

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

Composition of the Human Resources and Remuneration Committee

The Board appointed Human Resources and Remuneration Committee comprised of six Non-Executive Directors as members and the Chairman of the Committee is an Independent Director as set out below. The Chief Executive Officer (CEO) has been present at meetings subsequent to being invited by the Committee, other than in instances where matters relating to the CEO have been discussed.

As at 31st December 2016 the Committee comprised of the following:

Name of the Board subcommittee Member	Directorship Status	Membership Status
Mrs. W A I Sugathadasa	Independent	C
A K Pathirage	Non-Independent	M
T L F Jayasekera	Independent	M
Mrs. K Fernando	Independent	M
K D W Ratnayaka	Independent	M
A W Atukorala	Independent	I

C – Chairperson, M – Member, I – By Invitation

Charter of the Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee was formed in compliance with the Section 3 (6) of Direction No. 11 of 2007, on the subject ‘Corporate Governance for Licensed Commercial Banks in Sri Lanka’, issued by the Monetary Board of the Central Bank of Sri Lanka under the powers vested in the Monetary Board, in terms of the Banking Act No 30 of 1988. The composition and the scope of work of the Committee are in conformity with the provisions of the said Direction.

The Charter of the Human Resources and Remuneration Committee was approved by the Board of Directors

and is reviewed annually. As part of the annual review process, the Committee reviewed the Charter in December 2016 and there were no material changes made. As per the Charter, the scope of work includes the following:

Determining and periodically reviewing the Remuneration Policy (salaries, allowances and other financial payments and perquisites) and remuneration payable relating to Executive and/or Non-Executive Directors, the CEO and Key Management Personnel (KMPs) of the Bank in terms of the Remuneration Policy/Bank’s Articles etc.

Recommending to the Board the apportionment of the remuneration perquisites and benefits of the Non-Executive Directors including the Chairman out of total sum determined for the purpose by the shareholders in terms of the Bank’s articles.

Reviewing and recommending to the Board in consultation with the Nomination Committee, personnel considered fit and proper for appointment to KMP positions of the Bank.

Responsibility of setting and reviewing goals and targets for Directors, CEO and KMPs and determining their periodic revision.

Evaluating the performance of the CEO and KMPs against the set goals and targets periodically and determining the basis for revising remuneration, benefits and other payments of performance based incentives.

Considering the succession plans and proposals recommended by the Senior Management of the Bank for all existing KMP positions of the Bank and making necessary recommendations for the approval of the Board.

Discussing and assessing with the Management the overall remuneration expenditure on all staff and their distribution among different categories and obtaining information on the remuneration and benefits paid/given to consultants engaged by the Bank.

Receiving information on the role and activities of the Human Resources Department and making recommendations for the strengthening of the role of the said department if necessary.

Reviewing the recommendations made by the Senior Management on appropriate incentives/awards to achieve objectives such as rewarding performance and retaining KMPs, including the review/recommendation of share option schemes for employees of the Bank.

Reviewing and recommending to the Board any termination payments that are proposed to be paid to Directors, the CEO and/or KMPs in the event the same are deemed necessary and ensuring that such payments are in terms of the remuneration policy of the Bank and are approved in accordance with applicable statutes, rules and regulations.

Committee Guiding Principles

The Overall focus of the Committee:

Setting guidelines and policies to formulate compensation packages, which are attractive, motivating and capable of retaining qualified and experienced employees in the Bank. In this regard, the Committee sets the criteria such as qualifications, experience, skills and competencies required which are to be considered for appointment or promotion to the post of CEO and to KMPs.

Setting guidelines and policies to ensure that the Bank upholds and adheres to the provisions of the Laws of the Land, particularly those provisions of the Banking Act No. 30 of 1988, including the Directions issued by the Monetary Board/ Director of Bank Supervision in accordance of the provisions of such Act.

Providing guidance and policy direction for relevant matters connected to general areas of Human Resources Management of the Bank.

