

1. GENERAL

The Directors of the National Development Bank PLC ('Bank') have pleasure in presenting to the shareholders this Report together with the Audited Financial Statements and the Audited Consolidated Financial Statements for the year ended 31 December 2016 of the Bank and the Group and the Auditors' Report on those Financial Statements, conforming to the requirements of the Companies Act No. 07 of 2007, Banking Act No. 30 of 1988 and amendments thereto and the Directions issued thereunder, the Listing Rules of the Colombo Stock Exchange and the recommended best practices.

The Report was approved by the Board of Directors on 21 February 2017. The requisite number of copies of the

Annual Report will be submitted to the Colombo Stock Exchange and to the Sri Lanka Accounting and Auditing Standards Monitoring Board within the statutory deadlines.

The Bank, originally established by an Act of Parliament in 1979 as the National Development Bank of Sri Lanka, was incorporated under the Companies Act No. 17 of 1982 as National Development Bank Ltd., in 2005 pursuant to the provisions of the National Development Bank of Sri Lanka (Consequential Provision) Act No. 01 of 2005. National Development Bank Ltd., was thereafter re-registered under the Companies Act No. 07 of 2007 as National Development Bank PLC and was accorded with the registration No. PQ 27. The registered office of the Bank is at No. 40, Navam Mawatha, Colombo 02.

The ordinary shares of the Bank are quoted on the Main Board of the Colombo Stock Exchange since 1993.

The Rated, unsecured, subordinated, redeemable debentures issued by the Bank are listed on the Colombo Stock Exchange.

The Bank's national long-term rating was revised by Fitch Ratings Lanka Ltd., from AA-(lka)/ Stable Outlook to A+(lka)/Stable Outlook in June 2016. The Bank's listed debentures were assigned a rating of A(lka).

The same ratings were re-affirmed in January 2017.

As required by Section 168 of the Companies Act No. 07 of 2007, the following information is disclosed in this Annual Report prepared for the year ended 31 December 2016.

Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Extent of Compliance by the Bank
i. The nature of the business of the Bank and the Group together with any change thereof during the accounting period.	Section 168 (1) (a)	Page 296
ii. Signed Financial Statements of the Bank and the Group for the accounting period completed.	Section 168 (1) (b)	Pages 287 to 400
iii. Auditors' Report on Financial Statements of the Bank and the Group.	Section 168 (1) (c)	Page 284
iv. Accounting Policies and any changes therein (Group also included).	Section 168 (1) (d)	Pages 296 to 400
v. Particulars of the entries made in the Interest Registers of the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (e)	Page 251
vi. Remuneration and other benefits paid to Directors of the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (f)	Page 251
vii. Total amount of donations made by the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (g)	Page 251
viii. Information on Directorate of the Bank and its Subsidiaries during and at the end of the accounting period.	Section 168 (1) (h)	Pages 254 to 256, and 422
ix. Separate disclosure on amounts payable to the Auditors as Audit Fees and Fees for other services rendered during the accounting period by the Bank and its Subsidiaries.	Section 168 (1) (i)	Page 258
x. Auditor's relationship or any interest with the Bank and its Subsidiaries.	Section 168 (1) (j)	Page 258
xi. Acknowledgement of the Contents of this Report/Signatures on behalf of the Board.	Section 168 (1) (k)	Page 259

2. REVIEW OF BUSINESS

2.1 Vision, Mission and Corporate Conduct

The vision, mission and values of the Bank are given on page 75 of this Report.

The Bank and the Group practice high ethical standards in carrying out their business activities in line with the vision of the Bank.

All employees of the Bank abide by the Bank's Code of Conduct and the Directors and the Key Management Personnel of the Bank additionally abide by the Code of Corporate Governance of the Bank.

2.2 Review on Operations of the Bank and Group

A review of the operations of the Bank and the Group as required by Section 168(1) (a) of the Companies Act are discussed in the Chairman's Letter, Chief Executive Officer's Review (pages 10 to 15) and the Management Discussion and Analysis (pages 42 to 112). These reports form an integral part of the Annual Report of the Board of Directors.

2.2.1 Principal Business Activities of the Bank and its Group Companies

As required by Section 168 (1) (a), the principal activities of the Bank and the Group are described on pages 6 and 7 of our Annual Report.

2.2.2 Future Developments and Current Standing

The Bank opened 11 new branches during the year and 3 off site ATMs, during the year affirming the Bank's continuous focus on improving its reach across the country as part of its business strategy.

