy of disclosures in the Financial Statements of a listed company in accordance with Sri Lanka Accounting Standards. ● Oversight of the Company's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements. ● Oversight over the processes to ensure that the Company's internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards. ● Assessment of the independence and performance of the company's External Auditors. ● 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. <p>(c) <i>Disclosure in the Annual Report</i> 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>	<p>Complied</p> <p>Complied</p> <p>Not applicable</p> <p>Complied</p> <p>Complied</p> <p>Complied</p> <p>Complied</p> <p>Complied</p> <p>Complied</p> <p>Complied</p> <p>Complied</p>	<p>Audit Committee consists of five Non-Executive Directors, three of whom are independent.</p> <p>Dr. G C B Wijeyasinghe is the Chairman of the Audit Committee.</p> <p>The CEO and the External Auditors of the Bank attend meetings by invitation.</p> <p>Chairman and another member of the Audit Committee are members of the Institute of Chartered Accountants of Sri Lanka.</p> <p>The Audit Committee reviews the quarterly and annual Financial Statements prepared in conformity with the Sri Lanka Accounting Standards.</p> <p>The Bank has strictly complied with the information requirements of the Companies Act and the other relevant requirements in the preparation of the Financial Statements.</p> <p>The Audit Committee monitors and reviews the effectiveness of the Bank's internal audit function and the internal control systems.</p> <p>The Audit Committee monitors and reviews the independence and the objectivity of the External Auditors as a part of its duties.</p> <p>The Audit Committee has a primary responsibility to make recommendations to the Board regarding same.</p> <p>Refer Board Committees below.</p>

Rule	Present status	Remarks
<ul style="list-style-type: none"> The committee shall make a determination of the independence of the Auditors and shall disclose the basis for such determination in the Annual Report. 	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 appointment of External Auditors by listed companies, with regard to relationships and services.
<ul style="list-style-type: none"> The Annual Report shall contain a report by the Audit Committee, setting out the manner of compliance by the Company in relation to the above, during the period to which the Annual Report relates. 	Complied	Refer page 66.

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

A Code of Best Practice on Corporate Governance was updated and reissued in June 2008 by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka for voluntary compliance. NDB Bank currently complies with most sections of this code and will endeavour to be fully compliant in future.

Board Committees

In order to ensure Board oversight and control over the affairs of the Bank, in line with sound governance practices, the Board has appointed six sub-committees to oversee specific areas. These Board committees, which comprises of Non-Executive Directors, are the Audit, Integrated Risk Management, Nomination, Strategic Issues, Remuneration & Human Resources and Corporate Governance & Legal Affairs Committees. Their composition and their functions are elaborated below:

Audit Committee

G C B Wijeyesinghe - Chairman
Lal de Mel
A R Gunasekara
R Vokes
S T Nagendra

The Audit Committee is entrusted with the task of reviewing the internal controls, systems and processes of NDB Bank. It also serves as an effective forum for the Board of Directors in discharging their responsibilities and is empowered to review and monitor the financial reporting process of NDB Bank and provide additional assurance of the reliability of Financial Statements through a process of independent and objective review. At the end of 2008, the Audit Committee comprised of five Non-Executive Members of the Board.

Among its other functions, the Audit Committee Charter empowers the Audit Committee to examine any matters relating to the financial affairs of NDB Bank and to review the adequacy of internal control procedures, coverage of internal audit plans etc. NDB Bank has an effective and independent internal audit function, which reports to the Audit Committee. Internal audit covers operational, financial, information systems and credit audits.

The Committee ensures that the audit function is independent of the activities it audits and that impartiality is maintained, with due professional care exercised when carrying out its duties. The internal audit plan and results of the internal audit process are reviewed by the Committee, and where necessary it

is ensured that appropriate actions are taken on the recommendations of the Internal Audit Department.

The Committee also provides a forum for the impartial review of regular internal audit and investigation reports and takes into consideration the major findings and recommendations stated therein relating to significant business risks and control issues, suggesting appropriate remedial measures where necessary.

The Committee also reviews and monitors the external auditors' independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices. Before an external audit commences, its nature and scope is discussed. This discussion includes an assessment of NDB Bank's compliance with the relevant Directions in relation to corporate governance, management controls over financial reporting and the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations. The Committee also recommends to the Board the appointment, reappointment and removal of external auditors and its remuneration. The committee also reviews the statutory examination report of the CBSL and the external auditors' management letter and the response of management thereto.

The Committee reviews the Financial Statements of NDB Bank, its Annual Report, accounts and disclosures and significant financial reporting judgements contained therein before submission to the Board. It is focused particularly on exercises of judgement, changes in Accounting Policies and practices, significant adjustments arising from the audit, going-concern assumptions and compliance with the relevant accounting standards and other legal requirements.

During the year, eight Audit Committee meetings were held with due notice of issues to be discussed, recording its conclusions in discharging its duties and responsibilities. The minutes of committee meetings were formalized and made available to the Directors for their information and necessary action.

Integrated Risk Management Committee

Lal de Mel - Chairman
S R de Silva
A R Gunasekara
(appointed w.e.f. June 2008)
R B Thambiayah
S T Nagendra
H D S Amarasuriya
(resigned w.e.f. June 2008)

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 attend committee meetings as appropriate. The Committee meets at least once in a quarter.

The main responsibility of the Committee is to assess risks faced by NDB Bank, covering mainly credit, market, liquidity

and operational risk. 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 and the Assets and Liability Committee, compliance with local laws and regulations, etc.

The Committee acts to mitigate specific risks in cases where such risks are beyond levels defined as prudent based on internal and regulatory requirements. A quarterly risk assessment report based on the proceedings and outcome of the IRMC meeting is submitted to the Board.

Strategic Issues

P M Nagahawatte - Chairman
G C B Wijeyesinghe
A R Gunasekara
S T Nagendra
R Vokes

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. In the year under review the Board regularly discussed strategic issues. Therefore the reduced need for the Committee to meet frequently.

Remuneration & Human Resources

H D S Amarasuriya - Chairman
S R de Silva
G C B Wijeyesinghe
R Vokes
R B Thambiayah

This Committee is responsible for maintaining NDB Bank's performance and market-oriented staff remuneration policy, enabling NDB Bank to attract the best talent and create incentives

for staff through remuneration. It is further responsible for reviewing the recruitment and promotion of key management personnel. The Committee agrees on the remuneration of the Non-Executive Directors, 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.

Nominations Committee

P M Nagahawatte - Chairman
H D S Amarasuriya
Lal de Mel
A R Gunasekara
S R de Silva

The Nomination Committee is headed by the Chairman of NDB Bank and further consists of five Non-Executive Directors. All new appointments and continuing directorships are reviewed by the Committee, which evaluates the requirements of the Board of Directors and assesses the need for particular skills to be represented on the Board. It is also responsible for the identification of suitable candidates for Board membership based on these evaluations; these candidates are presented to shareholders for appointment at the AGM or whenever a vacancy arises. The Committee has implemented a set procedure for the appointment/selection of Corporate Management.

Corporate Governance and Legal Affairs Committee:

Lal de Mel - Chairman
P M Nagahawatte
R Vokes
S R de Silva
A R Gunasekara

The Corporate Governance and Legal Affairs Committee was established in May 2007 and consists of five Non-Executive Directors. It is mandated with the task of assisting the Board in ensuring compliance with the Companies Act No. 7 of 2007, the Bank's corporate governance code and all rules, regulations and guidelines

issued by regulatory authorities relating to corporate governance for Licensed Commercial Banks. The Committee met five times during the year under review.

The structure and composition of the main Board Committees as at the end of 2008 is set out in the table below, together with a record of the attendance of every Director.

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
Committee/composition															
P M Nagahawatte (Charman)	Non-Executive Independent	13	13					1	1			5	5	5	4
Eran Wickramaratne (CEO)	Executive	9	9												
H D S Amarasuriya	Non-Executive	13	9			1	0			3	3	5	2		
G C B Wijeyesinghe	Non-Executive	13	12	8	5			1	1	3	2				
L de Mel	Non-Executive	13	13	8	7	4	4					5	5	5	5
S R de Silva	Non-Executive Independent	13	13			4	3			3	3	5	5	5	3
A R Gunasekera	Non-Executive Independent	13	12	8	7	2	2	1	1			5	5	5	5
S T Nagendra	Non-Executive Independent	13	10	8	5	4	3	1	1						
R B Thambiayah	Non-Executive Independent	13	9			4	4			3	1				
R Vokes	Non-Executive Independent	13	10	8	3			1	0	3	2			5	1
S Yaddehige	Non-Executive	13	10												

Compliance

NDB Bank has an effective process in place to ensure compliance with applicable laws and regulations pertaining to the banking industry (including the Prevention of Money Laundering Act No. 5 of 2006 and related Acts), the Companies Act No. 7 of 2007 and the Listing Rules of the Colombo Stock Exchange. A dedicated Compliance Department headed by a senior officer independently monitors adherence to all applicable laws, regulations and statutory requirements noted above and reports to the Integrated Risk Management and the Corporate Governance & Legal Affairs Committees. Quarterly reports are submitted to the

Integrated Risk Management Committee confirming compliance with NDB Bank's compliance policy and code of conduct in addition to compliance with external laws and regulations. These reports are tabled at Board meetings for information. The Compliance Department further 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 Bank has further strengthened its 'Know Your Customer' (KYC) and anti-money laundering practices by implementing the new KYC regulations issued by the Financial Intelligence Unit

under the Financial Transaction Reporting Act No. 6 of 2006. NDB Bank's front-line and operational staff are provided with appropriate training in the relevant areas by the Compliance Department. The objectives of this are to ensure that business activities are conducted in accordance with all laws and regulations pertaining to the banking industry and the other laws of the Republic and that all employees follow accepted ethical standards in the discharge of their duties. In order to ensure compliance with anti-money laundering legislation, reporting is done by the respective departments of NDB Bank to the Financial Intelligence Unit through the Compliance Department.

NDB Group Companies

As at 31 December 2008

**Aviva NDB Finance Lanka
(Pvt) Ltd.**

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

(Holding Company of
Eagle Insurance Company PLC)

NDB Group's Investment	Rs 741 mn
Profit after Tax	Rs 345 mn
Net Assets	Rs 2,064 mn

Directors:
R Arora (*Chairman*), C T Brackenrig
S Roye, Eran Wickramaratne,
*P M Nagahawatte (*Resigned w.e.f.*
31.12.2008), N S Welikala (*Appointed w.e.f.*
31.12.2008)
NDB Bank's indirect holding - 41.42%

■ Aviva International Holding Ltd.	58.44%
■ Capital Development & Investment Company PLC	41.56%

Eagle Insurance Company PLC.

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

(Insurance)

NDB Group's Investment	Rs 741 mn
Profit after Tax	Rs 527 mn
Net Assets	Rs 2,025 mn

Directors:
C T Brackenrig (*Chairman*),
D Sooriyaarachchi (*Managing Director*),
Ms M Sigsworth, S Roye, G Salmon,
Eran Wickramaratne, D S P Wickramanayake,
L de Mel, I Wickramasinghe, N S Welikala
(*Alternate to E Wickramaratne*)
NDB Bank's holding (direct and indirect)
- 41.14%

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

**Capital Development and
Investment Company PLC.**

40, Navam Mawatha,
Colombo 2
Tel: +94 11 2437701

(Venture Capital)

NDB Group's Investment	Rs 2,331 mn
Profit after Tax	Rs 548 mn
Net Assets	Rs 4,204 mn

Directors:
L de Mel, N S Welikala (*Resigned w.e.f.*
05.05.2008 & reappointed w.e.f.
26.09.2008), Eran Wickramaratne (*Appointed*
w.e.f. 05.05.2008), A R Gunasekara
(*Resigned w.e.f. 31.12.2008*), K Dharmasiri
(*Resigned w.e.f. 16.07.2008*),
Ms B C D Wijayakulasuriya (*Alternate to*
K Dharmasiri, Resigned w.e.f. 16.07.2008)
A Wickramaratne (*Appointed w.e.f. 16.01.09*)

■ NDB Bank	99.6%
■ Others	0.40%

NDB Investment Bank Ltd.

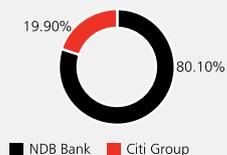
40, Navam Mawatha,
Colombo 2
Tel: +94 11 2300385

(Investment Banking)

NDB Group's Investment	Rs 32 mn
Profit after Tax	Rs 29 mn
Net Assets	Rs 118 mn

Directors:

P M Nagahawatte (*Appointed w.e.f. 16.01.2008 and resigned w.e.f. 31.12.2008*), N S Welikala, Eran Wickramaratne, L de Mel, A Wickremeratne, V Kulatilleke (*CEO and Ex-Officio Director*), D G Perera (*Appointed w.e.f. 15.01.2009*)



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 7 mn
Net Assets	Rs 145 mn

Directors:

P M Nagahawatte (*Appointed w.e.f. 01.01.2008 and Resigned w.e.f. 31.12.2008*), N S Welikala, L de Mel, S N Jayasinghe, D S P Wikramanayaka



Development Holdings (Pvt) Ltd.

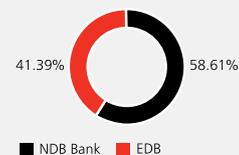
42, Navam Mawatha,
Colombo 2
Tel: +94 11 2436279

(Property Development)

NDB Group's Investment	Rs 228 mn
Profit after Tax	Rs 79 mn
Net Assets	Rs 1,283 mn

Directors:

S N Jayasinghe, E D K Weerasuriya, D Seneviratne, S. Weerakoon, M K G Mendis A R Gunasekara (*Resigned w.e.f. 31.12.2008*), (Mrs) C L Jayawardena, Dr. G C B Wijeyesinghe, Mr A Koswatte, Mr P A A Panditharatne (*All four appointed w.e.f. 16.01.2009*)



Maldives Finance Leasing Company (Pvt) Ltd.

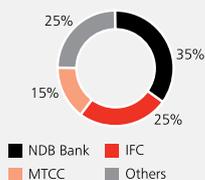
12, Boduthakurufaanu Magu,
Male 20-094, Republic of Maldives
Tel: +(960) 315605/315606

(Leasing)

NDB Group's Investment	Rs 165 mn
Profit after Tax	Rs 80 mn
Net Assets	Rs 786 mn

Directors:

Rifaath Jaleel (*Chairman*), Eran Wickramaratne (*Appointed w.e.f. 01.04.2008*), N S Welikala (*Resigned w.e.f. 31.03.2008*), G Galludec (*Resigned w.e.f. 19.12.2008*) I Shaheen, F Manike, H Afeef, M Zameer, S D Soosaipillai (*CEO*)



Ayojana Fund (Pvt) Ltd.

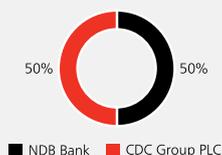
7th Floor, McLarens Building,
123, Bauddhaloka Mawatha, Colombo 4
Tel: +94 11 4510505

(Venture Capital)

NDB Group's Investment	Rs 0.1 mn
Profit after Tax	Rs 0.1 mn
Net Assets	Rs 73 mn

Directors:

Ms R L Nanayakkara (*Chairman*), Dr G C B Wijeyesinghe, Brian Lim, N S Welikala (*Resigned w.e.f. 01.05.2008*), A Wickramaratne (*Appointed w.e.f. 01.05.2008*)



NDB Venture Investments (Pvt) Ltd.

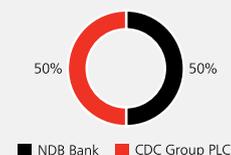
7th Floor, McLarens Building,
123, Bauddhaloka Mawatha, Colombo 4
Tel: +94 11 4510505

(Venture Capital)

NDB Group's Investment	Rs 35 mn
Profit after Tax	Rs 5 mn
Net Assets	Rs 115 mn

Directors:

Ms R L Nanayakkara (*Chairman*), G C B Wijeyesinghe, Brian Lim, N S Welikala (*Resigned w.e.f. 01.05.2008*), A Wickramaratne (*Appointed w.e.f. 01.05.2008*)



Carina Nebula
HST ACS/WFC
CTIO Blanco 4m MOSAIC2

Trumpler 16
Star Cluster

HDE 303308

η (Eta)
Carinae



e1

Keyhole Nebula

CPD-59°2603

HD 93205

HD 93204



HD 93250

Bright-Rimmed
Globules

Financial Report and Notes to the Accounts

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Financial Calendar 2008

Interim Quarterly Unaudited Reports for 2008	
March	29 May 2008*
June	30 August 2008*
September	29 November 2008*
December	24 February 2009*

Annual Reports and Accounts

2006	4 April 2007
2007	4 April 2008
2008	6 March 2009

Meetings

Thirteenth Annual General Meeting	6 May 2005
First Annual General Meeting for National Development Bank PLC	26 April 2006
Second Annual General Meeting	26 April 2007
Third Annual General Meeting	29 April 2008
Fourth Annual General Meeting	30 March 2009

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**

* Published in the newspapers

** Subject to approval by the Shareholders

Making Sense of Complexity

A superimposed topographical map reveals the structure of Eta Carinae, the chaotic nebula depicted on pp. 56-57. The statements and figures in this section similarly lay bare the operations and results of the universal bank in the year under review.