Ensuring that the performance-related element of remuneration is designed and tailored to align employee interests with those of the

Bank and its main stakeholders which ensure sustainable growth.

- Structuring remuneration packages of KMPs to ensure that a significant portion of the remuneration is linked to performance which builds a pay for performance culture.
- Promoting a culture of regular performance reviews to enable staff to obtain feedback from their superiors in furtherance of achieving their objectives and development goals.
- To develop a robust pipeline of rising talent capable and available to fill key positions in the Bank.

Committee Meetings

The Committee held eight (8) meetings during the year under review. The attendance of Committee members at meetings is stated in the table on page 219. The quorum for a meeting is three (3) members.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

Methodology used by the Committee

The Committee acknowledged rewards as one of the essential components in influencing employee behaviour, thus impacting business results. Therefore, the reward programmes are designed to attract, retain and to motivate employees to deliver results by linking performance to demonstrable performance based criteria. In this regard, the Committee evaluates the performance of the CEO and KMPs against the pre-agreed targets and goals that balance short and long-term financial and strategic objectives.

The Bank's variable (bonus) pay plan is determined according to the overall achievements of the Bank and pre-agreed individual targets, which are based on various performance parameters. The level of variable pay is set to ensure that individual rewards reflect the overall performance of the Bank, the particular business unit and individual performance. The Committee

makes appropriate adjustments to the bonus pool in the event of over or under achievement against pre-determined targets (in this regard, the Committee can seek external independent professional advice on matters falling within its purview).

The Committee has as a practice ensured that the Bank organizes and takes part in compensation surveys every 2-3 years and has utilized such feedback to ascertain that compensation practices are benchmarked to the 'best practices' and are relevant and current as far as possible. Moreover, the Committee also ascertains the engagement levels of staff through Staff Engagement Surveys.

Several changes took place in the leadership of the Bank during 2016 and successions to such vacancies were carried out through internal and external candidates following due oversight by the Nominations Committee. This Committee considered the salient terms and conditions pertaining to all such senior management changes and appointments made in 2016 in line with the existing policies and procedures of the Bank.

Summary of Activities

During the preceding year the Committee carried out the following:

- I. Comprehensively reviewed the performance of the KMPs of the Bank for the year 2015 against the set goals and targets and recommended to the Board of Directors of the Bank the increments, bonuses and promotions for the staff members including the KMPs in 2016.
- II. Noted and agreed on goals and targets of the Board of Directors and KMPs for the year 2016.
- III. Critically reviewed the senior management vehicle policy.
- IV. Deliberated on employee concerns/issues.
- V. Deliberated on disciplinary matters of staff.
- VI. Considered the benefits to KMPs.

- VII. Considered the granting of concessions to staff members on banking products and services.
- VIII. Noted/approved the vesting and transfer of the final tranche of share grants under the Equity Linked Compensation Plan and termination of the trust created for the said purpose.
- IX. Reviewed the benefits available to the staff and recommended changes.
- X. Revised the Charter of the Committee.



Mrs. W A I Sugathadasa

Chairperson

Human Resources and Remuneration Committee

21 February 2017

Colombo

BOARD CORPORATE GOVERNANCE AND LEGAL AFFAIRS COMMITTEE REPORT

Composition of the Corporate Governance and Legal Affairs Committee

The Board appointed Corporate Governance and Legal Affairs Committee (Committee) comprised of five (05) Board members and the Chairman of the Committee is an Independent Director as set out below.

As at 31 December 2016 the Committee comprised of the following:

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Ms K Fernando	Independent	C
A W Atukorala	Independent	M
Ms W A I Sugathadasa	Independent	M
D M R Phillips, PC	Independent	M
R Theagarajah (Resigned w.e.f. 30 November 2016)	Non-Independent	M

C – Chairman, M – Member

Charter of the Corporate Governance and Legal Affairs Committee

The Board of Directors has adopted the Charter for the Corporate Governance and Legal Affairs Committee which describes the Committee's composition, responsibilities and operations, as well as the manner in which the Committee would be carrying out its role.