The Bank continued its tradition of developing product initiatives to enable customer ease of business. The state-of-the-art mobile application and

the e-statement were two key initiatives positively impacting customer service levels. Continuous efforts are being made to convert the existing client base to facilitate usage of these new technology-driven facilities.

Complimenting these initiatives and facilities are the flagship 'one day service' based Personal Loans and Leasing Products. The Bank will look to consolidate its position with the customer base through an intense cross selling effort to broaden customer product usage and loyalty. The Bank will continue to attract new customers through these ease of business initiatives.

Further as required by Section 168 (1) (a), an overview of the future developments of the Bank and the Group are discussed in the Chairman's Letter, Chief Executive Officer's Review (pages 10 to 15) and the Management Discussion and Analysis (pages 42 to 112). These reports form an integral part of the Annual Report of the Board of Directors

2.3 Financial Statements of the Bank and the Group

The Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS) and is given in detail on pages 287 to 400 of this Annual Report.

The Financial Statements of the Bank and the Group for the year ended 31 December 2016 are duly signed by the Assistant Vice-President – Finance and Planning, the Group Chief Financial Officer, two Directors and the Company Secretary in accordance with Section 168 (1) (b) of the Companies Act No. 07 of 2007 and are given on page 289.

2.4 Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Bank to reflect a true and fair view of the state of its

affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 (as amended), the Listing Rules of the Colombo Stock Exchange and the Mandatory Code of Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka.

The Directors are satisfied that the Financial Statements, presented on pages 287 to 400 give a true and fair view of the state of affairs of the Bank and the Group as at 31 December 2016 as well as the profit for the year then ended.

The Statement of Directors' Responsibility for Financial Reporting is given on pages 274 and 275 and forms an integral part of the Annual Report of the Board of Directors.

2.5 Directors Statement of Internal Control

The Board has issued a report on the internal control mechanism of the Bank as per Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 on Corporate Governance. The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The above report which forms an integral part of the Report of the Board of Directors is given on pages 276 and 277 of the Annual Report.

The Board has obtained an Assurance Report from the External Auditors on the Directors' Statement on Internal Control which is given on page 279 of this Annual Report.

2.6 Auditors' Report

The Bank's Auditors, Messrs Ernst and Young, carried out an audit on the Financial Statements of the Bank and the Consolidated Financial Statements of the Group for the year ended 31 December 2016 and their report on those Financial Statements are given on page 284 of the Annual Report.

2.7 Significant Accounting Policies and Changes during the Year

The significant accounting policies adopted in the preparation of the Financial Statements and the significant changes to accounting policies adopted if any, in the preparation of the Financial Statements are given on pages 296 to 400.

2.8 Entries in the Interest Register

As required by Section 168 (1) (e) of the Companies Act No. 07 of 2007, the Bank and all its Subsidiaries maintain Interest Registers. We wish to confirm that all Directors have made declarations as required by section 192 (1) and (2) of the Companies Act aforesaid and all related entries were made in the Interest Register during the year under review. The share ownership of Directors is disclosed on page 135. The Interest Register is available for inspection by shareholders or their authorised representatives as required by Section 119 (1) (d) of the Companies Act No. 07 of 2007.

2.9 Directors' Remuneration and Other Benefits

As required by Section 168 (1) (f) of the Companies Act No. 07 of 2007, the Directors' remuneration and other benefits in respect of the Bank and the Group for the financial year ended 31 December 2016, are disclosed in Note 12 of the Financial Statements on pages 309 and 310.

3.0 Corporate Donations by the Bank

The Bank and the Group made Donations amounting to LKR 27 million and LKR 30 million respectively, for the year 2016 (2015 – LKR 8.0 million and LKR 10.5 million respectively), in terms of the Resolutions passed at the last Annual General Meeting. The information given above forms an integral part of the Annual Report of the Board of Directors in terms of Section 168 (1) (g) of the Companies Act No. 07 of 2007.

The Bank's Corporate Social Responsibility Unit initiates most of the CSR activities together with the participation of employees from all departments. The primary responsibility of the CSR Unit is to ensure that CSR activities are conducted in a manner to ensure sustainable business development.

3. GROSS INCOME

The gross income of the Group for 2016 was LKR 33,777 million (2015 – LKR 26,916 million) of which the Bank's gross income was LKR 33,282 million (2015 – LKR 25,855 million)

The sources of external operating income, net operating profit and asset allocation of the Group among different business segments together with their proportions are given in Note 51 to the Financial Statements on pages 361 and 362.