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 2008.

PRINCIPAL ACTIVITIES

The principal activities of NDB Bank and NDB Group are described under Note 1 to the Financial Statements on page 80.

Details of the NDB Group Companies Indicating NDB Bank's own holding in key companies are shown on pages 54 and 55.

REVIEW OF BUSINESS

The Chairman's Review, the Chief Executive's Review, the Financial Review and the Management Discussion & Analysis and the Corporate Governance Report 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 2008 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 68 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 2008 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 53.

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 3,118 mn (compared to Rs 3,058 mn in 2007). After deducting Rs 1,409 mn (compared to Rs 1,421 mn in 2007) for taxation, the profit after tax for the year amounted to Rs 1,708 mn (compared to Rs 1,637 mn in 2007).

NDB Bank's profit before taxation amounted to Rs 2,359 mn (compared to Rs 2,342 mn in 2007). After deducting Rs 1,164 mn (compared to Rs 1,238 mn in 2007) for taxation, the profit after tax for the year amounted to Rs 1,195 mn (compared to Rs 1,104 mn in 2007).

Details are given in the Income Statement on page 68.

FINAL DIVIDEND

The Directors propose that a final dividend of Rs 6.75 per share, be paid out of the profits of NDB Bank for the year 2008. NDB Bank paid a final dividend for the previous year of Rs 6.00 per share.

Details of the reserves are shown in the Statement of Changes in Equity on page 72.

PROPERTY, PLANT & EQUIPMENT AND DEPRECIATION

Details of the property, plant & equipment of NDB Bank, additions made during the year and the

depreciation charges for the year are shown in Note 30 to the Financial Statements on page 96.

DONATIONS

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

Description	Rs
NDB Bank Cancer Aid Trust Fund	500,000
Prevention of Child Abuse Trust	500,000
Tsunami Orphans Project	200,000
Martin Wickramasinghe Trust	200,000
Sanhinda Girls' Home - Meegoda	100,000
The Ceylon Association for the Mentally Retarded	100,000
Library Project for Rural Schools	662,500
Accident Ward - National Hospital	65,965
The Sri Lanka Cancer Society	50,000
Donation to Flood Victims	50,000
Donation of Bicycles to Poor Residents of Hambantota and Kataragama	200,000
Savings Accounts opened for 50 Children in The Ceylon School for the Deaf & Blind	250,000
Essay Competition - Eisenhower Fellowships Association of Sri Lanka	150,000
Donation of Chairs to the Lady Ridgeway Hospital	44,000
Donation of Medication to the Armed Forces	50,000
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 & Youth Welfare	50,000
Sri Lanka Economic Association	50,000
National Federation of Sports for the Disabled	50,000
AFLAC International	50,000
AFLAC International - English Communication Programme	3,080,000
The Victoria Home for Incurables	200,000
Sri Lanka Army Rehabilitation Fund	200,000
The Children's Heart Project of Sri Lanka	200,000
Leonard Cheshire Disability Resource Centre	75,000
Educate a Child Trust	50,000
HelpAge Sri Lanka	150,000
Sri Lanka Sumithrayo	50,000
NDB Bank Professor of Entrepreneurship Chair in Partnership with University of Moratuwa	2,900,000
EDEX Website Development & Maintenance Project	500,000
	10,977,465

CORPORATE SOCIAL RESPONSIBILITY

The report on the Community Upliftment by NDB Bank is given on pages 36 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. During the last quarter of 2006, the Central Bank mandated that banks build up a 1% general provision on their performing portfolio and have given them time to make this provision over ten quarters ending on 31 March 2009. However, NDB Bank had accounted for the 100% general provision requirement as at 31 December 2008 (which amounted to Rs 476 mn).

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

The NDB Bank obtained the necessary approvals from regulatory authorities both in Sri Lanka and Bangladesh including the Central Bank of Sri Lanka, to make an investment in Capital Market Services Ltd., Bangladesh. Accordingly, the Bank invested in Capital Market Services Ltd., Bangladesh and acquired a controlling interest in the investee company in January 2009.

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

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 the Colombo Stock Exchange on 24 December 2007 by way of an introduction. The proceeds of these debentures were utilized for re-lending purposes.

DIRECTORATE

In terms of the provisions of the Articles of Association of NDB Bank, the Board of Directors, as at 31 December 2008, consisted of eleven Directors, including the Chairman, was made up as follows:

- Five (5) Directors appointed as the first Directors of National Development Bank Ltd.
- The Chief Executive Officer is an ex-officio Director, with voting rights.

- Four (4) Directors appointed by the shareholders on casual vacancies.
- One (1) 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 in January 2008, of the Eleven (11) Directors, Six (6) Directors are independent. The others include the CEO and the Government nominee.

INTEREST REGISTER

NDB 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 and remuneration paid to the Executive Directors. 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 62 to 64 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 2008 are as follows:

	Bank	Group
Directors' Fees and emoluments (mn)	15.30	15.31

Insurance and Indemnity

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

MAJOR SHAREHOLDERS

The 20 largest shareholders of NDB Bank as at 31 December 2008 are given on page 111 together with an analysis of the shareholdings. As at that date NDB Bank had 7,010 shareholders.

BOARD SUB-COMMITTEES

There are six permanent sub-committees of the Board which are as follows:

1. Integrated Risk Management Committee
2. Audit Committee
3. Strategic Issues Committee
4. Remuneration and Human Resources Committee
5. Nominations Committee
6. Corporate Governance and Legal Affairs Committee.

Members of these six committees during the year are given on the Inner Back Cover.

DIRECTORS' SHAREHOLDINGS

Shareholdings of the Directors in NDB Bank as at the year-end and their corresponding holdings as at the end of the previous year are as shown below:

Name	As at 31.12.08	As at 31.12.07
H D S Amarasuriya	9,075	9,075
A R Gunasekara	883	883
G C B Wijeyesinghe	–	–
Eran Wickramaratne	–	–
S R de Silva	–	–
Lal de Mel	15,541	15,541
S T Nagendra	4,575	4,575
R B Thambiyah	–	–
R W A Vokes	–	–
S Yaddehige	3,888,200	4,174,500

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 DIRECTIONS NO. 11 OF 2007 (CORPORATE GOVERNANCE FOR LICENSED COMMERCIAL BANKS IN SRI LANKA)

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

The Board of Directors confirms that:

- (a) NDB Bank has commenced compliance with the Directions from 1 January 2008, and is fully compliant with the said Directions as at 31 December 2008. Further it has also endeavoured to progressively develop and improve internal practices;

- (b) 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 2008, and also to include the relevant affirmative statements in the Annual Report.

In the circumstances, NDB Bank is in the process of taking necessary steps to comply with the above requirements from 1 January 2009, the date on which the applicable financial year of NDB Bank begins.

However, the status of NDB Bank's compliance to the listing rules of Corporate Governance as at 31 December 2008 is tabulated in pages 48 to 51.

AUDITORS

The Financial Statements for the year ended 31 December 2008 have been audited by M/s. Ernst & Young, Chartered Accountants.

Fees to Auditors

The fees paid to Auditors during the year was Rs 3.8 mn (2007 - Rs 2.8 mn) for audit work and Rs 1.0 mn for non-audit work (2007 - Rs 0.5 mn).

Re-appointment of Auditors

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

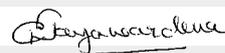
For and on behalf of the Board



P M Nagahawatte
Chairman



Eran Wickramaratne
Chief Executive Officer



C L Jayawardena
Secretary to the Board

18 February 2009

Directors' Interests in Contracts with NDB Bank

	Relationship	Accommodation Granted/Deposits	Balance Outstanding as at 31.12.2008 Rs. '000	Balance Outstanding as at 31.12.2007 Rs. '000
(a) Mr P M Nagahawatte				
NDB Investment Bank Ltd.	Chairman/Director	Loans/Advances	4	92
		Deposits	2	841
NDB Stockbrokers (Pvt) Ltd.	Chairman/Director	Deposits	-	7,620
(b) Mr H D S Amarasuriya				
Singer (Sri Lanka) PLC	Chairman	Loans/Advances	400,116	561,659
		Off Balance Sheet Accommodations	89,032	399,448
		Investment in Debentures	-	175,000
		Deposits	1,548	-
Regnis (Lanka) PLC	Chairman	Loans/Advances	146,808	163,008
		Off Balance Sheet Accommodations	26,895	301,461
		Deposits	505	362
Commercial Leasing Company Ltd.	Chairman	Loans/Advances	415,181	185,646
		Deposits	533	-
Bata Shoe Company of Ceylon Ltd.	Director	Loans/Advances	15,000	29,558
		Deposits	4,303	1,274
(c) Dr G C B Wijeyesinghe				
Singer (Sri Lanka) PLC	Director	Loans/Advances	400,116	561,659
		Off Balance Sheet Accommodations	89,032	399,448
		Investment in Debentures	-	175,000
		Deposits	1,548	-
Regnis Lanka PLC	Director	Loans/Advances	146,808	163,008
		Off Balance Sheet Accommodations	26,895	301,461
		Deposits	505	362
Central Finance Company PLC	Director	Loans/Advances	50,000	-
		Deposits	203	336
Ceylon Trading Company Ltd.	Director	Deposits	10,000	-
(d) Mr L de Mel				
Capital Development & Investment Company PLC	Chairman	Deposits	869,657	2
		Investment in REPOs	1,555,000	1,062,430
Cisco Speciality Packaging (Pvt) Ltd.	Director	Loans/Advances	17,206	33,088
Eagle Insurance Company PLC	Director	Loans/Advances	4,654	22,936
		Off Balance Sheet Accommodations	4,878	1,873
		Deposits	32,806	21,572
NDB Stockbrokers (Pvt) Ltd.	Director	Deposits	-	7,620
NDB Investment Bank Ltd.	Director	Loans/Advances	4	92
		Deposits	2	841
(e) Mr S R De Silva				
Lanka Walltile PLC	Director	Loans/Advances	3,890	3,453
Lanka Walltile (Meepe) (Pvt) Ltd.	Director	Loans/Advances	41,098	3,103
Lanka Tiles PLC	Director	Loans/Advances	1,339	1,929
(f) Mr A R Gunasekara				
Capital Development & Investment Company PLC	Director	Deposits	869,657	2
		Investment in REPOs	1,555,000	1,062,430
Development Holdings (Pvt) Ltd.	Director	Deposits	5,613	13,946
		Investment in REPOs	54,100	18,000

	Relationship	Accommodation Granted/Deposits	Balance Outstanding as at 31.12.2008 Rs. '000	Balance Outstanding as at 31.12.2007 Rs. '000
(g) Mr Eran Wickramaratne				
Capital Development & Investment Company PLC	Director	Deposits	869,657	2
		Investment in REPOs	1,555,000	1,062,430
NDB Investment Bank Ltd.	Director	Loans/Advances	4	92
		Deposits	2	841
Eagle Insurance Company PLC	Director	Loans/Advances	4,654	22,936
		Off Balance Sheet Accommodations	4,878	1,873
		Deposits	32,806	21,572
Eagle NDB Fund Management Co. Ltd.	Director	Deposits	6,275	-
(h) Mr S T Nagendra				
Acme Printing & Packaging PLC	Chairman	Loans/Advances	49,516	76,261
		Off Balance Sheet Accommodations	3,192	181,602
		Deposits	-	2,086
Acme Packaging Solutions (Pvt) Ltd.	Chairman	Loans/Advances	33,840	22,338
		Off Balance Sheet Accommodations	1,479	-
		Deposits	-	2,085
Lanka Aluminium Industries PLC	Director	Loans/Advances	98,444	85,562
		Off Balance Sheet Accommodations	2,583	43,223
Texlan (Lanka) Ltd.	Director	Loans/Advances	423,864	327,927
		Off Balance Sheet Accommodations	3,256	11,226
		Deposits	47,604	327
Texlan Centre (Pvt) Ltd.	Director	Loans/Advances	22	60,995
		Off Balance Sheet Accommodations	21,960	574,323
		Deposits	21,711	-
Filotex (Lanka) Ltd.	Director	Loans/Advances	3,471	-
		Deposits	-	942
Residence Peelawatte (Pvt) Ltd.	Director	Deposits	409	-
CIC Agri Businesses (Pvt) Ltd.	Director	Loans/Advances	93,014	-
		Off Balance Sheet Accommodations	338,387	-
Metecno Lanka (Pvt) Ltd.	Director	Loans/Advances	34,135	5,179
		Off Balance Sheet Accommodations	68,217	18,918
(i) Dr S Yaddhegige				
Richard Pieris & Company PLC	Chairman/ Managing Director/ CEO	Loans/Advances	166,361	214,686
		Off Balance Sheet Accommodations	50,235	95,551
		Deposits	1,685,468	2,901,169
Richard Pieris Exports Ltd.	Chairman	Advances/Loans	104,331	37,121
		Deposits	17	17
Richard Pieris Distributors Ltd.	Chairman	Advances/Loans	98,844	1,192,521
		Off Balance Sheet Accommodations	600	4,529
		Deposits	28,037	6,621
Arpico Interiors (Pvt) Ltd.	Chairman	Advances/Loans	15,591	57,901
		Off Balance Sheet Accommodations	25,546	1,681,982
Arpidag International (Pvt) Ltd.	Chairman	Advances/Loans	114,750	183,949
		Off Balance Sheet Accommodations	52,387	1,414,887
RPC Management Services (Pvt) Ltd.	Chairman	Advances/Loans	-	25,981
Kegalle Plantations PLC	Chairman	Advances/Loans	257,393	150,233
		Deposits	482	-
Maskeliya Plantations PLC	Chairman	Advances/Loans	231,409	359,435
		Deposits	198	-

Directors' Interests in Contracts with NDB Bank

	Relationship	Accommodation Granted/Deposits	Balance Outstanding as at 31.12.2008 Rs. '000	Balance Outstanding as at 31.12.2007 Rs. '000
RPC Logistics Ltd.	Chairman	Advances/Loans	12,846	23,955
RPC Construction (Pvt) Ltd.	Chairman	Advances/Loans	91,361	–
		Deposits	–	521
Arpico Plastics Ltd.	Chairman	Advances/Loans	–	29,052
		Off Balance Sheet Accommodations	–	992,399
		Deposits	32,917	–
Plastishells Ltd.	Chairman	Advances/Loans	232,348	249,993
		Off Balance Sheet Accommodations	417	–
Richard Pieris Rubber Products Ltd.	Chairman	Advances/Loans	32,323	27,312
		Off Balance Sheet Accommodations	–	151,223
Richard Pieris Tyre Company Ltd.	Chairman	Advances/Loans	286,347	482,807
		Off Balance Sheet Accommodations	–	43,042
		Deposits	38	186,603
Richard Pieris Natural Forms Ltd.	Chairman	Advances/Loans	201,128	328,950
Arpico Homes Ltd.	Chairman	Advances/Loans	73,225	71,019
		Deposits	–	1
RPC Retail Development (Pvt) Ltd.	Chairman	Deposits	–	4,046
RPC Real Estate Development Company (Pvt) Ltd.	Chairman	Deposits	–	1,827
RPC Precision Craft (Pvt) Ltd.	Chairman	Advances/Loans	–	5,668
RPC Timber Line (Pvt) Ltd.	Chairman	Advances/Loans	–	34,847
		Deposits	663	726
Richard Pieris Group Services (Pvt) Ltd.	Chairman	Loans/Advances	368	–
Rivira Media Corporation (Pvt) Ltd.	Chairman	Loans/Advances	–	97,716
		Deposits	3,519	–
Arpico Natural Latex Forms (Pvt) Ltd.	Chairman	Advances/Loans	–	14,905
		Deposits	91,661	–
Richard Pieris Plantation (Pvt) Ltd.	Chairman	Advances/Loans	7,913	–
Arpimalls Development Company (Pvt) Ltd.	Chairman	Advances/Loans	8,022	831
Arpico Industrial Development Company (Pvt) Ltd.	Chairman	Advances/Loans	19,071	–
Namunukula Plantations PLC	Chairman	Advances/Loans	145,000	–
		Deposits	45,287	–
Arpico Flexifoam (Pvt) Ltd.	Chairman	Advances/Loans	86,081	–
		Off Balance Sheet Accommodations	4,579	–
R P C Global Travels (Pvt) Ltd.	Chairman	Advances/Loans	3,373	–
Richard Pieris Rubber Compounds Ltd.	Chairman	Advances/Loans	155,481	247,635
		Off Balance Sheet Accommodations	10,784	1,194,966
Arpitech (Pvt) Ltd.	Chairman	Advances/Loans	108,792	119,324
		Off Balance Sheet Accommodations	–	20,637
R P C Polymers (Pvt) Ltd.	Chairman	Advances/Loans	271,058	144,645
		Off Balance Sheet Accommodations	80,692	7,055
(j) Mr R B Thambiayah				
Renuka Hotels Ltd.	Chairman/ Managing Director	Deposits	5,720	–
Lancaster Holdings Ltd.	Chairman/ Managing Director	Deposits	2,019	–
Renuka Properties Ltd.	Chairman/ Managing 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'.