The Corporate Governance and Legal Affairs (CGLA) Committee which was formed in the year 2007 is mandated with the task of assisting the Board of Directors of the National Development Bank PLC (Board) in ensuring compliance with the Companies Act No. 07 of 2007, the Banking Act Directions on Corporate Governance, the Bank's Internal Corporate Governance Code, the Colombo Stock Exchange Rules and all rules, regulations and guidelines issued by regulatory authorities relating to corporate governance for licensed

commercial banks. The Committee on a continuous basis reviews the overall corporate governance of the Bank including its Constitution, the CGLA Charter and the Corporate Governance Code and recommends improvements as appropriate.

Committee Guiding Principles

The principal purposes of the Committee are to assist the Board in defining the governance role, improving Board processes and ensuring effective governance in the Bank and the Group.

Committee Meetings

The Committee held four (04) meetings, during the year under review and the attendance of Committee members at meetings is stated in the table on page 219 of the Annual Report. A majority of the members of the Committee shall constitute a quorum sufficient for the taking of any action by the Committee.

The proceedings of the Committee meetings have been reported to the Board of Directors.

Methodology used by the Committee

The Committee may meet on a regularly scheduled basis preferably twice a year, or more frequently as circumstances dictate in order to ensure effective governance.

Summary of Activities

Whilst endeavouring to ensure a solid corporate governance culture within the Bank, the Committee made significant improvements in several areas connected to corporate governance. During the year, the Committee reviewed the NDB Group Securities Trading Policy, the NDB Group Anti-Bribery and Corruption Policy, Compliance Policy and the Code of Conduct, the Corporate Governance Code, the Communication Policy and also made several recommendations to improve the Board processes as well as the processes followed by the Board Subcommittees at Subcommittee meetings. The Committee

recommended improvements to the monitoring of the complaints under the Whistle Blowing Policy. The Corporate Governance and Legal Affairs Committee Charter was also reviewed by the Committee.

Appreciation

The Committee wishes to convey its sincere gratitude to its former member, Rajendra Theagarajah for his valuable contribution to the Committee over the years.



Mrs. K Fernando

Chairperson

Corporate Governance and Legal Affairs Committee

21 February 2017

Colombo

NOMINATIONS COMMITTEE REPORT

Composition of the Nominations Committee

The Board appointed Nominations Committee comprised of 4 Board members and the Chairman of the Committee is an Independent Director as set out below. The Chief Executive Officer (CEO) has been present at meetings only if invited by the Committee.

As at 31 December 2016 the Committee comprised the following:

Name of the Board Subcommittee Member	Directorship Status	Membership Status
A W Atukorala (Appointed w.e.f. 6 September 2016)	Independent	C
A K Pathirage	Non-Independent	M
T L F Jayasekera	Independent	M
Mrs. K Fernando	Independent	M
N G Wickremaratne (Retired w.e.f. 31 August 2016)	Independent	C

C – Chairman, M – Member

Charter of the Nominations Committee

The Nominations Committee was formed in compliance with the Section 3 (6) of Direction No. 11 of 2007, "Corporate Governance for Licensed Commercial Banks in Sri Lanka", issued by the Monetary Board of the Central Bank of Sri Lanka under the powers vested in the Monetary Board, in terms of the Banking Act No 30 of 1988. The composition and the scope of work of the Committee are in conformity with the provisions of the said Direction.

The Charter of the Nominations Committee was approved by the Board of Directors and is reviewed annually. As part of the annual review process, Committee reviewed the charter in December 2016 and there were no material changes made. As per the

Charter, the scope of work include the following:

1. Implements procedures to select/appoint new directors, CEO and Key Management Personnel (KMPs).
2. Considers and recommends the re-election of current directors, taking into account the performance and contribution made by the director/s concerned towards the overall discharge of the board's responsibilities.
3. Sets out the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the KMPs.
4. Ensures that directors, CEO and KMPs are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks
5. Sets the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment to select/appoint fit and proper persons as the Nominee Directors to the Boards of the Bank's group Companies.
6. Considers and recommends from time to time, the requirements of additional/new expertise and the succession arrangements for retiring directors and KMPs.