4. TOTAL OPERATING INCOME

The total operating income of the Group for 2016 was LKR 13,677 million (as compared with LKR 13,291 million for 2015), while the Bank's total operating income was LKR 13,151 million (as compared with LKR 12,209 million for 2015). An analysis of the income is given in the Statement of Profit or Loss on page 287 to the Financial Statements.

5. RESULTS AND APPROPRIATIONS

5.1 Performance of the Bank and the Group and Transfers to Reserves

The Group's Operating Profit Before Value Added Tax on Financial Services and Taxation including that of its Subsidiaries and its share of profit from Associate companies amounted to LKR 5,094 million (compared to LKR 5,793 million in 2015). After deducting LKR 2,279 million (compared to LKR 2,123 million in 2015) for Valued Added Tax on Financial Services and Taxation, the Profit After Tax for the year amounted to LKR 2,815 million (compared to LKR 3,670 million in 2015). The Group profit attributable to shareholders amounted to LKR 2,691 million (compared to LKR 3,542 million in 2015).

The Bank's Profit Before Value Added Tax on Financial Services and Taxation amounted to LKR 5,335 million (compared to LKR 5,448 million in 2015). After deducting LKR 2,165 million (compared to LKR 1,936 million in 2015) for taxation, the Profit After Tax for the year amounted to LKR 3,170 million (compared to LKR 3,511 million in 2015).

Details are given in the Statement of Profit or Loss on page 287.

Details of appropriation of the Profit of the Bank are given below:

	2016	2015
	LKR '000	LKR '000
Profit for the year after charging all operating expenses, depreciation and amortization	5,335,004	5,447,875
Less: Taxation	(2,164,733)	(1,936,444)
Net Profit for the year	3,170,271	3,511,431
Other comprehensive income before tax	(73,151)	94,353
Less: tax on other comprehensive income	10,544	(7,325)
Total other comprehensive income for the year, net of taxes	(62,607)	87,028
Total comprehensive income for the year	3,107,664	3,598,459
Add: Unappropriated balance brought forward from previous year	13,638,678	12,819,737
Less: Adjustment made for Super Gains Tax	–	(732,081)
Total retained profits available for appropriations	16,746,342	15,686,115
Appropriations		
Transfer to statutory reserve fund	3,707	(231,987)
Dividends		
Final cash dividends for the year 2014	–	(659,279)
Interim cash dividends for the year 2015	–	(1,156,171)
Final cash dividends for the year 2015	(653,954)	–
Unappropriated balance carried forward	16,088,681	13,638,678

5.2 Dividends on Ordinary Shares

In February 2016, the Board of Directors authorized and approved a final dividend of LKR 4.00 per share to be paid for the financial year ended 31 December 2015. In February 2017, the Board of Directors authorized and approved a final dividend of LKR 8.00 per share to be paid for the financial year ended 31 December 2016 comprising of LKR 2.00 in the form of cash dividend and the balance LKR 6.00 in the form of Scrip dividend. The total dividend paid to the shareholders for the financial year ended 31 December 2016 was LKR 8.00 (2015-LKR 11.00)

In declaring the dividends the Directors ensured due compliance by the Bank of the solvency provisions contained in Section 56 (3) of the Companies Act No. 07 of 2007 and the Listing Rules of the CSE. The Board provided the Statement of Solvency to the Auditors and obtained Certificates of Solvency from the Auditors in respect of the said dividend payment conforming to the statutory provisions.

These dividends were partly paid out of dividend income received and partly out of operational profits, the latter being subject to withholding tax.

5.3 Reserves

A summary of the Banks' and the Group's reserves is given below:

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Capital	1,246,479	1,242,772	1,246,479	1,162,963
Statutory reserve fund	1,246,479	1,242,772	1,246,479	1,242,772
Available-for-sale reserve	(565,741)	(207,277)	(542,587)	(139,559)
Revaluation reserve	853,456	853,456	969,795	948,795
General reserve	5,805,707	5,805,707	5,805,707	5,805,707
Share-based payment reserve	13,841	14,590	13,841	81,098
Cash flow hedge reserve	56,148	110,160	56,148	110,160
Retained earnings	16,088,681	13,638,678	21,140,725	19,170,268
Total	24,745,050	22,700,858	29,936,587	28,382,204

5.4 Provision for Taxation

The income tax rate applicable on the Bank was 28%. (2015 – 28 %). The Bank's profit was also liable for Value Added Tax on Financial Services and Nation Building Tax and the regulatory tax rate for the year are as follows:

- Value added tax on Financial Services – 15% for the period from 2 May 2016 to 11 July 2016 and from 01 November 2016 to 31 December 2016 is 15%. The rate for the balance period of the current year is 11% (2015 – 11%);
- Nation Building Tax at the rate of 2% (2015 – 2%).