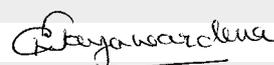
The Directors have been responsible for taking reasonable measures and care to safeguard the assets of NDB Bank and the NDB Group and to prevent and detect frauds and other irregularities.

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 66 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 67 of this report.

By Order of the Board



C L Jayawardena
Secretary to the Board

18 February 2009

Audit Committee Report

The Audit Committee is empowered to review and monitor the financial reporting process of National Development Bank PLC (NDB Bank), so as to provide additional assurance on the reliability of the Financial Statements through a process of independent and objective review. As such, the Audit Committee acts as an effective forum in assisting the Board of Directors in discharging their responsibilities of ensuring the quality of financial reporting and related communications to the shareholders and the public.

As at year end, the Audit Committee comprised five non-executive members of the Board. The CEO, Vice-President (Audit & Compliance), Head of Audit, Audit Staff, Compliance Officer, representatives from the External Auditors and relevant Operational Managers attend these meetings by invitation. The Vice-President (Audit & Compliance) functions as the Secretary to the Committee.

The Board Audit Committee's authority, responsibilities and the specific duties have been formalized through an Audit Committee Charter. By this, the Audit Committee is empowered among other things to examine any matters relating to the financial affairs of NDB Bank and to review the adequacy of the internal control procedures, coverage of internal and external audit programmes, disclosure of accounting policies, compliance with statutory and corporate governance requirements. The Committee also provides a forum for the impartial review of the reports of internal and external audits and to take into consideration findings and recommendations stated therein relating to significant business risks and control issues.

The Audit Committee reviews significant business risks and internal control issues and suggests appropriate remedial measures where necessary. The Committee along with the Board reviewed the quarterly financial results to ensure compliance with mandatory banking and statutory requirements.

The Compliance Officer monitors NDB Bank's compliance with the applicable laws and regulations and its employees' compliance with NDB Bank's Compliance Policy/Code of Conduct by all employees. This includes the Bank's compliance with Anti-Money Laundering Act, Financial Transaction Reporting Act, Suppression of Terrorist Financing Act and enforcing Know Your Customer (KYC) regulations within the entire Bank. The Compliance Officer reports to the Integrated Risk Management Committee and the Board of Directors and submits a quarterly statement on the status of NDB Bank's compliance with Central Bank Directions/Regulations, Local Statutory Requirements and appropriate International Regulations.

During the year, eight Audit Committee meetings were held and reports of internal and external audits were discussed at these meetings. The minutes of the Committee were made available to the Board of Directors for information and necessary action.

Based on the reports submitted by the External Auditors, Internal Auditors and the risk reviews performed by NDB Bank, the Audit Committee is of the view that the control environment prevalent within NDB Bank is satisfactory and provides reasonable assurance that the financial position of NDB Bank is adequately monitored and its assets are safeguarded.

The Audit Committee has recommended to the Board of Directors that M/s. Ernst & Young, (Chartered Accountants) be re-appointed as Auditors for the financial year ending 31 December 2009, subject to the approval of the shareholders at the Annual General Meeting.



G C B Wijeyesinghe
Chairman

Board Audit Committee

18 February 2009

Independent Auditor's Report



Chartered Accountants

201 De Saram Place
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Colombo 10
Sri Lanka

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Fax Gen : (0) 11 2697369
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eysl@lk.ey.com

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL DEVELOPMENT BANK PLC

Report on the Financial Statements

We have audited the accompanying financial statements of National Development Bank PLC ("Bank"), the consolidated financial statements of the Bank and its subsidiaries, which comprise the balance sheets as at December 31, 2008 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 68 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 December 31, 2008 and the financial statements give a true and fair view of the Bank's state of affairs as at December 31, 2008 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at December 31, 2008 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 Section 153(2) to 153(7) of the Companies Act No. 7 of 2007.

(Sgd.)

Ernst & Young

Chartered Accountants

Colombo
18 February 2009

Partners: A D B Talwatte FCA FCMA T K Bandaranayake FCA 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 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		
		2008 Rs '000	2007 Rs '000	% Change	2008 Rs '000	2007 Rs '000	% Change
GROSS INCOME	2	12,093,491	9,527,321	27	12,522,183	10,071,656	24
Interest income	3	10,522,663	8,232,445	28	10,860,240	8,598,627	26
Interest expenses	4	7,367,793	5,210,744	41	7,072,994	5,076,227	39
NET INTEREST INCOME		3,154,870	3,021,701	4	3,787,246	3,522,400	8
Other income	5	1,570,828	1,294,876	21	1,661,943	1,473,029	13
NET INCOME		4,725,698	4,316,577	9	5,449,189	4,995,429	9
OPERATING EXPENSES	6						
Personnel costs		1,070,053	866,711	23	1,129,012	931,871	21
Staff retirement benefits	7	20,015	14,910	34	22,104	17,395	27
Other administrative and general expenses	8	1,152,624	1,023,315	13	1,237,217	1,102,217	12
Total operating expenses		2,242,692	1,904,936	18	2,388,333	2,051,483	16
PROFIT BEFORE PROVISIONS		2,483,006	2,411,641	3	3,060,856	2,943,946	4
Provision for bad and doubtful debts and for fall in value of securities	9	124,450	69,372	79	115,707	65,122	78
		2,358,556	2,342,269	1	2,945,149	2,878,824	2
Share of associate companies' profit	10	–	–	–	172,403	179,392	(4)
PROFIT BEFORE TAXATION		2,358,556	2,342,269	1	3,117,552	3,058,216	2
Taxation	11	(1,163,794)	(1,238,477)	(6)	(1,409,363)	(1,421,432)	(1)
PROFIT FOR THE YEAR		1,194,762	1,103,792	8	1,708,189	1,636,784	4
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		1,194,762	1,103,792	8	1,604,790	1,521,374	5
MINORITY INTEREST		–	–	–	103,399	115,410	(10)
		1,194,762	1,103,792	8	1,708,189	1,636,784	4
Earnings per share (in Rs)	13				19.61	18.59	
Dividend per share (in Rs) - paid		6.00	5.00		6.00	5.00	

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 73 to 104 are an integral part of these Financial Statements.

18 February 2009

Balance Sheet

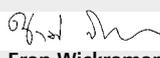
As at 31 December	Note	NDB BANK			NDB GROUP		
		2008 Rs '000	2007 Rs '000	% Change	2008 Rs '000	2007 Rs '000	% Change
ASSETS							
Cash and short-term funds	14	3,622,414	4,343,467	(17)	4,250,099	6,056,052	(30)
Balances with Central Bank	15	1,632,908	1,692,227	(4)	1,632,908	1,692,227	(4)
Investment in sinking fund	16	17,299	10,000	73	17,299	10,000	73
Investments held for trading	17	8,270,907	9,061,047	(9)	8,270,907	9,061,047	(9)
Investments held to maturity	18	9,110,675	4,560,807	100	9,475,601	4,842,835	96
Dealing securities	19	323,340	373,353	(13)	323,340	373,353	(13)
Commercial paper		422,132	413,636	2	422,132	413,636	2
Bills of exchange	20	2,247,326	2,121,467	6	2,247,326	2,121,467	6
Loans and advances	21	49,643,632	45,361,874	9	49,660,524	45,373,110	9
Lease rentals receivable	22	1,910,423	1,819,971	5	1,910,423	1,819,971	5
Interest receivable on loans and advances	23	770,761	504,045	53	770,761	504,045	53
Investments in subsidiary companies	26	2,617,913	1,456,466	80	-	-	-
Investments in associate companies	27	200,562	200,562	-	1,392,895	1,209,938	15
Group balances receivable	28	2,403	17,724	(86)	347	437	(21)
Other assets	29	788,618	466,702	69	925,054	627,219	47
Deferred tax		-	32,731	(100)	-	33,125	(100)
Property, plant & equipment	30	758,317	775,823	(2)	780,629	804,412	(2)
Investment property	31	-	-	-	1,200,000	1,200,000	-
Total assets		82,339,630	73,211,902	12	83,280,244	76,142,874	9
LIABILITIES							
Deposits	33	31,913,946	25,623,670	25	31,091,397	25,623,670	21
Borrowings	34	26,101,755	26,402,459	(1)	24,432,302	25,304,264	(3)
Securities sold under repurchase agreement		10,560,405	8,843,115	19	10,560,405	8,843,115	19
Other liabilities	35	3,298,175	2,501,143	32	3,364,127	2,580,479	30
Taxation		243,053	419,679	(42)	343,853	521,596	(34)
Deferred tax	36	8,267	-	100	7,873	-	100
Dividends payable		249,866	170,086	47	249,866	170,086	47
Total liabilities		72,375,467	63,960,152	13	70,049,823	63,043,210	11
SHAREHOLDERS' FUNDS							
Stated capital	37	1,032,931	1,032,931	-	1,032,931	1,032,931	-
Statutory reserve fund	38	818,554	818,554	-	818,554	818,554	-
Revenue reserves	39	8,112,678	7,400,265	10	10,810,519	9,833,367	10
		9,964,163	9,251,750	8	12,662,004	11,684,852	8
Minority interests		-	-	-	568,417	1,414,812	(60)
Total funds employed		9,964,163	9,251,750	8	13,230,421	13,099,664	1
Total liabilities and funds employed		82,339,630	73,211,902	12	83,280,244	76,142,874	9
Commitments and contingencies	41	16,440,998	16,023,448	3	16,440,998	16,023,448	3

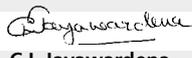
These Financial Statements are in compliance with the requirements of the Companies Act No. 7 of 2007.


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


Eran Wickramaratne
 Chief Executive Officer


C L Jayawardena
 Company Secretary

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 73 to 104 are an integral part of these Financial Statements.

18 February 2009

Cash Flow Statement

For the year ended 31 December	Note	NDB BANK		NDB GROUP	
		2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		10,209,005	8,108,599	10,831,770	8,558,635
Fee-based income received		544,065	438,690	656,317	660,668
Dividend income received		439,942	224,334	341,210	259,810
Other income received		621,609	375,598	697,070	579,592
Lease rentals received		1,001,544	757,006	1,001,544	757,006
Lease disbursements		(756,984)	(822,680)	(756,984)	(822,680)
Interest paid		(6,714,565)	(4,813,476)	(6,714,567)	(4,813,476)
Personnel costs paid		(964,054)	(849,711)	(1,023,013)	(914,872)
General expenses paid		(1,093,216)	(805,546)	(1,105,781)	(816,902)
Financial services VAT paid		(514,456)	(538,166)	(514,456)	(538,166)
Income taxes paid		(741,878)	(930,941)	(957,382)	(1,025,270)
Net (increase)/decrease in other receivables		(322,825)	645,030	(344,556)	630,844
Net increase/(decrease) in other liabilities		97,866	163,978	62,550	(59,698)
Net cash provided by operating activities		1,806,053	1,952,715	2,173,722	2,455,491
CASH FLOWS FROM INVESTING ACTIVITIES					
Net increase in investments					
Acquisition of subsidiaries		(1,161,447)	–	(1,161,447)	–
Redemption of shares held in a subsidiary		–	232,500	–	32,500
Government Treasury Bills and Bonds		(4,553,348)	(5,140,873)	(4,553,349)	(5,140,873)
Change in other investments		853,699	320,274	(544,635)	693,567
Securities sold under repurchase agreements		1,717,290	2,821,099	1,717,290	2,821,099
Net increase in loans and advances		(4,876,604)	(7,450,413)	(4,876,604)	(7,449,197)
Net increase in deposits		6,515,010	4,462,566	6,515,010	4,462,566
Net due to/(from) related companies		15,321	18,522	15,321	18,522
Expenditure on property & equipment		(166,152)	(270,125)	(169,646)	(288,148)
Proceeds from sale of property, plant & equipment		6,597	19,316	6,597	21,026
Net cash used in investing activities		(1,649,634)	(4,987,134)	(3,051,463)	(4,828,938)
CASH FLOWS FROM FINANCING ACTIVITIES					
(Decrease)/increase in borrowings		(525,438)	4,447,196	(525,438)	4,447,196
Dividend paid		(411,352)	(347,109)	(461,377)	(368,324)
Net cash provided by/used in financing activities		(936,790)	4,100,087	(986,815)	4,078,871
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(780,371)	1,065,668	(1,846,556)	1,705,425
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		6,035,693	4,970,026	7,747,563	6,042,139
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR ^a		5,255,322	6,035,694	5,883,007	7,747,564

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 73 to 104 are an integral part of these Financial Statements.

<i>For the year ended 31 December</i>	NDB BANK		NDB GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
Note a				
RECONCILIATION OF CASH AND CASH EQUIVALENTS				
Cash and short-term funds	3,622,414	4,343,467	4,250,099	6,056,052
Balances with Central Bank	1,632,908	1,692,227	1,632,908	1,692,227
Less: Bank overdraft	–	–	–	(715)
	5,255,322	6,035,694	5,883,007	7,747,564

Statement of Changes in Equity

For the year ended 31 December

	Attributable to Equity Holders of the Parent					Minority Interests	Total
	Stated Capital	Statutory Reserve Fund	General Reserve	Retained Profit			
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000		
NDB BANK							
Balance as at 1 January 2007	1,032,931	818,554	5,805,707	897,535	–	–	8,554,727
Exchange difference on conversion of FCBU reserves	–	–	–	2,508	–	–	2,508
Net profit for the year	–	–	–	1,103,792	–	–	1,103,792
Dividend paid	–	–	–	(409,277)	–	–	(409,277)
Balance as at 31 December 2007	1,032,931	818,554	5,805,707	1,594,558	–	–	9,251,750
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
Net 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
NDB GROUP							
Balance as at 1 January 2007	1,032,931	818,554	5,805,707	2,909,447	1,314,232	–	11,880,871
Exchange difference on conversion of FCBU reserves	–	–	–	2,508	–	–	2,508
Exchange gain from valuation of foreign associate	–	–	–	3,608	–	–	3,608
Net profit for the year	–	–	–	1,521,374	115,410	–	1,636,784
Dividend paid	–	–	–	(409,277)	(14,830)	–	(424,107)
Balance as at 31 December 2007	1,032,931	818,554	5,805,707	4,027,660	1,414,812	–	13,099,664
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	–	–	–	(155,325)	(905,263)	–	(1,060,588)
Net 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	5,004,812	568,417	–	13,230,421

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 2008, Statements of Income, Cash Flow, 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 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. 7 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto.

The Accounting Policies have been consistently applied by NDB Bank and are consistent with those used in the previous year except, for the following:

- Investments held for trading are stated at market value, whilst previously accounted for at the lower of cost and market value.
- The Group adopted SLAS 16 (Revised) on Employees Benefits, these revisions did not have a significant impact on the Financial Statements.

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 are re-arranged wherever necessary to conform to current year's presentation.

1.2.1 Date of Authorization for Issue

The Financial Statements of National Development Bank PLC for the year ended 31 December 2008 were authorized for issue in accordance with a resolution of the Board of Directors on 18 February 2009.