Committee Guiding Principles

The Committee is entrusted with identifying individuals that may become members of the Boards of National Development Bank PLC and its group companies.

The process of identifying appropriate individuals is carried out by the Committee by assessing the experience, skills, expertise and competencies of the individuals being considered to be so nominated through the Board approved Procedure for

selection and appointment of directors. Such procedure envisages the Board carrying out an assessment of the identified candidates against the needs of the Board/s, and the relevant regulatory requirements and applicable statutes so as to determine the fit and proper nature of the directors to be so appointed, if and when a vacancy exists and at such times the Committee considers appropriate.

The Committee also has in place an agreed procedure through the Committee and the Human Resources and Remuneration Committee of the Board pertaining to the selection/appointment of KMPs internally through promotions and externally through recruitment to ensure that the organizational structure supports the strategic plan and direction of the Bank.

Committee Meetings

The Committee met nine (09) times during the year under review, and the attendance of committee members at meetings is stated in the table on page 219 of the Annual Report. The quorum for a meeting is three (3) members.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

Methodology used by the Committee

The Committee meets as and when necessary in order to assess the suitability of individuals for appointment as directors and KMPs in the manner aforementioned as well as to conduct such other affairs which the Charter of the Committee mandates the Committee to carry out.

Summary of Activities

During the year, the Committee reviewed the skills, expertise and experience of two new directors and recommended the said appointments to the Board of Directors of the Bank and further reviewed the appointment of directors to the Boards of several subsidiary companies of the Bank.

Several changes took place in the leadership of the Bank during 2016 and succession to such vacancies were carried out through internal and external candidates subsequent to careful consideration by the Committee of the available expertise, skills and talents within the Bank and the group and equal opportunity being afforded internally and where necessary external resources were sought and obtained in line with internal policies and applicable rules and regulations. The said planned and unplanned vacancies that arose in 2016 were thus successfully filled in line with the broader outlook on succession planning in the Bank so as to ensure that no gaps exist.

To this end, the Committee reviewed the interim arrangements arising from the resignation of the former Chief Executive Officer and assessed the skills, expertise and experience of suitable candidates to be appointed to the position of Chief Executive Officer of the Bank and recommended the appointment of the current Chief Executive Officer with effect from 1 January 2017. The promotion to the Vice President cadre of a KMP was another matter recommended by the Committee during the year under review.

Additionally the Committee recommended to the Board the re-election of directors retiring by rotation and offering themselves for re-election at the Annual General Meeting in line with the applicable regulations and having reviewed the fitness and propriety of the directors.

The Committee further deliberated with regard to reviewing the succession plan of the Bank and reviewed the Board's composition and the ideal balance in terms of expertise of the Board of Directors in 2016.

Appreciation

The Committee wishes to convey its sincere gratitude to former Chairman N G Wickremaratne for his valuable contribution to the Committee during his tenure.



A W Atukorala
Chairman
Nominations Committee

21 February 2017
Colombo

STRATEGIC ISSUES COMMITTEE REPORT

Composition of the Strategic Issues Committee

The Board appointed Strategic Issues Committee comprised of Six (6) Board members as set out below and the Chairman of the Committee is the Chairman of the Bank who is an Independent Director. Other Board Members and Management of the Bank may be present at the meetings by invitation.

As at 31 December 2016 the Committee comprised of the following:

Name of the Board Subcommittee Member	Directorship Status	Membership Status
A W Atukorala (Appointed w.e.f. 6 September 2016)	Independent	C
A K Pathirage	Non-Independent	M
T L F Jayasekera	Independent	M
Mrs. K Fernando	Independent	M
D S P Wikramanayake	Non-Independent	M
N S Welikala (Appointed w.e.f. 1 December 2016)	Independent	M
N G Wickremeratne (Retired w.e.f. 31 August 2016)	Independent	C

C – Chairman, M – Member

Brief profiles of each member are given on pages 194 to 203.