The tax rates applicable for the group companies are given in note 15 to the Financial Statements on page 302.

Deferred Tax is provided for all known temporary differences based on the Liability Method in accordance with Sri Lanka Accounting Standard (LKAS 12) – Income Taxes.

6. INTANGIBLE ASSETS AND PROPERTY, PLANT & EQUIPMENT

The details of intangible assets and property, plant & equipment are given in Notes 33 and 34 to the Financial Statements on pages 334 to 339.

Total Capital expenditure incurred by the Bank and the Group on acquisition of property, plant & equipment and intangible assets amounted to LKR 871 million and LKR 907 million, respectively (2015 – Bank – LKR 595 million and Group – LKR 630 million).

7. INVESTMENT PROPERTY

Investment properties of any group companies when significantly occupied by other companies in the Group are classified under property, plant & equipment in the Consolidated Financial Statements in accordance with LKAS 40 on 'Investment Property'. There were no acquisitions of Investment Properties during the year as well as the previous year.

The details of Investment Property are given in Note 32 to the Financial Statements on pages 333 and 334.

8. ISSUE OF SHARES AND DEBENTURES

8.1 Issue of Shares and Debentures by the Bank

Details of the shares issued by the Bank in the years 2015, 2016 and 2017 (part) are given in the table below:

Reason for the Issue	Number of Shares Issued		
	2016	2015	2017 (part)
Exercise of options by employees under the Equity Linked Compensation Plan	18,164	73,420	–
Scrip Dividend	–	–	6,300,199

Details of the Debentures issued by the Bank are given in the table below:

Year of Issue	Reasons for the Issue of Debentures	Type of Debenture	Number of Debentures issued	Aggregate Face Value (LKR)
2013	Utilized to support the Bank's Tier II Capital	Rated, unsecured, subordinated, redeemable debentures	100,000,000	10,000,000,000
2015	Utilized to support the Bank's long-term and short-term funding requirements and the Bank's Tier II Capital	Rated, unsecured, subordinated, redeemable debentures	100,000,000	10,000,000,000

8.2 Issue of Shares and Debentures by the Subsidiaries and Associates during the year 2016

Name of Subsidiary/ Associate	Number of shares Issued
NDB Capital Ltd. (Bangladesh)	33,548 Ordinary shares

8.3 Stated Capital and Debentures

The stated capital of the Bank at the beginning of the year was LKR 1,242,771,989/- and at the end of the year was LKR 1,246,479,177/- and comprised of 165,167,342 ordinary shares at the beginning of the year and (165,185,506) ordinary shares at the end of the year. The details of the Stated Capital are given in Note 43 to the Financial Statements on Page 352 and 353.

During the period of January 2016 to December 2016 a total number of 18,164 shares were issued by the Bank to eligible employees of the Bank as Share Options in terms of the Equity Linked Compensation Plan (ELCP) of the Bank approved by the Board of Directors and shareholders of the Bank in March 2010.

The details of the debentures issued by the Bank in 2013 and 2015 are disclosed in 8.1 above.

In 2011, the Bank privately placed rated, unsecured, unlisted redeemable debentures having an aggregate face value of LKR 400,000,000/-. The proceeds of these debentures were utilized for lending purposes. These debentures matured during the year. The details of the said debentures are disclosed in Note 38 to the Financial Statements on page 343.

9. SHARE INFORMATION

9.1 Distribution Schedule of Shareholdings

Information on the distribution of the number of holders in each class of equity securities and the percentage of their holdings as per the CSE listing

rules are given in Investor Information on pages 133 to 135 of the Annual Report.

9.2 Information on Earnings, Dividend, Net Assets and Market Value

The information relating to earnings, dividends, net assets and market price per share is given in the financial highlights on page 8 of the Annual Report.

The ratios relating to dividends, net asset value, market value per share and ratios relevant to Debt Securities are disclosed in Investor Information on pages 135 to 142 of this Annual Report.