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 Judgements and Estimates

In the process of applying NDB Bank's Accounting Policies, management is required to make judgements, 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 or uncertainty at the Balance Sheet date that have significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within the next financial year. The key items, significant accounting judgements and

estimates involving uncertainty are discussed below, whereas the respective carrying amounts of such assets and liabilities are as given in related Notes.

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 judgement 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 Non-Financial Assets

NDB Bank determines whether Assets have been impaired by performing an impairment review. 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 are subject to uncertainty.

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, 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. Judgements by management are 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.

Defined Benefit Plans

The cost of defined benefit plans - gratuity is determined using actuarial valuations. 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 NDB Bank PLC and its subsidiaries.

1.3.1 The NDB Group Financial Statements include the consolidated results, assets and liabilities of NDB Bank and its subsidiaries made up to the financial year-end. The results of subsidiaries are included from the date on which 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 27 to the Financial Statements, are accounted for under the equity method of accounting. Under the equity method of accounting, the NDB 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 recognize 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 NDB Bank's separate Financial Statements, investments in subsidiaries and associate companies are accounted for at cost. Income is recognized 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 basis.

1.4 Business Combinations and Goodwill

1.4.1 Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized 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 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 of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unimpaired goodwill is recognized 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 amortization 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. 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 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 recognized in

equity relating to that particular foreign subsidiary/associate is recognized 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% (2007 - 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. (2007 - On-shore 35%, 2007 - 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 recognized for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that

it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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 utilized. Unrecognized deferred tax assets are reassessed at each Balance Sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

1.9 Impairment of Assets other than Goodwill

The 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 NDB 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 realizable security value. During the last quarter of 2006, the Central Bank mandated that banks build up a 1% general provision on its performing portfolio. Banks have been given time to do so over 10 quarters ending on 31 March 2009. However, NDB Bank reached the 100% general provision requirement by 30 September 2007 and has been complying with the 1% requirement since then.

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 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 instalments 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 Purposes

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 up to the end of the year. 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 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 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 determined on an individual investment 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 diminutions in value on a case-by-case basis.

2.3.4 Securities Purchased under Re-sale Agreement

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

2.3.5 Securities sold under Re-sale Agreement

Obligations to re-purchase resulting from securities sold under Re-purchase 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 by equal annual instalments are as follows:

Buildings/improvements	5% - 10%
Motor vehicles	25%
Furniture and office equipment	20%

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

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

2.5 Investment Properties

Properties held to earn rental income and properties held for capital appreciation have been classified as-

Investment Property

Investment properties are initially recognized at cost. Subsequent to 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 fair value 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 recognised in the Income Statement in the year of retirement or disposal.

Development Holdings (Private) Ltd. a subsidiary company whose principal business activity is renting out premises for trade, business or vocation adopted Sri Lanka Accounting Standard No. 40, Investment Properties in 2006. Accordingly the property owned by Development Holdings (Private) Ltd. was revalued by an independent valuer on 1 January 2006 and the surplus arising over the net book value of the property as at that date was credited to retained earnings as of 1 January 2006. Further another revaluation was done on 31 December 2006 and the incremental surplus over the valuation as at 1 January 2006 has been credited to the Income Statement. Thereafter a valuation of the property is done annually and any surplus or deficit arising thereon over the previous valuation will be adjusted in the Income Statement.

2.6 Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances, short-term funds, balances with Central Bank of Sri Lanka and Government of Sri Lanka Treasury Bills readily convertible to known amounts of cash and subject to insignificant risk of changes in value. 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 The 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 the Bank based on a percentage of gross salaries, as stipulated in the pension deed. However, following the formulation of a revised pension deed, which has been approved by the Department of Inland Revenue, the contributions in subsequent years are determined on the basis of an actuarial valuation each year.

3.2.2 The cost of retirement gratuities is determined by a qualified actuary using projected unit credit method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains or losses at the previous reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value or plan assets at that date.

Past service costs are recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits have been already vested, immediately following

the introduction of, or changes to, a defined benefit plan, past service costs are recognized immediately.

The Gratuity liability comprises the present value of the gratuity benefit obligation, less past service cost not yet recognized and less the fair value of plan assets.

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

3.2.4 Commitments and Contingencies

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

4. INCOME STATEMENT

4.1 Revenue Recognition

4.1.1 Interest Income from Loans and Advances

Interest income from loans and advances is recognized on an accrual basis. However, no accrued interest income is recognized 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 recognized where any portion of capital or interest is in arrears for three instalments or more. In such cases interest income is accounted for on a cash basis.

(b) Operating Leases - Rental income is recognized as revenue on a straight-line basis over the term of the lease. However, no accrued income is recognized where the rental is in arrears for three instalments or more. In such cases, rental income is accounted for on a cash basis.

4.1.3 Interest Income from other Sources

Interest income from Government securities is recognized on a time-proportion basis as discounts on purchase, over the period to maturity or the date of sale.

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 NDB 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 recognized on a cash basis. Fees charged on guarantee/bid bonds are now 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 recognized 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 business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services that is subject to risk and returns that are different from those of other business segments. The Accounting Policies adopted for segment reporting are the same Accounting Policies adopted for preparing the Financial Statements of the NDB Group.

6. DIVIDENDS ON ORDINARY SHARES

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

Notes to the Financial Statements

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

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

In terms of the new Companies Act No. 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.

NDB Bank is listed on the Colombo Stock Exchange. The Registered Office of NDB Bank and its principal place of business is situated at No. 40, Navam Mawatha, Colombo 2.

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

The number of staff employed by NDB Bank as at 31 December 2008 was 946 (2007 - 858).

The number of branches of NDB Bank as at 31 December 2008 was 40 (2007 - 40).

On 12 July 2008, NDB Bank increased its holding in Capital Development and Investment Company PLC (CDIC), a subsidiary of NDB Bank, from 75.8% to 99.7% by purchasing the 23.9% of shares owned by Bank of Ceylon in CDIC. Accordingly, NDB Bank's effective holding in Eagle Insurance Company PLC, increased from 32.42% to 41.14%.

	NDB BANK		NDB GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
2. INCOME				
Gross income	12,093,491	9,527,321	12,522,183	10,071,656
Interest income (Note 3)	10,522,663	8,232,445	10,860,240	8,598,627
Other income (Note 5)	1,570,828	1,294,876	1,661,943	1,473,029
	12,093,491	9,527,321	12,522,183	10,071,656
3. INTEREST INCOME				
Loans and advances	7,755,421	5,968,325	7,756,518	5,968,667
Treasury bills, bonds and placements with other banks	2,767,242	2,264,120	3,103,722	2,629,960
	10,522,663	8,232,445	10,860,240	8,598,627
4. INTEREST EXPENSES				
Long-term borrowings	1,590,888	1,340,239	1,590,888	1,340,239
Other term borrowings	3,030,937	2,125,330	2,736,138	1,990,813
Deposits	2,745,968	1,745,175	2,745,968	1,745,175
	7,367,793	5,210,744	7,072,994	5,076,227
5. OTHER INCOME				
Dividend income from securities				
- Quoted investments	49,990	45,773	49,990	45,773
- Non-quoted investments	232,660	89,369	258,371	89,369
Dividend income from subsidiaries/associates				
- Quoted investments	92,550	35,902	-	-
- Non-quoted investments	64,742	53,289	-	-
Gain/(loss) from dealing securities	10	-	10	-
Gain/(loss) from disposal of investment securities	(31,529)	249,495	(31,529)	249,495
	408,423	473,828	276,842	384,637
Net gain/(loss) from the disposal of Government securities	(939)	(46,241)	(939)	(46,241)
Fee and commission income	466,833	387,950	466,833	387,950
Income from other fee-based activities	80,842	55,203	303,538	322,547
Forex income	572,760	390,854	572,760	390,854
Net Income from operating leases	-	319	-	319
Income from other activities	42,909	32,963	42,909	32,963
	1,570,828	1,294,876	1,661,943	1,473,029

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	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
6. OPERATING EXPENSES				
Operating expenses include the following:				
Employees' Provident Fund	64,345	53,471	68,995	59,125
Employees' Trust Fund	12,873	10,699	13,954	11,625
Gratuity	20,015	14,910	22,104	17,395
Depreciation	182,566	156,884	192,337	165,916
Legal charges	18,494	22,105	19,477	23,394

7. STAFF RETIREMENT BENEFITS

The NDB Bank operates an approved non-contributory Pension Plan for the payment of pensions to members of its permanent staff who qualify for such payments when retiring. Please see Accounting Policy 3.2.

The amount funded since the inception of the Plan is the amount recognized as an expense over the respective periods. The adequacy of the contributions was reviewed by an actuary as at 31 December 2008. Accordingly, the actuarial experience losses or gains have been recognized over the expected future working life of the participants. As the current year's amortization of the Actuarial Gains and expected returns on assets were more than the cost of benefits this year, no provision has been made in the accounts.

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%.

Provisions for retirement gratuities have been made based on the actuarial valuation carried out as at 31 December 2008. Accordingly, gratuity benefit expense for the year was Rs 20 mn. The key assumptions used by the Actuary include the following:

Rate of interest	-	12%
Rate of salary increase	-	12%
Retirement age	-	55-60 years

The gratuity liability is not externally funded. This item is grouped under other liabilities in the Balance Sheet.

	NDB BANK		NDB GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
8. OTHER ADMINISTRATIVE AND GENERAL EXPENSES				
Premises, equipment and establishment expenses	431,797	333,854	516,390	385,756
Depreciation	182,566	156,884	192,337	165,916
Other overhead expenses	538,261	532,577	528,490	550,545
	1,152,624	1,023,315	1,237,217	1,102,217
9. PROVISIONS FOR BAD AND DOUBTFUL DEBTS AND FOR FALL IN VALUE OF SECURITIES				
Bad and doubtful debts	161,319	67,787	152,576	63,537
Fall in value of investments	(36,869)	1,585	(36,869)	1,585
	124,450	69,372	115,707	65,122

	Percentage Holding (%)	NDB GROUP	
		2008 Rs '000	2007 Rs '000
10. SHARE OF ASSOCIATE COMPANIES' PROFIT BEFORE TAXATION			
Ayojana Fund (Pvt) Ltd.	50.00	(4,847)	2,351
Maldives Finance Leasing Co. (Pvt) Ltd.	35.00	27,857	37,376
NDB Venture Investments (Pvt) Ltd.	50.00	(2,826)	2,108
Aviva NDB Finance Lanka (Pvt) Ltd.	41.42	152,219	137,557
		172,403	179,392

	NDB BANK		NDB GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
11. TAXATION				
Provision for taxation				
On profit for the year (a)	575,915	751,796	808,839	934,810
Over-provision for previous years	(10,662)	-	(10,662)	-
Transfer from deferred taxation (Note 29)	40,996	10,461	40,996	10,067
VAT on financial services	557,545	476,220	557,545	476,220
On associate companies' share of profit	-	-	12,645	335
	1,163,794	1,238,477	1,409,363	1,421,432

	NDB BANK		NDB GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
(a) Reconciliation of Effective Tax Rate				
Profit before tax	2,358,556	2,342,269	3,117,552	3,058,216
Statutory tax at 20%	3,208	3,765	3,208	3,765
Statutory tax at 35%	819,880	813,206	1,059,616	897,960
Statutory tax at 2%	-	-	2,187	2,178
Add: Effect of tax on non-deductible expenses	377,198	316,909	377,198	316,909
Less: Effect of tax on claimable expenses	(676,658)	(382,084)	(685,657)	(286,002)
Add: Loss on leasing	52,287	-	52,287	-
Total tax	575,915	751,796	808,839	934,810
Deferred taxation	40,996	10,461	40,996	10,067
Over provision for previous years	(10,662)	-	(10,662)	-
Income Tax expense at effective rate of tax of 26% (2007 - 33%)	606,249	762,257	839,173	944,877
Effective overall tax rate (%)	49	53	45	46

NDB Bank is liable to VAT on financial services at 20% (2007 - 20%).

NDB Investment Bank Ltd. is liable to taxation at 35% (2007 - 35%).

Ayojana Fund (Pvt) Ltd. is liable to taxation at 20% (2007 - 20%).

NDB Stock Brokers (Pvt) Ltd. is liable to taxation at 35% (2007 - 35%).

The profits earned by Capital Development and Investment Company PLC. is liable to taxation at 35% (2007 - 35%).

Profit 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% (2007 - 35%).

Aviva NDB Finance Lanka (Pvt) Ltd. is liable to income tax at 35% (2007 - 35%). The tax charge for the year consists wholly of dividend tax paid at source. However, no tax provision has been made for the current year due to the tax losses incurred by the Company.

Profits earned through the business of venture capital by NDB Venture Investments (Pvt) Ltd. is taxed at 20% (2007 - 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 AND PROPOSED

A first and final dividend of Rs 6.75 per share has been proposed for the year 2008. However, no provision is made in the accounts in accordance with SLAS - 12.

13. EARNINGS PER SHARE

The basic earnings per share for 2008 and 2007 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	
	2008	2007
Profit attributed to ordinary shareholders (Rs '000)	1,604,790	1,521,374
Ordinary shares in issue (Number '000)	81,855	81,855
Earnings per ordinary share (Rs)	19.61	18.59

	NDB BANK		NDB GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
14. CASH AND SHORT-TERM FUNDS				
Cash in hand	475,655	410,319	475,672	410,344
Dues from banks and other financial institutions	3,146,759	3,933,148	3,774,427	5,645,708
	3,622,414	4,343,467	4,250,099	6,056,052

15. BALANCES WITH CENTRAL BANK

Balances with Central Bank include 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 realization. The minimum cash reserve requirement was 7.75% of the rupee deposit liabilities as at 31 December 2008 (10% as at 31 December 2007). 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.

16. SINKING FUND - TREASURY BILLS AND BONDS

The balance in the Sinking Fund represents a fund created to pay a credit line obtained by the former NDB Housing Bank Ltd. for housing loans. This loan is due to be settled in 2020.

	NDB BANK		NDB GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
17. INVESTMENTS HELD FOR TRADING				
Treasury Bills	4,128,143	7,559,697	4,128,143	7,559,697
Treasury Bonds	4,142,764	1,501,350	4,142,764	1,501,350
	8,270,907	9,061,047	8,270,907	9,061,047

Investments in treasury bills and bonds, both held for maturity as well as held for trading, include securities kept as collateral for borrowings under re-purchase agreements having a face value of Rs 10.6 bn (2007 - Rs 8.8 bn).

	NDB BANK				NDB GROUP			
	Market Value/ Directors' Valuation		Market Value/ Directors' Valuation		Market Value/ Directors' Valuation		Market Value/ Directors' Valuation	
	2008 Rs '000	2008 Rs '000	2007 Rs '000	2007 Rs '000	2008 Rs '000	2008 Rs '000	2007 Rs '000	2007 Rs '000
18. INVESTMENTS HELD TO MATURITY								
Treasury Bonds	5,285,898	5,173,317	2,617,949	2,547,133	5,285,898	5,173,317	2,617,949	2,547,133
Treasury Bills	2,833,660	2,838,628	158,119	158,119	2,833,660	2,838,628	158,119	158,119
Tradable Corporate Securities	176,794	157,194	468,817	468,817	293,294	293,294	559,417	468,817
Investment Securities (Note 18.1)	833,923	1,019,624	1,315,922	1,535,137	1,082,349	1,345,050	1,507,350	1,726,565
Less: Provision for fall in value of investments	(19,600)	-	-	-	(19,600)	-	-	-
	9,110,675	9,188,763	4,560,807	4,709,206	9,475,601	9,650,289	4,842,835	4,900,634

	NDB BANK		NDB GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
18.1 Investment Securities				
Non-quoted shares (Note 18.2)	833,923	1,140,922	1,082,349	1,332,350
Non-quoted debentures (Note 18.3)	-	175,000	-	175,000
	833,923	1,315,922	1,082,349	1,507,350

	2008			2007		
	Number of Shares	Cost	Net Realizable Value	Number of Shares	Cost	Net Realizable Value
		Rs '000	Rs '000		Rs '000	Rs '000
18.2 Non-Quoted Shares						
(A) Ordinary Shares						
Credit Information Bureau of Sri Lanka	30,395	3,039	49,863	30,395	3,039	37,602
Fitch Ratings Lanka Ltd.	62,500	625	899	62,500	625	776
Hethersett Hotels Ltd.	1,500,000	15,000	6,000	1,500,000	15,000	20,505
Mahaweli Livestock Enterprises Ltd.	600,000	6,000	6,000	600,000	6,000	21,702
Sampath Centre (Pvt) Ltd.	1,000,000	10,000	20,021	1,000,000	10,000	20,022
South Asia Regional Fund	500	41	5,096	500	41	36,062
Suntel Ltd.	11,729,794	117,297	213,745	11,729,794	117,297	184,953
Sub-Total		152,002	301,624		152,002	321,622

Non-quoted ordinary shares which are fully provided for are not included in the above list. The total cost of such investments is Rs 28.25 mn (2007 - Rs 69.72 mn).