Charter of the Strategic Issues Committee

With the formation of the Strategic Issues Committee as a Board Subcommittee, its Charter has been approved by the Board and is reviewed annually. Accordingly, the Committee reviewed the Charter in December 2016 and there were no material changes made.

The Committee carries out the following duties and responsibilities:

1. Providing the strategic direction and strategic thinking of the Board to the management in the development and implementation of the Bank's strategic plan.

2. Developing the Bank's strategy and its implementation together with the management.
3. Reviewing and assessing the formulation and implementation of strategic plans developed by the management and approved by the Board.
4. Guiding and assisting the management in implementing strategic decisions taken by the Board.
5. Reviewing and evaluating strategic issues and plans of subsidiary companies of the NDB Group to ensure that the same are in line with the strategic initiatives and strategic direction of the Bank.

The Committee is responsible for determining the following decisions:

1. Approving of all strategic investments and divestments and recommending the same to the Board.
2. Approving the periodical strategic plan (covering 3-5 years or more) and recommending the same to the Board.
3. Approving any significant amendments to the existing strategic plan and recommending the same to the Board.

Committee Guiding Principles

The primary purposes of the Committee comprise of the examination and broad evaluation of strategic issues of a regular as well as of an ad hoc nature whilst also recommending any action required to be taken by the Board of Directors of the Bank.

The Committee serves as a catalyst as well as an observer of the development and implementation of the Bank's business strategies and additionally assists the Board in maintaining a close nexus with the management in the strategic planning process which comprises reviewing and assessing of the business strategy plans developed by the management and subsequently approved by the Board.

Committee Meetings

The Committee held one (01) meeting during the year under review whilst several discussions of strategic nature

were conducted during Board meetings with attendance of the full Board taking into consideration the urgency and importance of the matters discussed.

The attendance of committee members at meetings is stated in the table on page 219. The quorum for a meeting is four (4) members.

The proceedings of the Committee meeting has been reported to the Board of Directors.

Methodology used by the Committee

The Committee meets as and when necessary in order to, *inter alia*; deliberate in detail on matters of strategic importance to the Bank and the NDB Group so as to advise the Board in a timely manner. The Committee meets to examine and evaluate any strategic issues that may arise and further to evaluate any changes to strategic plans/decisions already in place, as well as to conduct such other affairs which the Charter of the Committee mandates the Committee to carry out.

Summary of Activities

At the Committee meeting held during the preceding year the Committee reviewed and amended the Charter of the Committee with regard to the frequency of meetings of the Committee to be as and when required. The Committee further noted that the Budget of the Bank for the year 2017 would be deliberated with the attendance of all Board members.

Appreciation

The Committee wishes to convey its sincere gratitude to former Chairman N G Wickremeratne for his valuable contribution to the Committee during his tenure.



A W Atukorala
Chairman
Strategic Issues Committee

21 February 2017
Colombo

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

Composition of the Integrated Risk Management Committee

The Board appointed Integrated Risk Management Committee comprised five (5) Board members and the Chairman of the Committee is a Non-Independent Director as set out below.

As at 31 December 2016 the Committee comprised the following:

Name of the Board Subcommittee Member	Directorship Status	Membership Status
D S P Wikramanayake	Non-Independent	C
Mrs. D M A Harasgama	Non-Independent	M
D M R Phillips, PC (Resigned w.e.f. 31.12.2016)	Independent	M
K D W Ratnayaka	Independent	M
N Welikala (Appointed w.e.f. 11.11.2016)	Independent	M
R Theagarajah (CEO) (Resigned w.e.f. 30.11.2016)	Not-Independent	M
F Ozman (Group CFO)	Non-Directors	M
R. Muttiah (COO) (Appointed w.e.f. 12.02.2016 and resigned w.e.f. 31.10.2016)	Non-Directors	M
Ms N Rayen (Vice-President – Group Risk Management)	Non-Directors	M
Ms S Gnanaprakasam (Vice-President – Credit Review)	Non-Directors	M
Ms C Chandrapala (Senior Manager – Market Risk)	Non-Directors	M
P Gamage (Assistant Vice-President – Operational Risk)	Non-Directors	M