10. SUBSTANTIAL SHAREHOLDINGS

The Bank had 8,046 registered shareholders as at 31 December 2016. The distribution, public holding, 20 largest shareholders and the share price during 2016 are set out in pages 133 to 135 of this Annual Report.

11. DIRECTORS

11.1 Information on Directors of the Bank and the Group

11.1.1 List of Directors

In terms of the provisions of the Articles of Association of the Bank, the Board of Directors, as at 31 December 2016, consisted of ten (10) Directors, including the Chairman and was made-up as follows:

- Seven (07) Directors have been appointed by the shareholders;
- One Director has been appointed as a representative of the Ministry of Finance in terms of the Articles of Association of the Bank; and
- Two (02) Directors were appointed to fill casual vacancies during the year 2016
- The Chief Executive Officer is an ex-officio/Executive Director and was appointed with effect from 1 January 2017 bringing the total number of Directors to 11.

Compliance by the Board of Directors of the Banking Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka is set out in pages 212 to 248 of the Annual Report. In terms thereof the classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2016 is given below:

Name of Director	Independent/ Non-Independent	Executive/ Non-Executive
A W Atukorala	Independent	Chairman – Non-Executive
A K Pathirage	Non-Independent	Deputy Chairman – Non-Executive
T L F Jayasekera	Independent	Non-Executive
Mrs. K Fernando	Independent	Non-Executive
D S P Wikramanayake	Non-Independent	Non-Executive
Mrs. D M A Harasgama	Non-Independent	Non-Executive
D M R Phillips	Independent	Non-Executive
Mrs. W A I Sugathadasa	Independent	Non-Executive
K D W Ratnayaka	Independent	Non-Executive
N S Welikala	Independent	Non-Executive
P L D N Seneviratne (appointed w.e.f 1 January 2017)	Non-Independent	CEO – Executive

In terms of an approval received from the Board of Directors of the Colombo Stock Exchange on 30 March 2010, Licensed Commercial Banks have been granted a total exemption from the requirement to comply with Section 7.10 (Corporate Governance) of the Continuing Listing Requirements under the CSE Listing Rules with effect from 1 January 2010.

Compliance by the Board of Directors of the Code of Best Practice on Corporate Governance 2013 issued by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka is set out in pages 238 to 248 of the Annual Report. In terms thereof, the classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2016 is given below:

Name of Director	Independent/ Non-Independent	Executive/ Non-Executive
A W Atukorala	Independent	Non-Executive
A K Pathirage	Non-Independent	Non-Executive
T L F Jayasekera	Independent	Non-Executive
Mrs. K Fernando	Independent	Non-Executive
D S P Wikramanayake	Non-Independent	Non-Executive
Mrs. D M A Harasgama	Independent	Non-Executive
D M R Phillips	Independent	Non-Executive
Mrs. W A I Sugathadasa	Independent	Non-Executive
K D W Ratnayaka	Independent	Non-Executive
N S Welikala	Independent	Non-Executive
P L D N Seneviratne (appointed w.e.f 1 January 2017)	Non-Independent	CEO – Executive

*Mrs. Harasgama is deemed 'independent' in terms of the provisions of the Code.

11.1.2 New Appointments and Resignations

The new Appointments to the Board of Directors of the Bank during the year 2016 were as follows:

- I. A W Atukorala (appointed w.e.f. 31 August 2016)
- II. N S Welikala (appointed w.e.f. 11 October 2016)
(P L D N Seneviratne was appointed as the Chief Executive Officer/Director (appointed w.e.f. 1 January 2017)

Resignations during the year 2016:

- I. N G Wickremeratne (Former Chairman, retired w.e.f. 31 August 2016)
- II. R Theagarajah (Former Chief Executive Officer/Director, resigned w.e.f. 30 November 2016)

11.1.3 List of Directors of Subsidiaries and Associates of the Bank

The Directors of the Group companies are set out on page 422 of the Annual Report.

11.1.4 Recommendations for Re-election

In terms of the provisions of the Articles of Association of the Bank, one-third of the elected Directors (i.e., excluding the representative of the Ministry of Finance and the ex-officio Executive Director) and directors appointed during the year to fill casual vacancies shall retire from office and such directors shall be eligible for re-election by the shareholders at each Annual General Meeting of the Bank.

Directors appointed to fill casual vacancies:

- I. A W Atukorala (appointed w.e.f. 31 August 2016)
- II. N S Welikala (appointed w.e.f. 11 October 2016)

The aforementioned Directors shall stand for re-election by the shareholders at the Annual General Meeting of the Bank.