	2008			2007		
	Number of Shares	Cost	Net Realizable Value	Number of Shares	Cost	Net Realizable Value
		Rs '000	Rs '000		Rs '000	Rs '000
(B) Redeemable Cumulative Preference Shares						
Aqua Packaging Ltd. (redemption due in 2009)	2,500,000	25,000	25,000	5,000,000	50,000	50,000
Sampath Centre (Pvt) Ltd.	-	-	-	22,000,000	220,000	220,000
Dialog Telekom PLC (redemption due in 2012)	693,000,000	693,000	693,000	770,000,000	770,000	770,000
Total		870,002	1,019,624		1,192,002	1,361,622
Less: Provision for losses		(36,079)			(51,080)	
Total as at 31 December - NDB Bank		833,923			1,140,922	
Investments in non-quoted shares by subsidiaries net of provision		248,426			191,428	
Total as at 31 December - NDB Group		1,082,349			1,332,350	

The net realizable value of non-quoted shares is the net book value of these shares at 31 December 2008, and 31 December 2007

	2008			2007		
	Number of Units	Cost	Market Value	Number of Units	Cost	Market Value
		Rs '000	Rs '000		Rs '000	Rs '000
18.3 Non-Quoted Debentures						
Singer Sri Lanka Ltd.	-	-	-	250,000	25,000	25,000
Singer Sri Lanka Ltd.	-	-	-	1,500,000	150,000	150,000
Total as at 31 December - NDB Bank		-	-		175,000	175,000
Investments in non-quoted debentures by subsidiaries		-			-	
Total as at 31 December - NDB Group		-			175,000	

	NDB BANK		NDB GROUP	
	2008	2007	2008	2007
	Rs '000	Rs '000	Rs '000	Rs '000
19. DEALING SECURITIES				
Quoted shares (Note 19.1)	305,840	295,853	305,840	295,853
Quoted debentures (Note 19.2)	17,500	77,500	17,500	77,500
	323,340	373,353	323,340	373,353

	2008			2007		
	Number of Ordinary Shares	Cost	Market Value	Number of Ordinary Shares	Cost	Market Value
		Rs '000	Rs '000		Rs '000	Rs '000
19.1 Quoted Ordinary Shares						
Banks and Finance						
DFCC Bank PLC	299,997	22,140	15,676	299,997	22,140	38,100
		22,140	15,676		22,140	38,100
Diversified Holdings						
Hayleys PLC	–	–	–	60	4	6
John Keells Holdings PLC	–	–	–	67	2	9
		–	–		6	15
Footwear and Textiles						
Hayleys MGT Knitting Mills PLC	6,912,400	5,334	179,722	6,912,400	5,334	394,007
		5,334	179,722		5,334	394,007
Insurance						
Eagle Insurance Company PLC*	1,500,000	268,373	172,500	1,500,000	268,373	226,125
Ceylinco Insurance PLC	57,100	9,993	8,280	–	–	–
		278,366	180,780		268,373	226,125

* Investment in Eagle Insurance Company Ltd. shares was purely for strategic investment purposes.

	2008			2007		
	Number of Shares	Cost	Market Value	Number of Preference Shares	Cost	Market Value
		Rs '000	Rs '000		Rs '000	Rs '000
Total as at 31 December - NDB Bank		305,840	367,898		295,853	658,247
Investments in quoted shares by subsidiaries at market value		–				
Investments in quoted shares by subsidiaries at cost		–			–	
Total as at 31 December - NDB Group		305,840			295,853	
19.2 Quoted Debentures						
Commercial Bank of Ceylon PLC	–	–	–	50,000	50,000	50,000
Sampath Bank PLC (08.06.2009)	175,000	17,500	15,750	175,000	17,500	15,750
Seylan Bank PLC	–	–	–	100,000	10,000	10,000
Total as at 31 December - NDB Bank		17,500	15,750		77,500	75,750
Investments in quoted debentures by subsidiaries at market value		–			–	
Total as at 31 December - NDB Group		17,500			77,500	

The redemption date is shown within brackets.

	NDB BANK		NDB GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
20. BILLS OF EXCHANGE				
Export bills	2,192,573	2,092,439	2,192,573	2,092,439
Import bills	54,753	29,028	54,753	29,028
Loans and advances	2,247,326	2,121,467	2,247,326	2,121,467

	2008 Rs '000		2007 Rs '000	
	21. LOANS AND ADVANCES			
(a) NDB Bank				
Corporate - long-term			14,335,010	14,724,425
Corporate - short-term			26,727,808	23,613,887
Refinance loans			2,107,108	2,413,465
Consumer loans			7,620,211	5,712,370
Staff loans			712,999	639,623
			51,503,136	47,103,770
Less: Provision for bad and doubtful loans (Note 21.1)			1,859,504	1,741,896
Net loans and advances			49,643,632	45,361,874

	Specific	General	Total	Total
	Rs '000	Rs '000	2008 Rs '000	2007 Rs '000
21.1 Provision for Bad and Doubtful Loans				
At the beginning of the year	1,322,520	419,376	1,741,896	1,727,145
Amounts recovered/provisions written back	(816,208)	–	(816,208)	(439,146)
Amounts written off	(15,684)	–	(15,684)	(106,589)
Provision made during the year	910,515	38,985	949,500	560,486
At the end of the year	1,401,143	458,361	1,859,504	1,741,896

	Total	
	2008	2007
	Rs '000	Rs '000
21.2 Provision for Bad and Doubtful Loans		
Provision as per CBSL rules	614,381	273,592
Specific provision against debts judgementally classified as doubtful	786,762	1,048,928
General provision (1% of performing loans)	458,361	419,376
	1,859,504	1,741,896

	2008		2007	
	Rs '000		Rs '000	
(b) NDB Group				
Corporate - long-term	14,336,267		14,734,425	
Corporate - short-term	26,724,129		23,613,172	
Refinance loans	2,107,108		2,413,465	
Consumer loans	7,620,211		5,712,370	
Staff loans	733,570		651,574	
	51,521,285		47,125,006	
Less: Provision for bad and doubtful loans (Note 21.3)	1,860,761		1,751,896	
Net loans and advances	49,660,524		45,373,110	

	Specific	General	Total	
	Rs '000	Rs '000	2008	2007
	Rs '000	Rs '000	Rs '000	Rs '000
21.3 Provision for Bad and Doubtful Loans				
At the beginning of the year	1,332,520	419,376	1,751,896	1,752,744
Amounts recovered/provisions written back	(824,951)	–	(824,951)	(439,146)
Amounts written off	(15,684)	–	(15,684)	(122,188)
Provision made during the year	910,515	38,985	949,500	560,486
At the end of the year	1,402,400	458,361	1,860,761	1,751,896

	Total	
	2008	2007
	Rs '000	Rs '000
21.4 Provision for Bad and Doubtful Loans		
Provision as per CBSL rules	614,381	273,591
Specific provision against debts judgementally classified as doubtful	788,019	1,058,929
General provision (1% of performing loans)	458,361	419,376
	1,860,761	1,751,896

	NDB BANK		NDB GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
22. LEASE RENTALS RECEIVABLE				
Total rentals receivable	2,764,895	2,573,588	2,764,895	2,573,588
Less: Provision for doubtful recoveries (Note 22.1)	86,731	64,187	86,731	64,187
Interest in suspense (Note 22.3)	20,635	11,993	20,635	11,993
Unearned income	747,106	677,436	747,106	677,436
Net rentals receivable	1,910,423	1,819,970	1,910,423	1,819,970
22.1 Provision for Bad and Doubtful Recoveries				
At the beginning of the year	64,188	55,432	64,187	55,432
Amounts recovered/provisions written back	(7,660)	(8,745)	(7,660)	(8,745)
Amounts written off	–	(893)	–	(893)
Provision made during the year	30,203	18,393	30,204	18,393
At the end of the year	86,731	64,187	86,731	64,187
			Total 2008 Rs '000	Total 2007 Rs '000
22.2 Provision for Bad and Doubtful Recoveries				
Provision as per CBSL rules			39,616	13,975
Specific provision against debts judgementally classified as doubtful			29,411	32,642
General provision (1% of performing loans)			17,704	17,570
			86,731	64,187
			Total 2008 Rs '000	Total 2007 Rs '000
22.3 Interest in Suspense				
At the beginning of the year	11,993	10,942	11,993	10,942
Amounts written back to profit	(18,694)	(4,438)	(18,694)	(4,438)
Amounts written off	(8)	(959)	(8)	(959)
Transfer to interest in suspense	27,344	6,448	27,344	6,448
At the end of the year	20,635	11,993	20,635	11,993
	Up to 1 year Rs '000	1 to 5 years Rs '000	More than 5 years Rs '000	Total Rs '000
22.4 Maturity of Lease Rentals Receivable of NDB Bank				
Total rentals receivable	120,947	2,594,961	48,987	2,764,895
Provision for doubtful recoveries	(28,896)	(57,549)	(286)	(86,731)
Interest in suspense	(20,635)	–	–	(20,635)
Unearned income	(2,255)	(697,522)	(47,329)	(747,106)
Net rentals receivable	69,161	1,839,890	1,372	1,910,423

	NDB BANK		NDB GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
23. INTEREST RECEIVABLE ON LOANS AND ADVANCES				
Interest receivable	1,516,057	1,213,602	1,516,057	1,213,602
Less: Interest in suspense (Note 23.1)	745,296	709,557	745,296	709,557
	770,761	504,045	770,761	504,045
23.1 Interest in Suspense				
At the beginning of the year	709,557	842,895	709,557	842,895
Amounts written back to profit	(110,028)	(137,609)	(110,028)	(137,609)
Amounts written off	(70,559)	(209,185)	(70,559)	(209,185)
Transfer to interest in suspense	216,326	213,456	216,326	213,456
At the end of the year	745,296	709,557	745,296	709,557

	NDB BANK				NDB GROUP			
	Loan Loss Provision	Interest in Suspense						
	2008 Rs '000	2008 Rs '000	2007 Rs '000	2007 Rs '000	2008 Rs '000	2008 Rs '000	2007 Rs '000	2007 Rs '000
24. ANALYSIS OF PROVISION FOR LOAN LOSSES AND INTEREST IN SUSPENSE								
Loans and advances	1,859,504	745,296	1,741,896	709,557	1,860,761	745,296	1,751,896	709,557
Lease rentals receivable	86,731	20,635	64,187	11,993	86,731	20,635	64,187	11,993
	1,946,235	765,931	1,806,083	721,550	1,947,492	765,931	1,816,083	721,550

25. ASSET QUALITY INFORMATION**25.1 Concentration of Credit Risk**

In granting credit facilities NDB 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 NDB 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 NDB Bank has established prudent credit controls, such as predetermined sector and group exposure limits and Board and Management Credit Committees. When required security is obtained in granting credit. NDB Bank has no exposure to Collateralised Debt Obligations (CDOs).

NDB Bank's exposure to credit risk is concentrated in companies domiciled in Sri Lanka. NDB Bank's lending portfolio is diversified covering all sectors of the economy. The total lending exposure of NDB Bank as at the Balance Sheet date, shows the following analysis.

	2008		2007	
	Rs mn	%	Rs mn	%
Sector				
Food, Beverages and Tobacco	4,974	8.8	3,781	7.3
Agriculture, Agro Business and Fisheries	4,990	8.8	5,232	10.1
Textile and Garments	7,226	12.8	6,682	12.9
Wood and Paper Products	441	0.8	466	0.9
Rubber and Leather Products	4,931	8.7	4,092	7.9
Metals, Chemicals and Engineering	6,305	11.2	7,459	14.4
Hotels and Tourism	261	0.5	311	0.6
Utilities	2,730	4.8	1,709	3.3
Housing	3,648	6.5	3,626	7
Services	9,555	16.9	13,262	25.6
Transport	3,726	6.6	1,554	3.0
Other	7,728	13.7	3,625	7.0
	56,515	100.0	51,799	100.0

These concentrated exposures, direct and indirect have been considered in setting the level of specific and general provisions for bad and doubtful loans, advances and lease receivables.

25.2 Non-Performing Loans, Advances and Leases

Non-performing loans, advances and leases are those balances where capital or interest is in arrears for three instalments or more. Interest is not accrued to revenue on these accounts. Non-performing loans, advances and leases that are re-scheduled need to perform for six consecutive months before they can be re-classified. The capital balance outstanding on the non-performing accounts is as follows:

	Loans and Advances	Lease Capital	Total	Total
	Rs '000	Rs '000	2008 Rs '000	2007 Rs '000
Bank				
Gross	1,126,274	148,406	1,274,680	1,183,330
Net of tangible securities and Central Bank mandated specific provisions	288,745	3,964	292,709	75,761

As per the recent Banking Act Direction No. 9 of 2008 issued by the Central Bank of Sri Lanka, the criteria relating to the requirement to classify loans as NPLs were relaxed. However, NDB Bank opted to follow the more stringent earlier basis. Had NDB Bank followed the new basis, the non-performing loans would have declined by Rs 193 mn to Rs 1,082 mn as at 31 December 2008. Accordingly, the NPL ratio would have been 1.95%.

	Percentage Holding	Cost	Directors' Valuation/ Fair Value	Percentage Holding	Cost	Directors' Valuation/ Fair Value
		2008	2008		2007	2007
	%	Rs '000	Rs '000	%	Rs '000	Rs '000
26. INVESTMENTS IN SUBSIDIARY COMPANIES						
Capital Development and Investment Company PLC	99.66	2,330,783	4,403,147	75.80	1,169,336	3,390,668
Development Holdings (Pvt) Ltd.	58.61	228,150	756,260	58.61	228,150	718,208
NDB Investment Bank Ltd.	80.10	32,040	81,598	80.10	32,040	83,470
NDB Stockbrokers (Pvt) Ltd.	100.00	26,940	144,634	100.00	26,940	137,309
		2,617,913	5,385,639		1,456,466	4,329,655

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

On 11 July 2008, NDB Bank increased its holding in Capital Development and Investment Company PLC (CDIC), a subsidiary of NDB Bank, from 75.80% to 99.66% by purchasing 23.86% of shares owned by Bank of Ceylon in CDIC. Accordingly, the Bank's effective holding in Aviva NDB Finance Lanka (Pvt) Ltd. increased from 31.42% to 41.42%.

	Percentage Holding	Cost	Directors' Valuation	Percentage Holding	Cost	Directors' Valuation/ Fair Value
		2008	2008		2007	2007
	%	Rs '000	Rs '000	%	Rs '000	Rs '000
27. INVESTMENTS IN ASSOCIATE COMPANIES						
(a) NDB Bank						
Ayojana Fund (Pvt) Ltd.	50.00	100	32,404	50.00	100	42,366
Maldives Finance Leasing Co. (Pvt) Ltd.	35.00	165,462	275,202	35.00	165,462	259,865
NDB Venture Investments (Pvt) Ltd.	50.00	35,000	57,725	50.00	35,000	55,188
		200,562	365,331		200,562	357,419

	As at 01.01.08	Investment Made in an Associate Company	Exchange Gain on Valuation	Profit Net of Dividend Received	As at 31.12.08
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
(b) NDB Group					
Ayojana Fund (Pvt) Ltd.	42,366	–	–	(9,962)	32,404
Maldives Finance Leasing Co. (Pvt) Ltd.	259,864	–	10,036	5,302	275,202
NDB Venture Investments (Pvt) Ltd.	60,623	–	–	(8,222)	52,401
Aviva NDB Finance Lanka (Pvt) Ltd.	847,085	100,858	–	84,945	1,032,888
	1,209,938	100,858	10,036	72,063	1,392,895

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

On 11 July 2008, the Bank increased its holding in Capital Development and Investment Company PLC (CDIC), a subsidiary of NDB Bank, from 75.80% to 99.66% by purchasing 23.86% of shares owned by Bank of Ceylon in CDIC. Accordingly, NDB Bank's effective holding in Aviva NDB Finance Lanka (Pvt) Ltd. increased from 31.42% to 41.42%.