C – Chairman, M – Member,

Charter of the Integrated Risk Management Committee

The Integrated Risk Management Committee was formed in June 2008 replacing the Risk and Credit Committee of the Board, in compliance with the Section 3 (6) of Direction No. 11 of 2007, on the subject 'Corporate Governance for Licensed Commercial Banks in Sri Lanka', issued by the Monetary Board of the Central Bank

of Sri Lanka under the powers vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988. The composition and the scope of work of the Committee are in conformity with the provisions of the said Direction.

The Charter of the IRMC was approved by the Board of Directors and is reviewed annually. As part of the annual review process, Committee reviewed the Charter in February 2016 and there were no material changes made. As per the Charter, the scope of work include the following:

- Work closely with Key Management Personnel and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee
- Assess all risks of the Bank and the Group on a monthly basis through appropriate risk indicators and management information.
- Submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.
- Review the adequacy and effectiveness of all management level committees such as the Credit Committees, Credit and Market Risk Policy Committee, Operational Risk Policy Committee and the Asset Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee/ Board.
- Take prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels decided by the committee/ board on the basis of the Bank's policies and regulatory and supervisory requirements.
- Take appropriate action against the officers who fail to identify specific risks, and/or take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision. The course of action to be taken against staff would be governed by the HR disciplinary action procedure in force.

- Review and discuss the scope of work of the Group Risk Management Department.
- Receive copies of regulatory examination reports pertaining to matters that are within the purview of the Committee and Management's responses thereto.

Committee Guiding Principles

- Responsible to the Board of Directors and the Committee's role is one of oversight.
- Management is responsible for designing, implementing and monitoring an effective risk programme.
- Line business managers are responsible for managing risks in the areas for which they are responsible.
- Each member of the Committee shall be entitled to rely in good faith on the integrity of those persons from whom he or she receives information.

Committee Meetings

The Committee held four meetings during the year under review to discuss the normal scope of work and one additional meeting to discuss the ICAAP Framework of the Bank. Attendance of Committee meetings is given on page 219.

The proceedings of the Committee meeting have been reported to the Board of Directors. Key members of the staff participate at the meetings as appropriate.

Methodology used by the Committee

- Assess all risks faced by the Bank, its subsidiaries and associate companies, through appropriate risk indicators, dashboards and management information.
- Specify risk appetite and recommend prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's/ the Group's policies and regulatory and supervisory requirements.

Summary of Activities

Credit Risk

- Reviewed and approved policies and operating guidelines related to the Credit Policy of the Bank, Risk Management Policy on Bank's Exposure to Stock Market Activities, Policy on Cross Border Exposure, Impairment Policy,
- Reviewed portfolio quality covering
 - The amount, characteristics, concentrations and quality of the Bank's loan portfolio, large credit exposures, sector and geographical distribution of portfolio, NPL analysis based on business line, product category, sector wise
 - Exposure to Stock Market Activities/ Margin Trading Exposures Reports
 - Pawning Portfolio/*Raththaran Ithurum*
 - Collections and Recoveries
 - Movements in Commodity Prices
 - Portfolio Value at Risk
 - Country Risk Exposures
 - Top Credit and Market Risks
- Reviewed work carried out by the Credit Committees, Credit and Market Risk Policy Committee by reviewing the decisions taken by each Committee

Operational Risk

- Reviewed and approved policies related to Operational Risk, namely Operational Risk Policy, Operational Risk Data Collection Paper, Risk and Control Self-Assessment and Key Operational Risk Controls Paper, Key Risk Indicators Methodology Paper and Business Continuity Framework.
- Reviewed operational risk issues, including but not limited to:
 - Significant Operational Risks and Losses, Risk breakdown by control type, KRIs related to HR, Operational Losses due to cash shortages and frauds, IT related incidents, Account Reconciliations and Compliance

- The adequacy of the Bank's Business Continuity and Disaster Recovery planning including the review of results of Business Continuity Plan (BCP)/Disaster Recovery (DR) drills.
- Reviewed work carried out by the Operational Risk Policy Committee by reviewing the decisions taken by the Committee.