Directors to Retire by Rotation

The Directors to retire by rotation at an Annual General Meeting shall be those who (being subject to retirement by rotation) have been longest in office since their last election or appointment. If one-third of the Directors eligible for retirement by rotation is not a multiple of three, the nearest to but not greater than one-third shall retire. Accordingly, the Nominations Committee and the Board have recommended that A K Pathirage and Mrs. W A I Sugathadasa be considered for re-election by the shareholders at the Annual General Meeting of the Bank.

Directors Who Served on the Board for a Period Exceeding Nine Years;

As per the Banking Act Direction No. 11 of 2007 the total period of service of a Director (excluding the Executive Director) shall not exceed nine years. The Bank has no directors who have served the Bank for over nine years.

11.1.5 Directors' Meetings

Details of Directors' meetings which comprised of Board Meetings and all Board Subcommittee meetings are presented on pages 217 to 219.

11.1.6 Board Subcommittees

There are seven permanent committees of the Board, namely, Integrated Risk Management Committee, Audit Committee, Strategic Issues Committee, Human Resources and Remuneration Committee, Nomination Committee, Corporate Governance and Legal Affairs Committee and the Related Party Transactions Review Committee. Details of the members of these committees are given on page 422.

The said committees include four Mandatory Committees formed by the Board in compliance with the Banking Act Direction No.11 of 2007 issued by the Monetary Board on Corporate Governance for Licensed Commercial

Banks in Sri Lanka, as well as three other committees formed by the Board. The Related Party Transactions Review Committee was formed by the Board in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange. The Committees ensure that the activities of the Bank are conducted, conforming to the required laws, rules and regulations, the highest ethical standards and in the best interest of the shareholders.

11.1.7 Appraisal of Board Performance

The Bank has in place a robust scheme whereby the Directors perform a self-assessment of the Board's conduct annually by answering a Self-assessment Questionnaire. The responses to the Self-assessment Questionnaire are evaluated by the Chairman and Deputy Chairman and any action, recommendations and/or concerns are discussed with the Board and accordingly noted and action taken where deemed appropriate.

12. OTHER DIRECTORSHIPS OF DIRECTORS

Information of the other directorships of the Directors of the Bank as at 31 December 2016 is given in pages 194 to 203.

13. DISCLOSURE OF DIRECTOR'S DEALINGS IN SHARES AND DEBENTURES

Shareholdings of the Directors in the Bank as at the year-end and their corresponding holdings as at the end of the previous year are as shown on page 135 of this Annual Report.

Directors' holdings in Debentures of the Bank as at 31 December 2016 are set out on page 142 of this Annual Report.

14. EQUITY-LINKED COMPENSATION PLAN

In 2010, the Board of Directors and the shareholders of the Bank approved an Equity-Linked Compensation Plan (ELCP), to enable the management staff in the rank of Assistant Vice-President and above of the Bank to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions. A total quantum of 2,455,661 shares of the Bank which was equivalent to a maximum of 3% of the present voting share capital of the Bank was to be issued to the ELCP. Half of such shares were to be awarded as Share Options and the other half as Share Grants in equal proportions. The issue of shares under the ELCP was to take place over five years commencing July 2010. Each of the five tranches would amount to a maximum of 0.6% of the voting shares.

The shares under the final award of the Share Grant Component under the ELCP were transferred to the respective eligible employees during the year 2016 subsequent to the completion of the vesting period and subsequent to obtaining the approval of the Securities and Exchange Commission of Sri Lanka (SEC) for such private transfers. Accordingly a total number of 573,018 Shares were transferred to 32 eligible employees during the year.

Accordingly, no shares remain to be transferred and/or issued to any eligible employees under the Share Grant Component pertaining to the said ELCP, thus effectively concluding the Share Grant component of the ELCP approved in the year 2010.

A total of 18,164 shares were issued to the eligible employees under the Share Options Component under the aforementioned ELCP during the year 2016. The issue of shares under the Share Options Component under Award 4 shall take place till 30 June 2017, and accordingly shares amounting to a maximum 0.30% of shares allocated to Share Options may be issued until the said date. The Share Options

Component of the said ELCP will thus conclude on 30 June 2017.