	NDB GROUP	
	2008 Rs '000	2007 Rs '000
(c) Summarized Financial Information of NDB Group's Investment in its Associates		
Total assets	9,627,703	6,513,900
Total liabilities	8,301,057	5,464,195
Net assets	1,211,129	1,209,938
Revenue	2,951,302	721,796
Profits	172,403	179,061

	NDB BANK		NDB GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
28. GROUP BALANCES RECEIVABLE				
Maldives Finance Leasing Co. (Pvt) Ltd.	347	437	347	437
NDB Industrial Estates (Pvt) Ltd.	2,038	17,282	–	–
NDB Stockbrokers (Pvt) Ltd.	18	5	–	–
	2,403	17,724	347	437
29. OTHER ASSETS				
Sundry receivables	543,340	251,974	668,084	400,890
Payments in advance	119,241	77,233	130,933	88,834
Employee Share Ownership Plan (ESOP)	126,037	137,495	126,037	137,495
	788,618	466,702	925,054	627,219

The ESOP represents the written down value of NDB shares paid for by NDB Bank on behalf of a Trust for the benefit of the employees. The total cost of Rs 229 mn is being amortized over a period of 20 years with effect from 1 January 2000.

	Land and Buildings	Motor Vehicles	Furniture and Equipment	Total
	Rs '000	Rs '000	Rs '000	Rs '000
30. PROPERTY, PLANT & EQUIPMENT				
30.1 NDB Bank				
Cost				
Freehold Assets				
As at 1 January 2008	608,957	290,533	808,050	1,707,540
Additions during the year	15,429	8,868	141,855	166,152
Disposals during the year	–	(10,504)	–	(10,504)
As at 31 December 2008	624,386	288,897	949,905	1,863,188
Depreciation/Amortization				
Freehold Assets				
As at 1 January 2008	205,911	230,061	495,745	931,717
Charge for the year	39,393	25,987	117,186	182,566
On disposals	–	(9,412)	–	(9,412)
As at 31 December 2008	245,304	246,636	612,931	1,104,871
Written Down Value as at 31 December 2008	379,082	42,261	336,974	758,317
Written down value as at 31 December 2007	403,046	60,472	312,305	775,823
30.2 NDB Group				
Cost				
Freehold Assets				
As at 1 January 2008	608,957	307,035	920,028	1,836,020
Additions during the year	15,429	9,000	145,217	169,646
Disposals during the year	–	(10,504)	–	(10,504)
As at 31 December 2008	624,386	305,531	1,065,245	1,995,162
Depreciation/Amortization				
Freehold Assets				
As at 1 January 2008	205,911	236,029	589,668	1,031,608
Charge for the year	39,393	28,838	124,106	192,337
On disposals	–	(9,412)	–	(9,412)
As at 31 December 2008	245,304	255,455	713,774	1,214,533
Written Down Value as at 31 December 2008	379,082	50,076	351,471	780,629
Written down value as at 31 December 2007	403,046	71,006	330,360	804,412

	NDB GROUP	
	2008 Rs '000	2007 Rs '000
31. INVESTMENT PROPERTIES		
Balance as at 1 January	1,200,000	1,200,000
Fair value adjustment during the year	-	-
	1,200,000	1,200,000

Development Holdings (Private) Ltd., 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.

32. GOODWILL

- (a) Goodwill on consolidation was amortized to the Income Statement up to 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 recognized in the Income Statement accordingly.
- (b) 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	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
33. DEPOSITS				
Savings deposits	3,566,201	2,943,290	3,566,201	2,943,290
Time deposits	23,633,264	16,968,408	22,810,715	16,968,408
Certificate of deposits	48,693	46,065	48,693	46,065
Demand deposits	4,421,313	5,317,398	4,421,313	5,317,398
Margins	244,475	348,509	244,475	348,509
	31,913,946	25,623,670	31,091,397	25,623,670

	2008 Rs '000		2007 Rs '000	
	34. BORROWINGS			
(a) NDB Bank				
Government of Sri Lanka loans under ADB, IDA, KfW and JBIC credit lines			13,324,519	12,828,300
Other Government of Sri Lanka loans			1,192,241	1,681,319
Foreign borrowings			2,558,250	2,558,250
Local borrowings			8,582,964	8,926,557
Listed Debentures			250,000	250,000
Amounts due to foreign banks			193,781	158,033
			26,101,755	26,402,459

	Up to 1 year	1 to 5 years	More than 5 years	Total
	Rs '000	Rs '000	Rs '000	Rs '000
(a 1) Maturity of Borrowings				
Government of Sri Lanka loans under				
ADB, IDA, KfW and JBIC credit lines	2,457,739	6,837,066	4,029,714	13,324,519
Other Government of Sri Lanka loans	215,607	697,420	279,214	1,192,241
Foreign borrowings	–	881,550	1,676,700	2,558,250
Other local borrowings	7,495,745	781,000	500,000	8,776,745
Listed Debentures	–	250,000	–	250,000
	10,169,091	9,447,036	6,485,628	26,101,755

	2008 Rs '000	2007 Rs '000
(b) NDB Group		
Government of Sri Lanka loans under ADB, IDA, KfW and JBIC credit lines	13,324,519	12,828,300
Other Government of Sri Lanka loans	1,192,241	1,681,319
Foreign borrowings	2,558,250	2,558,250
Local borrowings	6,913,511	7,827,647
Debentures	250,000	250,000
Amounts due to foreign banks	193,781	158,033
	24,432,302	25,303,549
Dues to banks	–	715
	24,432,302	25,304,264

	Up to 1 year	1 to 5 years	More than 5 years	Total
	Rs '000	Rs '000	Rs '000	Rs '000
(b 1) Maturity of Borrowings				
Government of Sri Lanka loans under				
ADB, IDA, KfW and JBIC credit lines	2,457,739	6,837,066	4,029,714	13,324,519
Sri Lanka loans	215,607	697,420	279,214	1,192,241
Foreign borrowings	–	881,550	1,676,700	2,558,250
Local borrowings	5,826,292	781,000	500,000	7,107,292
Listed Debentures	–	250,000	–	250,000
	8,499,638	9,447,036	6,485,628	24,432,302

	NDB BANK		NDB GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
35. OTHER LIABILITIES				
Interest payable	1,852,779	1,199,551	1,852,779	1,199,551
Accrued expenses	227,446	219,601	253,327	299,649
Other liabilities	1,217,950	1,081,991	1,258,021	1,081,279
	3,298,175	2,501,143	3,364,127	2,580,479

	BALANCE SHEET				INCOME STATEMENT			
	NDB BANK		NDB GROUP		NDB BANK		NDB GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
36. DEFERRED TAXATION								
Deferred Tax Liabilities								
Accelerated depreciation for tax purposes	108,775	140,204	108,381	140,204	(31,430)	28,720	(31,430)	28,720
	108,775	140,204	108,381	140,204	(31,430)	28,720	(31,430)	28,720
Deferred Tax Assets								
Provision for bad and doubtful debts	93,091	161,872	93,091	162,266	68,781	(21,795)	68,781	(22,189)
Other liabilities	7,417	11,063	7,417	11,063	3,645	3,536	3,645	3,536
	100,508	172,935	100,508	173,329	72,426	(18,259)	72,426	(18,653)
					40,996	10,461	40,996	10,067
Net deferred tax liability/(asset)	8,267	(32,731)	7,873	(33,125)				

	NDB BANK & GROUP		
	Number	2008 Rs '000	2007 Rs '000
37. STATED CAPITAL			
Issued and Fully Paid			
Balance as at 1 January and 31 December	81,855,385	1,032,931	1,032,931

38. STATUTORY RESERVE FUND

The Statutory Reserve Fund was created out of revenue reserves to comply with a direction issued to Licensed Specialized Banks by the Monetary Board of the Central Bank of Sri Lanka under Section 76 J (1) of the Banking Act No. 30 of 1988.

	NDB BANK		NDB GROUP	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
Balance as at 1 January and 31 December	818,554	818,554	818,554	818,554
			General Reserves Rs '000	Retained Profit Rs '000
				Total Rs '000

39. REVENUE RESERVES**(a) NDB Bank**

As at 1 January 2008	5,805,707	1,594,558	7,400,265
Profit after taxation	–	1,194,762	1,194,762
Dividends paid	–	(491,132)	(491,132)
Exchange equalization reserve	–	8,783	8,783
As at 31 December 2008	5,805,707	2,306,971	8,112,678

	General Reserves	Retained Profit	Total
	Rs '000	Rs '000	Rs '000
(b) NDB Group			
As at 1 January 2008	5,805,707	4,027,660	9,833,367
Exchange gain from valuation of foreign associate	–	10,036	10,036
Profit after taxation	–	1,604,790	1,604,790
Dividends paid	–	(491,132)	(491,132)
Effect due to the change in the holding of			
Capital Development and Investment Company PLC	–	(155,325)	(155,325)
Exchange equalization reserve	–	8,783	8,783
As at 31 December 2008	5,805,707	5,004,812	10,810,519

40. MATURITY ANALYSIS - NDB BANK

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	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Interest Earning Assets						
Cash and Short-Term Funds						
Cash in hand and with banks	3,622,414	–	–	–	–	3,622,414
	3,622,414	–	–	–	–	3,622,414
Investments Held for Trading						
Treasury Bills	4,128,143	–	–	–	–	4,128,143
Treasury Bonds	4,142,764	–	–	–	–	4,142,764
	8,270,907	–	–	–	–	8,270,907
Bills of Exchange						
Commercial paper	2,164,218	83,108	–	–	–	2,247,326
	422,132	–	–	–	–	422,132
Investments Held for Maturity						
Sinking Fund Investments	–	–	–	–	17,299	17,299
Other securities	33,645	103,311	20,238	–	–	157,194
Treasury Bills	233,897	1,376,000	3,576,000	100,000	–	5,285,897
Treasury Bonds	2,833,659	–	–	–	–	2,833,659
	3,101,201	1,479,311	3,596,238	100,000	17,299	8,294,049
Loans and Advances						
Direct loans (Gross)	12,306,540	9,288,653	5,568,965	6,274,000	6,573,002	40,011,160
Refinance loans (Gross)	232,808	465,520	918,220	308,060	182,500	2,107,108
Staff loans	72,983	713	4,654	104,576	530,073	712,999
Overdrafts	8,671,870	–	–	–	–	8,671,870
Provisions for bad and doubtful debts	(1,542,127)	(106,409)	(63,797)	(71,874)	(75,299)	(1,859,506)
	19,742,074	9,648,477	6,428,042	6,614,762	7,210,276	49,643,631

	Upto 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Interest receivable	770,761	–	–	–	–	770,761
Lease rentals receivable	28,330	40,831	673,669	1,138,930	28,663	1,910,423
	38,122,037	11,251,727	10,697,949	7,853,692	7,256,238	75,181,643

Non-Interest Earning Assets

Balances with Central Bank	1,632,908	–	–	–	–	1,632,908
	1,632,908	–	–	–	–	1,632,908

Investments held to Maturity

Quoted shares	37,469	–	–	–	268,373	305,842
Quoted debentures	–	17,500	–	–	–	17,500
Non-quoted shares/debentures	–	–	–	–	833,923	833,923
	37,469	17,500	–	–	1,102,296	1,157,265

Investments in Subsidiaries

& Associates	–	–	–	–	2,818,475	2,818,475
Group balances/other assets	791,021	–	–	–	–	791,021
Property, plant & equipment	–	–	–	–	758,317	758,317
As at 31 December 2008	40,583,435	11,269,227	10,697,949	7,853,692	11,935,326	82,339,630
As at 31 December 2007	35,868,560	9,255,151	9,104,415	8,562,246	10,421,530	73,211,902

Interest Bearing Liabilities**Borrowings**

Government of Sri Lanka loans under						
ADB, IDA, KfW and JBIC credit lines	540,456	1,917,283	3,563,345	3,273,722	4,029,713	13,324,519
Other Government of Sri Lanka loans	–	215,607	394,925	302,495	279,214	1,192,241
Foreign borrowings	–	–	184,950	696,600	1,676,700	2,558,250
Debentures	–	–	250,000	–	–	250,000
Local borrowings	4,222,572	3,273,172	781,000	–	500,000	8,776,744
	4,763,028	5,406,062	5,174,220	4,272,817	6,485,627	26,101,754
Securities purchased under						
re-purchase agreements	8,135,088	2,422,698	2,619	–	–	10,560,405
Deposits	22,361,563	8,846,678	184,443	521,262	–	31,913,946
	35,259,679	16,675,438	5,361,282	4,794,079	6,485,627	68,576,105

Non-Interest Bearing Liabilities

NDB Group balances/sundry creditors	3,298,175	–	–	–	–	3,298,175
Taxation	243,053	–	–	–	–	243,053
Deferred Taxation	–	–	–	–	8,267	8,267
Dividends payable	249,866	–	–	–	–	249,866
	3,791,094	–	–	–	8,267	3,799,361
As at 31 December 2008	39,050,773	16,675,438	5,361,282	4,794,079	6,493,894	72,375,467
As at 31 December 2007	35,145,178	9,277,435	7,413,865	4,436,506	7,687,168	63,960,152

41. COMMITMENTS AND CONTINGENCIES

41.1 Business Commitments

In the normal course of business, 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	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
Undisbursed financing commitments	3,691,817	2,082,170	3,691,817	2,082,170
Guarantees	7,214,525	7,195,013	7,214,525	7,195,013
Commitments on account of letters of credit	2,575,972	3,795,508	2,575,972	3,795,508
Forward exchange contracts - purchases	11,927,990	8,552,799	11,927,990	8,552,799
Forward exchange contracts - sales	(11,035,333)	(7,768,234)	(11,035,333)	(7,768,234)
Forward exchange contracts - net	892,657	784,565	892,657	784,565
Acceptances	1,852,852	2,096,598	1,852,852	2,096,598
Travellers cheques	213,175	69,594	213,175	69,594
	16,440,998	16,023,448	16,440,998	16,023,448

41.2 Litigation against NDB Bank

In the normal course of business, 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 (20) client companies have filed cases against NDB Bank preventing the sale of assets mortgaged to NDB Bank. 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 NDB Bank.

42. SEGMENTAL ANALYSIS - NDB GROUP

	Banking Income		Equity Income		Property Investment		Insurance		Others		Consolidated	
	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000	2008 Rs '000	2007 Rs '000
<i>For the twelve months ended 31 December</i>												
Revenue												
External income	11,685,068	9,054,746	251,131	384,638	148,163	146,491	-	-	437,822	487,095	12,522,183	10,072,970
Inter-segment income	-	-	-	-	23,830	17,779	-	-	299,339	134,473	323,169	152,252
Total income	11,685,068	9,054,746	251,131	384,638	171,993	164,270	-	-	737,161	621,568	12,845,352	10,225,222
Segment expenses	(9,487,862)	(7,050,203)	56,469	(1,585)	(50,465)	(45,942)	-	-	(95,177)	(96,417)	(9,577,034)	(7,194,147)
Inter-segment expenses	-	-	-	-	(23,830)	(17,779)	-	-	(299,339)	(134,473)	(323,169)	(152,252)
Segment results	2,197,206	2,004,543	307,600	383,053	97,698	100,549	-	-	342,645	390,678	2,945,149	2,878,823
Share of associate companies' profit before taxation	27,857	37,376	(7,674)	4,459	-	-	152,219	137,557	-	-	172,402	179,392
Taxation											(851,817)	(945,211)
VAT on financial services											(557,545)	(476,220)
Profit after taxation											1,708,189	1,636,784
Other Information												
Segment assets	78,380,777	70,145,207	1,157,265	1,420,904	1,242,625	1,228,269	-	-	1,106,682	2,138,555	81,887,349	74,932,935
Investment in associates	275,202	259,865	84,805	102,988	-	-	1,032,889	847,086	-	-	1,392,895	1,209,939
Consolidated total assets											83,280,244	76,142,874
Segment liabilities	69,883,073	62,861,957	-	-	23,105	42,131	-	-	143,645	139,122	70,049,823	63,043,210
Consolidated total liabilities											70,049,823	63,043,210
Segmental Cash Flows												
Cash flow from operating activities	1,587,952	1,728,417	341,210	224,334	34,555	98,535	-	-	210,005	404,205	2,173,722	2,455,491
Cash flow from investing activities	(2,814,615)	(4,978,719)	(307,748)	105,582	(25,342)	(117)	-	-	96,242	44,316	(3,051,463)	(4,828,938)
Cash flow from financing activities	(936,790)	4,100,086	-	-	(9,214)	(1,250)	-	-	(40,811)	(19,965)	(986,815)	4,078,871

43. POST-BALANCE SHEET EVENTS

The NDB Bank obtained the necessary approvals from regulatory authorities both in Sri Lanka and Bangladesh to make an investment in Capital Market Services Ltd., Bangladesh. Accordingly, NDB Bank invested in Capital Market Services Ltd., Bangladesh and acquired a controlling interest in the investee company in January 2009.