Liquidity and Market Risk

- Reviewed and approved the Bank's policy framework, procedure guidelines, terms of references (TOR) for the management of market and liquidity risk, to ensure the same is designed to facilitate the identification and assessment of the above risks and adequacy of controls.
- Reviewed and approved the market and liquidity risk limit framework based on the Bank's risk appetite to optimize business potential
- Reviewed exposures/information and monitor the effectiveness of the management of market and asset liability risk management, including
 - Strategies and other relevant issues related to financial market activities and business environment.
 - Financial position, forecasts and business performance.
 - Market risk analysis and stress testing.
 - Analysis of Asset Liability Committee (ALCO) reports and decisions taken by each Committee and assess effectiveness of the Committees in line with TOR.
 - Liquidity risk analysis and stress testing.
 - Treasury dealing room positions, limits, exposures and limit compliance.
 - Counterparty exposures.
 - Country Risk Exposures.

Compliance

- Assessed the Bank's compliance with laws, regulations and regulatory guidelines, internal policies in all areas of business operations.

- Reviewed and approved the annual work plan of compliance function and assess work carried out.

Others

- The Committee reviewed the Key Risk Indicators of the group companies on a monthly basis through the monthly KRI statements and quarterly Risk Assessment Report. Group companies covered are NDB Investment Bank Ltd., NDB Capital Holdings Ltd., NDB Wealth Management Ltd., NDB Securities (Pvt.) Ltd., NDB Capital Ltd. (Bangladesh), NDB Zephyr Partners Lanka (Pvt) Ltd. and Development Holdings (Pvt) Ltd.
- Reviewed and approved Annual Review of Internal Capital Adequacy Assessment Process (ICAAP) Document for 2016.
- Reviewed performance against risk appetite.
- Reviewed progress on Integrated Risk Management Framework Implementation and new guidelines issued on Stress Testing and Baseline Security Standard for Information Security Management.
- Reviewed Bank's preparedness towards requirement for Capital Adequacy under BASEL III.
- Quarterly updates on the Regulatory Examination Report.
- Reviewed and approved the Disclosure Policy, Integrated Risk Management Framework, Stress Testing Policy and Framework, Strategic Risk Management Manual and Title Policy of the Bank.

Appreciation

The Committee wishes to convey its sincere gratitude to all its former members for their valuable contribution to the Committee during their tenures.



D S P Wikramanayake
Chairman

Integrated Risk Management Committee

21 February 2017
Colombo

BOARD AUDIT COMMITTEE REPORT

Composition of the Audit Committee

The Board appointed Audit Committee comprised of six (6) Board members as at end December 2016. The Chairman of the Committee is an Independent Director as set out below. The Chairman of the Committee is also a Fellow member of the Institute of Chartered Accountants of Sri Lanka.

As at 31 December 2016 the Committee comprised the following:

Name of the Board Subcommittee Member	Directorship Status	Membership Status
T L F Jayasekera	Independent	C
D S P Wikramanayake	Non-Independent	M
Mrs. K Fernando	Independent	M
Mrs. W A I Sugathadasa	Independent	M
Mrs. D M A Harasgama	Non-Independent	M
N S Welikala (Appointed w.e.f. 11 November 2016)	Independent	M
K D W Ratnayaka (Resigned w.e.f. 15 March 2016)	Independent	M

C – Chairman, M – Member

The Vice-President Group Audit functions as the Secretary to the Committee.

Charter of the Audit Committee

The Audit Committee Charter clearly defines the Terms of Reference of the Committee and is periodically reviewed and revised with the concurrence of the Board of Directors. This process ensures that new developments and concerns are adequately addressed. The Audit Committee Charter was last reviewed and approved by the Board of Directors in the third quarter of 2016.