In February/March 2016, the Board of Directors and the shareholders of the Bank approved an Employee Share Option Scheme (ESOS) for the Senior Management Team of the Bank in Category 4 and above and the respective Chief Executive Officer of NDB Capital Holdings Ltd, NDB Wealth Management Ltd, NDB Investment Bank Ltd and NDB Securities (Pvt) Ltd, commencing from the performance year 2016. Under the ESOS, the Bank will offer share options relating to voting shares to the eligible employees up to a maximum of 5% of the total number of shares issued by the Bank. No shares have been issued under the scheme as at date.

The Bank does not have in place any profit sharing plans other than the Variable Bonus Scheme.

15. DIRECTORS' INTERESTS IN CONTRACTS OR PROPOSED CONTRACTS

Directors' interest in contracts or proposed contracts with the Company, both direct and indirect are disclosed on page 260 of this Annual Report. These interests have been declared at Directors' meetings. As a practice, Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

16. INSURANCE AND INDEMNITY

Pursuant to a decision of the Board, the Bank obtained an Insurance Policy to cover Directors' liability. The Bank has accordingly paid an insurance premium in respect of the said insurance policy for the benefit of the Bank and the Directors and certain employees of the Bank and related body corporates as defined in the insurance policy.

17. ENVIRONMENTAL PROTECTION

The Bank and the Group have not engaged in any activity that is detrimental to the environment, and have complied with the environmental laws and regulations at all times. Specific activities carried out during the year to protect the environment are detailed in the Management Discussion and Analysis on pages 42 to 112.

18. STATUTORY PAYMENTS

The Directors to the best of their knowledge and belief are satisfied that all statutory payments in relation to the Government and the employees have been made-up to date.

19. EVENTS OCCURRING AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

Events occurring after the date of the Statement of Financial Position are disclosed in Note 53 to the Financial Statement on page 368.

20. GOING CONCERN

The Board of Directors is satisfied that the Bank has adequate resources to continue the business activities in the foreseeable future. Therefore, the Bank has adopted a 'going concern' basis in preparing these Financial Statements.

21. RELATED PARTY TRANSACTIONS

A Board approved Related Party Transactions Policy has been adopted and a Related Party Transactions Review Committee formed by the Board of Directors in compliance with the provisions contained in Section 9 of the Listing Rules of the Colombo Stock Exchange, and in line with the Sri Lanka Accounting Standards (LKAS 24) and

the Directions issued by the Central Bank of Sri Lanka.

The Directors and Key Management Personnel of the Bank have disclosed transactions, if any, that could be classified as related party transactions in terms of LKAS 24 - 'Related Party Disclosures' which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 52 to the Financial Statements on pages 363 to 365.

22. MATERIAL FORESEEABLE RISK FACTORS (AS PER RULE NO. 7.6 (VI) OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE)

Information pertaining to the material foreseeable risk factors, that require disclosures as per the Rule No. 7.6 (vi) of the Listing Rules of the Colombo Stock Exchange are discussed in the Risk Management Review on pages 151 to 185.

23. MATERIAL ISSUES PERTAINING TO EMPLOYEES AND INDUSTRIAL RELATIONS PERTAINING TO THE BANK (AS PER RULE NO. 7.6 (VII) OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE)

There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year under review which need to be disclosed.

24. INTEGRATED ANNUAL REPORT

The Bank's Annual Report for the year ended 31 December 2016 is presented in line with the integrated reporting guidelines issued by The Institute of Chartered Accountants of Sri Lanka. Integrated reporting brings together material information about the Bank's strategy, governance, performance and prospects in a way that reflect the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how the Bank demonstrates stewardship and how it creates and sustains value.

25. APPOINTMENT OF AUDITORS AND INDEPENDENCE DECLARATION

The Financial Statements of the Bank for the year ended 31 December 2016 have been audited by Messrs Ernst & Young, Chartered Accountants. They also function as the Auditors of the Bank's subsidiary companies namely, NDB Capital Holdings Ltd., NDB Wealth Management Limited, NDB Securities (Private) Limited, NDB Investment Bank Limited, Development Holdings (Private) Limited and NDB Zephyr Lanka (Private) Limited.

Based on the declaration provided by Messrs Ernst & Young, Chartered Accountants, and as far as the directors are aware, the Auditors do not have any relationship with or interest in the Bank that in our judgement may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka, applicable on the date of this report.

The Auditors have indicated their willingness to offer themselves for reappointment. The Board Audit Committee and the Board of Directors have recommended the reappointment of the Auditors.