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

44. RELATED PARTY DISCLOSURES

44.1 Transactions with Key Management and their Close Family Members

Key management includes the members of the Board of Directors of NDB Bank and the key employees of NDB Bank. NDB Bank carries out transactions with the key management and their related concerns in the ordinary course of its business on an arm's length basis at commercial rates except the loans that the key management have availed of under the loan schemes uniformly applicable to all the staff at concessionary rates.

44.1.1 Key management of NDB 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	
	2008 Rs '000	2007 Rs '000
Deposits placed	7,724	10,942
Loans and advances	15,807	16,725

44.1.2 Compensation includes Directors' fees, emoluments and post-employment benefits.

Compensation paid by NDB Bank for key management amounted to Rs 98.32 mn during the year 2008 (Rs 101.14 mn in 2007).

The post employment benefits accrued by NDB Bank for key management amounted to Rs. 1.57 mn during the year 2008 (Rs. 5.21 mn in 2007).

44.1.3 Key management personnel have reduced their shareholding by 286,300 shares.

Capital Adequacy

This term is used to describe the adequacy of NDB 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 NDB 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 NDB Bank, is maintained as a buffer to absorb foreseeable future credit, market and operational losses.

BASIS OF COMPUTATION

The computation on 31 December 2008 is based on BASEL II while the computation on 31 December 2007 is based on BASEL I, which does not include the operational risk component.

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.

<i>Capital Base as at 31 December</i>	NDB BANK	
	2008 Rs '000	2007 Rs '000
Tier 1: Core Capital		
Stated capital	1,032,931	1,032,931
Statutory reserve fund	818,554	818,554
Published retained profits	2,306,971	1,594,558
General and other reserves	5,805,707	5,805,707
Minority interests	-	-
	9,964,163	9,251,750
Deductions - Tier 1		
50% Investments in unconsolidated banking and financial subsidiaries	1,194,882	-
50% Investments in capital of other banks and financial institutions	125,098	-
Total Tier 1 Capital	8,644,183	9,251,750
Tier 2: Supplementary Capital		
General provision	476,065	436,947
Approved subordinated term debt	2,558,250	2,558,250
	3,034,315	2,995,197
Deductions - Tier 2		
50% Investments in unconsolidated banking and financial subsidiaries	1,194,882	1,228,316
50% Investments in capital of other banks and financial institutions	125,098	300,203
	1,319,980	1,528,519
Eligible Tier 2 capital	1,714,335	1,466,678
Capital Base	10,358,518	10,718,428

RISK WEIGHTED ASSETS AND OFF-BALANCE SHEET EXPOSURE

	Principal Amount of On-Balance Sheet Items		NDB Bank Risk Weights	Risk Weighted Asset Amount	
	2008 Rs '000	2007 Rs '000		2008 Rs '000	2007 Rs '000
Cash, treasury bills and other securities with Central Bank	10,245,420	4,888,614	–	–	–
Loans secured against Sri Lanka Government guarantees	77,410	127,139	–	–	–
Loans against cash deposits and gold	6,743,121	5,818,922	–	–	–
Loans guaranteed by foreign sovereign	100,000	–	–	–	–
Loans guaranteed by OECD Central Governments and Central Banks	–	166,666	10	–	16,667
Loans guaranteed by OECD Incorporated Banks	286,667	378,333	20	57,333	75,667
Claims on banks exposures	5,386,078	2,361,036	20-100	1,336,970	472,207
Claims on financial institutions	4,368,119	3,917,612	50-100	2,698,383	783,522
Loans secured by Primary Mortgage	3,775,012	2,679,141	50-55	1,887,506	1,473,528
Other claims	39,563,796	41,423,501	20-150	37,796,114	44,592,776
Property and equipment	758,315	791,085	100	758,315	791,085
Other receivables	664,984	331,669	100	664,984	331,669
Total Assets considered for Credit Risk	71,968,922	62,883,718		45,199,605	48,537,121

OFF-BALANCE SHEET EXPOSURE

	Credit Conversion Factor, %	Principal Amount of Off-Balance Sheet Items		Risk Weights	Risk Weighted Asset Amount	
		2008 Rs '000	2007 Rs '000		2008 Rs '000	2007 Rs '000
General guarantees of indebtedness	100	4,608,955	3,487,363	100	4,608,955	3,487,363
Stand-by LC's relating to particular transactions	50	609,761	–	100	304,881	–
Performance Bonds, Bid Bonds	50	958,495	1,009,718	100	479,248	504,859
Trade related acceptances	20	1,852,851	2,096,597	100	370,570	419,319
Shipping guarantees	20	549,025	2,697,931	100	109,805	539,586
Documentary letters of credit	20	1,966,209	3,795,509	100	393,242	759,102
Other commitments with an original maturity up to 1 year	20	786,912	69,594	100	157,382	13,919
Other commitments and contingencies	20-50	498,194	–	100	185,145	–
Undrawn term loans	20-50	675,857	1,682,721	100	337,929	–
FX contracts - Banks	2	1,110,437	784,565	100	22,209	15,691
Undrawn Overdrafts	–	1,944,029	399,450	–	–	–
Total Off-Balance Sheet Exposure considered for Credit Risk		15,560,725	16,023,448		6,969,366	5,739,840
Total Risk Weighted Assets Equivalent for Market risk					1,512,171	809,862
Total Risk Weighted Assets Equivalent for Operational Risk					6,244,037	–
Total Risk Weighted Assets and Off-Balance Sheet Exposure					59,925,179	55,086,822
Risk Weighted Capital Ratios						
Tier 1 (Required statutory minimum ratio is 5%)					14.42	16.79
Tier 1 and Tier 2 (Required statutory minimum ratio is 10%)					17.29	19.46

Capital Base as at 31 December	NDB GROUP	
	2008 Rs '000	2007 Rs '000
Tier 1: Core Capital		
Stated capital	1,032,931	1,032,931
Statutory reserve fund	818,554	818,554
Published retained profits	5,004,813	4,027,660
General & other reserves	5,805,707	5,805,707
Minority interests	568,417	1,414,812
	13,230,422	13,099,664
Deductions - Tier 1		
50% Investments in the capital of other banks and financial institutions	721,264	-
Total Tier 1 Capital	12,509,158	13,099,664
Tier 2: Supplementary Capital		
General provision	476,065	436,947
Approved subordinated term debt	2,558,250	2,558,250
Total Tier 2 Capital	3,034,315	2,995,197
Deductions - Tier 2		
50% Investments in the capital of other banks and financial institutions	721,264	1,309,579
Capital Base	14,822,209	14,785,282

RISK WEIGHTED ASSETS AND OFF-BALANCE SHEET EXPOSURE

	NDB GROUP				
	Principal Amount of On-Balance Sheet Items		Risk Weights	Risk Weighted Asset Amount	
	2008 Rs '000	2007 Rs '000	%	2008 Rs '000	2007 Rs '000
Cash, treasury bills & other securities with Central Bank	10,680,010	6,505,650	-	-	-
Loans secured against Sri Lanka Government guarantee	77,410	127,139	-	-	-
Loans against cash deposits and gold	6,743,121	5,818,922	-	-	-
Loans guaranteed by foreign sovereign	100,000	-	-	-	-
Loans guaranteed by OECD Central Governments and Central Banks	-	166,666	10	-	16,667
Loans guaranteed by OECD Incorporated Banks	286,667	378,333	20	57,333	75,667
Claims on banks exposures	5,489,627	2,361,036	20-100	1,357,680	472,207
Claims on financial institutions	4,649,165	4,013,160	20-100	2,883,679	802,632
Loans secured by Primary Mortgage	3,775,012	2,679,141	55-55	1,887,506	1,473,528
Other claims	39,525,964	41,488,613	20-150	37,628,682	44,659,012
Property and equipment	780,625	819,673	100	780,625	819,673
Other receivables	1,999,362	1,674,898	100	1,999,362	1,674,898
Total Assets considered for Credit Risk	74,106,963	66,033,231		46,594,867	49,994,283

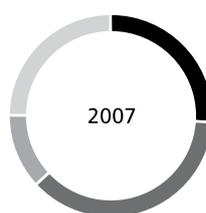
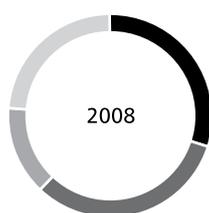
OFF-BALANCE SHEET EXPOSURE

	Credit Conversion Factor, %	Principal Amount of Off-Balance Sheet Items		Risk Weights %	Risk Weighted Asset Amount	
		2008 Rs '000	2007 Rs '000		2008 Rs '000	2007 Rs '000
General guarantees of indebtedness	100	4,608,955	3,487,363	100	4,608,955	3,487,363
Stand-by LC's relating to particular transactions	50	609,761	–	100	304,881	–
Performance bonds, bid bonds	50	958,495	1,009,718	100	479,248	504,859
Trade-related acceptances	20	1,852,851	2,096,597	100	370,570	419,319
Shipping guarantees	20	549,025	2,697,931	100	109,805	539,586
Documentary letter of credit	20	1,966,209	3,795,509	100	393,242	759,102
Other commitments with an original maturity up to 1 year	20	786,912	69,594	100	157,382	13,919
Other commitments and contingencies	20-50	498,194	–	100	185,145	–
Undrawn term loans	20-50	675,857	1,682,721	100	337,929	–
FX contracts - Banks	2	1,110,437	784,565	100	22,209	15,691
Undrawn overdrafts	–	1,944,029	399,450	–	–	–
Total Off-Balance Sheet Exposure considered for Credit Risk		15,560,725	16,023,448		6,969,366	5,739,840
Total Risk Weighted Assets Equivalent for Market risk					1,512,171	809,862
Total Risk Weighted Assets Equivalent for Operational Risk					7,639,671	–
Total Risk Weighted Assets and Off-Balance Sheet Exposure					62,716,075	56,543,985
Risk Weighted Capital Ratios						
Tier 1 (Required statutory minimum ratio is 5%)					19.95	23.17
Tier 1 & Tier 2 (Required statutory minimum ratio is 10%)					23.63	26.15

Statement of Value Added

NDB Bank

	2008		2007	
	Rs '000	%	Rs '000	%
VALUE ADDED				
Gross Income	12,093,491		9,528,574	
Cost of Borrowings and Services	(8,337,839)		(6,077,175)	
Provision for Losses	(124,450)		(69,372)	
	3,631,202		3,382,027	
DISTRIBUTION OF VALUE ADDED				
To Employees				
Remuneration and Benefits	1,090,069	30	881,621	26
To Government				
Taxation	1,163,794	32	1,238,477	37
To Providers of Capital				
Dividend to Shareholders	491,132	14	409,277	12
Retained in the Business				
Retained Profit	703,630	19	694,515	20
Depreciation	182,578	5	158,137	5
	886,208	24	852,652	25
	3,631,202	100	3,382,027	100



	2008	2007
■ To Employees	30%	26%
■ To Government	32%	37%
■ To Providers of Capital	14%	12%
■ Retained in the Business	24%	25%

Investor Information

1. STOCK EXCHANGE

The Consolidated Income Statement for the year ended 31 December 2008 and the Balance Sheet of NDB Bank and the NDB 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 2008

No. of Shares	Resident			Non-Resident			Total		
	No.	Shares	%	No.	Shares	%	No.	Shares	%
Individuals									
0 – 500	4,583	833,965	1.02	38	7,632	0.01	4,621	841,597	1.03
501 – 1,000	927	676,326	0.83	11	8,329	0.01	938	684,655	0.84
1,001 - 5,000	890	1,816,551	2.22	15	28,105	0.03	905	1,844,656	2.25
5,001 - 10,000	106	740,226	0.90	4	27,550	0.03	110	767,776	0.94
10,001 - 20,000	48	653,318	0.80	2	24,971	0.03	50	678,289	0.83
20,001 - 30,000	9	229,420	0.28	–	–	–	9	229,420	0.28
30,001 - 40,000	6	199,323	0.24	1	30,802	0.04	7	230,125	0.28
40,001 - 50,000	4	173,973	0.21	–	–	–	4	173,973	0.21
50,001 - 100,000	2	127,350	0.16	–	–	–	2	127,350	0.16
100,001 - 1,000,000	1	125,287	0.15	–	–	–	1	125,287	0.15
1,000,001 & Over	–	–	–	4	11,742,450	14.35	4	11,742,450	14.35
SUB-TOTAL	6,576	5,575,739	6.81	75	11,869,839	14.51	6,651	17,445,578	21.32

Corporate

0 - 500	148	20,096	0.02	2	726	0.00	150	20,822	0.03
501 - 1,000	45	35,573	0.04	2	1,575	0.00	47	37,148	0.05
1,001 - 5,000	73	171,205	0.21	1	3,000	0.00	74	174,205	0.21
5,001 - 10,000	15	119,765	0.15	1	6,300	0.01	16	126,065	0.15
10,001 - 20,000	21	306,241	0.37	1	10,285	0.01	22	316,526	0.39
20,001 - 30,000	5	125,700	0.15	2	50,300	0.06	7	176,000	0.22
30,001 - 40,000	5	170,594	0.21	–	–	–	5	170,594	0.21
40,001 - 50,000	2	89,500	0.11	1	47,800	0.06	3	137,300	0.17
50,001 - 100,000	8	567,791	0.69	2	150,003	0.18	10	717,794	0.88
100,001 - 1,000,000	2	707,750	0.86	12	4,328,910	5.29	14	5,036,660	6.15
1,000,001 & Over	6	21,430,807	26.18	5	28,183,136	34.43	11	49,613,943	60.61
SUB-TOTAL	330	23,745,022	29.01	29	32,782,035	40.04	359	56,527,057	69.05
TOTAL	6,906	29,320,761	35.82	104	44,651,874	54.55	7,010	73,972,635	90.37

Notes on unregistered/unallotted shares

Out of the 81,855,385 shares issued, 7,882,750 representing 9.63% 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.

3. SHARE VALUATION

The market value of National Development Bank PLC ordinary shares on 31 December 2008 was Rs 86/- per share.

The highest and lowest values recorded during this 12-month period were Rs 176/- on 23 April 2008 and Rs 86/- on 30 December 2008 respectively.