A resolution appointing Messrs Ernst & Young as Auditors and authorizing the Directors to fix their remuneration will be proposed at the Annual General Meeting.

26. AUDITOR'S REMUNERATION AND INTERESTS IN CONTRACTS WITH THE BANK

The expenses incurred in respect of Auditors remuneration, fees for other audit services and non-audit fees to Auditors during the year for the Bank and the Group are given in Note 12 to the Financial Statements on page 309 and 310.

27. INFORMATION ON RATIOS, MARKET PRICES OF SHARES AND CREDIT RATINGS

Information that require disclosures as per Rule 7.6 (xi) of the listing Rules of the Colombo Stock Exchange are given in the Section on "Investor Relations" on pages 128 to 150.

28. RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROL

The Bank has an ongoing process to identify, evaluate and manage the risks. The Board of Directors continuously monitors and reviews this process through the Board Integrated Risk Management Committee. The process adopted by the Bank to manage risks for banking and non-banking activities are discussed in detail in the Bank's Risk Management review on pages 151 to 185 of this Annual Report.

29. CORPORATE GOVERNANCE

In the management of the Bank, the Directors have placed emphasis on conforming to the best corporate governance practices and procedures required to ensure that the Bank is compliant with the Code of Best Practices on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and the Direction on Corporate Governance issued by the Central Bank of Sri Lanka (CBSL). Accordingly, systems and structures are being introduced or revised regularly to ensure this requirement is met. A separate report on Corporate Governance is given on pages 212 to 248.

As required by Section 3(8) (ii) (g) of the Direction No 11 of 2007 of the Banking Act on Corporate Governance for Licensed Commercial Banks, issued by the CBSL, the Board of Directors confirms that all the findings of the 'Factual Findings Reports' of auditors issued under 'Sri Lanka Related Services Practice Statement 4750' has been incorporated to the said report on page 237 of this Annual Report.

30. HUMAN RESOURCES

One of the key strategic objectives of the NDB Group is to develop and nurture a Best in Class Engaged and Inspired Team. Execution of this strategic objective is done by continuously investing in the development of the Human Capital and by implementing effective Human Resources policies to ensure efficiency, productivity, whilst maintaining a work life balance. The Human Resources activities carried during the year to focus on the strategic objective are detailed in the Human Resources and Remuneration Committee report on pages 261 and 262 and the discussion on Employee Capital Formation in the Management Discussion and Analysis on pages 91 to 100.

31. OPERATIONAL EXCELLENCE

Operational Excellence is also a key Strategic Objective of the Bank and focusses on increasing efficiency and managing operational costs. The Bank has on going initiatives to drive policy and process standardization and to optimize the use of existing technology platforms.

32. OUTSTANDING LITIGATIONS

In the opinion of the Directors and the Bank's lawyers, pending litigations against the Bank disclosed in Note 48.3 to the Financial Statements on page 357 will not have a material impact on the financial position of the Bank or its future operations.

33. ANNUAL GENERAL MEETING

In complying with the good governance practices, the Annual Report of the Bank is dispatched as soon as possible after the end of the financial year and completion of the audit.

In compliance with the Colombo Stock Exchange Listing Rules, the Annual Reports have been distributed in the form of a CD-ROM (a Soft copy) as well as in the form of a Printed Report as and when required by shareholders.

34. NOTICE OF MEETING

The Twelfth Annual General Meeting will be held at the Auditorium of Development Holdings (Pvt) Ltd., 3rd Floor, NDB EDB Tower, No 42, Navam Mawatha, Colombo 2 on 30 March 2017 at 10.00 am. The notice of meeting is given on page 421 of this Annual Report.

35. ACKNOWLEDGEMENT OF THE CONTENTS OF THIS REPORT

As required in terms of Section 168 (k) of the Companies Act No. 07 of 2007, the Board of Directors does hereby acknowledge the contents of the Annual Report.

Signed in accordance with a resolution adopted by the Directors.



A W Atukorala
Chairman



A K Pathirage
Deputy Chairman



P L D N Seneviratne
Director/Chief Executive Officer



T L F Jayasekera
Director



D S P Wikramanayake
Director



Mrs. K Fernando
Director



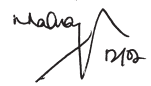
Mrs. W A I Sugathadasa
Director



Mrs. D M A Harasagama
Director



D M R Phillips
Director



K D W Ratnayaka
Director



N S Welikala
Director



Mrs. Shehani Ranasinghe
Company Secretary

21 February 2017