4. DIRECTORS' INTEREST IN SHARES OF NDB BANK AS AT 31 DECEMBER 2008

Name	No. of Shares	
	As at 31.12.2008	As at 31.12.2007
P M Nagahawatte	-	-
H D S Amarasuriya	9,075	9,075
A R Gunasekara	883	883
G C B Wijeyesinghe	-	-
S R de Silva	-	-
Lal de Mel	15,541	15,541
S T Nagendra	4,575	4,575
R B Thambiayah	-	-
Eran Wickramaratne	-	-
R W A Vokes	-	-
Dr S Yaddhige	3,888,200	4,174,500

5. TWENTY LARGEST SHAREHOLDERS AS AT 31 DECEMBER 2008

Name	No. of Shares	%
Bank of Ceylon	8,185,538	10.00
Jaya Investments Ltd.	8,185,500	10.00
Galleon Diversified Fund Ltd.	8,185,500	10.00
EC Global Ltd.	8,098,000	9.89
Dr S Yaddhige	3,888,200	4.75
Employees' Provident Fund	3,762,900	4.60
Sri Lanka Insurance Corporation Ltd - General Fund	3,626,644	4.43
Citibank London S/A RBS AS DEP for FS Asia Pacific	2,986,361	3.65
HSBC Intl Nominees Ltd-BPSS LUX - Aberdeen Global Asia Pacific Equity Fund	2,857,725	3.49
Seylan Bank Ltd. / Aisa Fort Asset Management (Pvt) Ltd.	2,576,600	3.15
HSBC Intl Nominees Ltd. - BPSS LDN-Aberdeen Asia Pacific Fund	2,147,400	2.62
NDB-ESOP	2,062,425	2.52
Pershing LLC S/A Averbach Grauson & Co	1,996,600	2.44
Mellon Bank NA - Mackenzie Cundill Emerging Markets Value CLSS	1,580,300	1.93
Employees' Trust Fund Board	1,216,700	1.49
HSBC Intl Nominees Ltd. / SSBT Lloyds TSB Group Pension TR (No. 1) Ltd.	717,900	0.88
HSBC Intl Nominees Ltd. - BPSS LDN - Aberdeen Investment Fund ICVC	637,500	0.78
HSBC Intl Nominees Ltd. - HSBC Bank PLC/CMG First State Global Umbrella Fund	612,800	0.75
HSBC Intl Nominees Ltd. - SSBTL - Aberdeen New Dawn Investment Trust	450,000	0.55
Lankem Ceylon PLC	441,800	0.54
Total	64,216,393	78.45

Percentage of Shares held by the Public - 83.06%

6. DEBENTURE INFORMATION

Date of issuing - 24 December 2007

Issue Price - Rs 1,000/- per Debenture

Total No. of Debentures Issued - 250,000

Highest Price per Debenture for the period } Not traded
 Lowest Price per Debenture for the period }

Interest rate of Comparable Government Security - 17.60%

Debt Equity Ratio (times) 6.88

Liquidity Ratio (%) - DBU 24.11

FCBU 21.53

Interest Cover (times) 1.43

Interest Yield as at date of last trade } Not applicable
 Yield to Maturity and Trade Done }

Ten Year Summary

GROUP INCOME STATEMENT

Rs mn	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Income										
Interest Income	4,183.3	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
Interest Expenses	3,219.3	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
Net Interest Income	964.0	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
Other Income	417.0	615.8	715.2	930.0	1,404.5	1,471.0	2,080.7	2,133.2	1,474.3	1,661.9
Net Income	1,380.9	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
Less: Operating Expenses										
Personnel Costs	247.8	289.0	382.1	412.7	588.0	916.3	1,131.5	830.0	949.3	1,151.1
Provision for Bad & Doubtful Debts and Fall in Value of Investments	19.0	547.9	526.8	476.8	787.0	278.6	153.5	13.4	65.1	115.7
Other Administrative & General Expenses	243.0	300.1	534.4	520.9	817.6	1,266.9	1,473.3	929.5	1,103.5	1,237.2
Total Operating Expenses	509.8	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
Less: Exceptional Items	-	-	-	-	-	-	171.8	-	-	-
Operating Profit	871.1	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
Share of Associate Companies' Profit	106.5	124.8	72.4	113.7	113.2	31.3	21.7	214.5	179.4	172.4
Profit Before Taxation	977.6	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
Taxation	(232.9)	(281.9)	(226.2)	(251.0)	(305.2)	(481.1)	(593.0)	(1,220.4)	(1,421.4)	(1,409.4)
Profit After Taxation	744.7	555.8	558.6	1,042.9	1,221.1	805.5	1,272.6	2,206.9	1,636.8	1,708.2
Minority Interests	(31.4)	(6.7)	40.1	(112.3)	(98.0)	(102.4)	(236.6)	(176.4)	(115.4)	(103.4)
Profit Attributable to Group	713.3	549.1	598.7	930.6	1,123.1	703.0	1,036.0	2,030.5	1,521.4	1,604.8
Earnings per Share	13.3	10.2	11.1	17.3	20.9	13.1	22.4	24.8	18.6	19.6
Dividends (Rs mn) - Proposed/Paid	241.9	241.9	456.9	295.6	309.1	309.1	322.5	327.4	409.3	491.1
Dividends per Share - Proposed/Paid	4.5	4.5	8.5	5.5	5.8	5.8	6.0	4.0	5.0	6.0
Dividend Cover	2.9	2.3	1.3	3.1	3.6	2.3	3.2	6.2	3.7	3.3

GROUP BALANCE SHEET

Rs mn	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Assets										
Cash & Short-Term Funds	745.6	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
Balances with Central Bank	–	–	–	–	–	–	818.7	1,575.3	1,692.2	1,632.9
Investments	4,154.1	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
Bills of Exchange	–	–	–	–	–	943.4	970.8	1,591.9	2,121.5	2,247.3
Loans & Advances	28,692.0	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
Lease Rentals & Receivables	1,711.3	4,253.4	3,504.3	2,884.7	573.3	609.4	731.3	1,449.1	1,820.0	1,910.4
Investments in Associate Companies	977.3	410.2	454.0	798.6	413.1	225.1	241.2	1,179.0	1,209.9	1,392.9
Property & Equipment	315.0	1,646.1	1,747.1	1,667.8	1,166.5	1,658.0	1,162.0	691.5	804.4	780.6
Investment Property	–	–	–	–	–	–	1,040.9	1,200.0	1,200.0	1,200.0
Other Assets	982.8	965.6	1,815.7	889.0	1,865.4	2,445.6	3,006.3	1,276.2	660.8	925.4
Intangible Assets	27.9	(53.4)	(43.6)	2.9	904.9	1,535.1	872.7	–	–	–
Total Assets	37,606.0	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
Liabilities										
Borrowings	29,813.3	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
Deposits with Customers	–	–	–	–	–	11,085.1	13,953.7	21,161.1	25,623.7	31,091.4
Non-life Insurance Reserves	–	–	–	–	420.8	485.8	858.8	–	–	–
Long-term Insurance Fund	–	–	–	–	6,612.8	7,985.4	9,238.2	–	–	–
Taxation	333.7	480.2	401.0	550.1	350.8	300.1	220.4	640.4	521.6	351.7
Other Liabilities	1,258.1	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
Dividend Payable	243.5	244.1	245.8	300.2	4.6	7.5	8.0	107.9	170.1	249.9
Total Liabilities	31,648.6	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
Shareholders' Funds										
Stated Capital	450.0	629.2	629.2	629.2	629.2	629.2	760.1	1,032.9	1,032.9	1,032.9
Statutory Reserves	358.3	537.5	537.5	537.5	537.5	546.5	545.7	818.6	818.6	818.6
Revaluation Reserve	–	–	131.7	131.7	–	86.2	–	–	–	–
Revenue Reserves	4,824.0	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
Total Shareholders' Funds	5,632.3	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
Minority Interests	325.1	653.7	1,016.0	1,052.6	741.9	1,093.2	1,214.9	1,314.2	1,414.8	568.4
Total Funds Employed	5,957.4	6,474.7	7,154.0	7,875.8	8,639.1	9,469.8	10,370.3	11,880.9	13,099.7	13,230.4
Total Liabilities & Funds Employed	37,606.0	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
Return on Average Assets (%)	2.2	1.4	1.3	2.5	3.2	1.6	2.0	3.1	2.2	2.0
Return on Equity (%)	13.3	9.7	10.0	14.4	15.3	8.6	14.3	21.0	13.7	13.2
Return on Equity (%) (excluding exceptional items)	13.3	9.7	10.0	14.4	15.3	8.6	14.3	10.5	13.7	13.2
Book Value per Share (Rs)	103.34	108.30	114.20	126.94	146.92	155.84	159.60	129.09	142.75	154.69
Book Value per Share (Rs) (excluding exceptional items)	103.34	108.30	114.20	126.94	146.92	155.84	159.60	116.68	142.75	154.69

Notice of Meeting

Notice is hereby given that the Fourth (4th) Annual General Meeting of the National Development Bank PLC (NDB Bank) will be held at Oak Room in the Cinnamon Grand Hotel at 11.00 a.m. on thirtieth (30th) March Two Thousand and Nine (2009) and the business to be brought before the meeting will be:

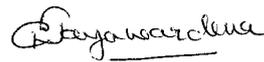
1. To lay before the shareholders for consideration, the Annual Report for the year ended 31 December 2008.
2. To re-elect in terms of Article 89 of the Articles of Association Mr Hemaka Devapriya Senerath Amarasuriya, who retires in terms of Article 87 read with Article 88 of the Articles of Association of NDB Bank.
3. To re-elect in terms of Article 89 of the Articles of Association Mr Anthony Ranjit Gunasekara, who retires in terms of Article 87 read with Article 88 of the Articles of Association of NDB Bank.
4. To re-elect in terms of Article 89 of the Articles of Association Mr Richard William Arnold Vokes, who retires in terms of Article 87 read with Article 88 of the Articles of Association of NDB Bank.
5. To appoint Mr Gamini Christopher Bernard Wijeyesinghe of No. 81, Gregory's Road, Colombo 7 who is 75 years old as at 1 March 2009 who retires pursuant to Section 210 of the Companies Act No. 7 of 2007, as a Director. A special notice has been received by NDB Bank from Mrs Anushi N M Hewajulige of No. 57/1, Piyarathna Mawatha, Ihala Imbulgoda, a shareholder of the NDB Bank intimating her intention to move the following resolution together with an intimation from Mr. Gamini Christopher Bernard Wijeyesinghe in writing of his willingness to be elected.
"IT IS HEREBY RESOLVED THAT, Mr Gamini Christopher Bernard Wijeyesinghe who is 75 years old as at 1 March 2009 be re-appointed as a Director of National Development Bank PLC in terms of Section 211 of the Companies Act No. 7 of 2007 for a term that ends on the earlier of a date that is one (01) year from the date of appointment or at the conclusion of the Annual General Meeting following the Forth Annual General Meeting, at which the re-appointment, if any, takes place and it is further resolved that the age limit referred to in Section 210 of the said Companies Act shall not apply to Mr Gamini Christopher Bernard Wijeyesinghe".
6. To appoint Mr Sri Theagarajah Nagendra of No. 103/2, Rosmead Place, Colombo 7 who is 71 years and five months old as at 1 March 2009 who retires pursuant to Section 210 of the Companies Act No. 7 of 2007, as a Director. A special notice has been received by NDB Bank from Mr Shehan Anthoneyze of 590/3, Biyagama Road, Pilapitiya, Kelaniya, a shareholder of the NDB Bank

intimating his intention to move the following resolution together with an intimation from Mr Sri Theagarajah Nagendra in writing of his willingness to be elected.

"IT IS HEREBY RESOLVED THAT, Mr Sri Theagarajah Nagendra who is 71 years and five months old as at 1 March 2009 be re-appointed as a Director of National Development Bank PLC in terms of Section 211 of the Companies Act No. 7 of 2007 for a term that ends on the earlier of a date that is one (01) year from the date of appointment or at the conclusion of the Annual General Meeting following the Forth Annual General Meeting, at which the re-appointment, if any, takes place and it is further resolved that the age limit referred to in Section 210 of the said Companies Act shall not apply to Mr Sri Theagarajah Nagendra."

7. To declare a Dividend as recommended by the Directors.
8. To reappoint Messrs Ernst & Young, Chartered Accountants, as Auditors of the NDB Bank as set out in Section 154 of the Companies Act No. 7 of 2007 and to fix the fees and expenses of such Auditors.
9. To determine the aggregate remuneration payable to non-executive directors including the Chairman in terms of Article 78 of the Articles of Association of NDB Bank and to authorize the Board of Directors to approve other benefits to the Directors in terms of Section 216 of the Companies Act No. 7 of 2007.
10. To authorize the Board of Directors to determine donations for the financial year 2008 under the Companies Donations Act No. 26 of 1951.

By Order of the Board



Mrs C L Jayawardena

Board Secretary

18 February 2009, Colombo

Notes:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy holder to attend and vote in his/her stead.
2. A proxy holder need not be a shareholder of NDB Bank.
3. Form of Proxy is sent herewith. The completed Form of Proxy must be deposited at the Registered Office of NDB Bank, at No. 40, Navam Mawatha, Colombo 2 not later than forty-eight (48) hours prior to the time appointed for the holding of the meeting in accordance with Article 70 of the Articles of Association of NDB Bank.
4. Shareholders/Proxy holders attending the meeting are requested to bring their National Identity Cards.

Form of Proxy



I/We
(NIC/s) of
..... being a member/members of
National Development Bank PLC (the 'NDB Bank') hereby appoint

1. Holder of
NIC No. or failing him/her
2. Mr P M Nagahawatte (Chairman of NDB Bank) of Colombo or failing him any one of the Directors of NDB Bank, as my/our proxy to represent me/us and to vote for me/us and on my/our behalf at the Fourth Annual General Meeting of NDB Bank to be held on 30 March 2009 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

As witness I/We have set my/our hand/s hereunto this day of
Two Thousand and Nine (2009).

.....
Signature of the Member/Members

.....
Common Seal (If applicable)

Instructions for Completion of the Form of Proxy

1. In order to appoint a proxy holder, this form duly completed together with any Power of Attorney under which it is signed, must be deposited at the Registered Office of NDB Bank, at No. 40, Navam Mawatha, Colombo 2, not later than forty-eight (48) hours prior to the time appointed for the holding of the meeting.
2. The proxy holder appointed need not to be a shareholder of NDB Bank.
3. In the case of a corporate member, the proxy must be executed under its common seal (if applicable) or by its authorized Attorney.
4. The first joint holder shall have the power to sign the proxy without the concurrence of the other joint holder/s.
5. The full name and the registered address of the member appointing the proxy should be legibly entered in the Form of Proxy.

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 4 July 2007).

Registration 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, 2323966
Fax: 2341044, 2440262
Telex: 21399 NDB CE

Board of Directors

P M Nagahawatte
H D S Amarasuriya
G C B Wijeyesinghe
Lal de Mel
S R de Silva
A R Gunasekara
S T Nagendra
R B Thambiayah
R W A Vokes
Dr S Yaddhegige
N S Welikala (Chief Executive Officer)
(Retired w.e.f. 31.3.2008)
Eran Wickramaratne (Chief Executive Officer)
(Appointed w.e.f. 1.4.2008)

Board Sub-Committees

Integrated Risk Management Committee

Lal de Mel (Chairman)
S R de Silva
R B Thambiayah
S T Nagendra
H D S Amarasuriya (Resigned w.e.f. June 2008)
A R Gunasekara (Appointed w.e.f. June 2008)

Audit Committee

G C B Wijeyesinghe (Chairman)
Lal de Mel
A R Gunasekara
R Vokes
S T Nagendra

Strategic Issues Committee

P M Nagahawatte (Chairman)
G C B Wijeyesinghe
A R Gunasekara
S T Nagendra
R Vokes

Remuneration &

Human Resources Committee

H D S Amarasuriya (Chairman)
S R de Silva
G C B Wijeyesinghe
R Vokes
R B Thambiayah

Nominations Committee

P M Nagahawatte (Chairman)
H D S Amarasuriya
Lal de Mel
A R Gunasekara
S R de Silva

Corporate Governance & Legal Affairs Committee

Lal de Mel (Chairman)
P M Nagahawatte
R Vokes
S R de Silva
A R Gunasekara

Subsidiary Companies as at 31.12.2008

Capital Development and Investment
Company PLC
Development Holdings (Pvt) Ltd.
NDB Industrial Estates (Pvt) Ltd.
NDBS Stock Brokers (Pvt) Ltd.
NDB Investment Bank Ltd.

Associate Companies as at 31.12.2008

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

Stock Exchange Listing

The shares of NDB 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

Australia and New Zealand Bank
Bank of New Zealand
Bayerische Hypo-und Vereinsbank AG.
Citibank
Commerz Bank AG.
Deutsche Bank Trust Company Americas
Hongkong & Shanghai Banking Corporation PLC
ICICI Bank
Nordea Bank Norge ASA
Standard Chartered Bank
United Overseas Bank (Thai) Public Company Ltd.

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 NDB Bank was privatized 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, NDB 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 Ltd.' was incorporated for the purposes of taking over the business of National Development Bank of Sri Lanka. Accordingly, on the 15 June 2005, the National Development Bank Ltd. was incorporated and with effect from that date the National Development Bank of Sri Lanka Act No. 2 of 1979 was repealed save and except for certain provisions contained therein.

On the 1 August 2005, the Central Bank of Sri Lanka granted a commercial banking licence to the new Company whilst withdrawing the specialized banking licence that was held by it and on the same day the business operations of NDB Bank Ltd. was taken over by National Development Bank Ltd. In view of this the shareholders of NDB Bank Ltd. were issued with shares of National Development Bank Ltd. at the ratio of 1 National Development Bank Ltd. share for every 5.6 shares of NDB Bank Ltd. 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.



Customer Service Hot Line +94 11 2448888
www.ndbbank.com