The Audit Committee is responsible to the Board of Directors and reports on its activities regularly. The functions of the Audit Committee are geared to assist the Board of Directors in its general oversight on financial reporting, internal controls and functions relating to internal and external audit.

The roles and functions of the Committee, are further regulated by the Banking Act Direction No.11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' and its subsequent amendments (hereinafter referred to as the 'Direction'), 'Rules on Corporate Governance under Listing Rules of the Colombo Stock Exchange' and 'Code of Best Practice on Corporate Governance' issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

Committee Guiding Principles

The Committee functions are structured in accordance with the guidelines issued in the Banking Act Direction on Corporate Governance and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission (SEC) and the Institute of Chartered Accountants of Sri Lanka (CASL).

Committee Meetings

The Audit Committee met eight times during the year. Attendance of the committee members for each of these meetings is given on page 219. The minutes of the Committee meetings have been regularly tabled at Board meetings.

Vice-President Group Audit and Group Chief Financial Officer attended all meetings. The Chief Executive Officer and Chief Operating Officer attended meetings on invitation and other members of the Senior Management were invited to attend meetings on a need basis.

On the invitation of the Committee, the Bank's External Auditors, Messrs' Ernst & Young attended all meetings during the year.

The Chairman of the Bank being an optional invitee attended four meetings during the year.

The Audit Committee met the External Auditors twice during the year, without the presence of CEO and the Corporate

Management, to ensure that the Auditors had the independence to discuss any concerns and express their opinions on any matter and also for the Committee to have the assurance that the Management has fully provided all information and explanations requested by the Auditors.

Methodology used by the Committee

- Review the Interim Financial Statements and the Bank's annual Financial Statements in order to monitor the integrity of such statements prepared for disclosure, prior to submission to the Board of Directors.
- Examine any matter relating to the financial and other connected affairs of the Bank.
- Ensure that efficient and sound financial reporting systems are in place and are well managed in order to provide accurate, appropriate and timely information to the Board of Directors, Regulatory Authorities, the Management and other stakeholders.
- Ensure the Bank has adopted and adhere to policies which firmly commits the Bank to achieve the highest standards of good corporate governance practice.
- Review the quality and the appropriateness of Accounting Policies and their adherence to statutory and regulatory compliance requirements and applicable Accounting Standards.
- Review internal audit reports and liaising with Management in taking precautionary measures to minimize control weaknesses, procedure violations, frauds and errors.
- Review External Audit Management Letter and Statutory Inspection Reports in relation to matters under Board Audit Committee (BAC) purview and follow-up on their findings and recommendations.

Summary of Activities

Financial Reporting

The Committee assists the Board to discharge their responsibility in the preparation of Financial Statements that evidence a true and fair view on the financial position and performance in accordance with the Bank's accounting records and as per the stipulated requirements of the Sri Lanka Accounting Standards. The Committee reviews;

- The adequacy and effectiveness of the Internal Control Systems and Procedures.
- The effectiveness of the Financial Reporting Systems in place to ensure reliability of the information provided to the stakeholders.
- The Bank's Financial Statements and Accounting Policies and practices.
- The processes by which compliance with Sri Lanka Accounting Standards (SLFRS/LKAS) and other regulatory provisions relating to financial reporting and disclosures are ensured.
- The Annual Report and Accounts, and the Interim Financial Statements prepared for publication together with the press releases prior to submission to the Board.

The Board also has taken into consideration the requirements of the Accounting Standard – SLFRS 9 on 'Financial Instruments' that has been issued with effective date being 1 January 2018, as it is expected to have a significant impact on the calculation of impairment of financial instruments on an expected credit loss basis that is currently being applied under LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

System of Internal Controls

During the year, the Committee reviewed the effectiveness of the Bank's Internal Control System and the CEO's quarterly confirmation on the internal control environment. Additionally, the Committee assessed the effectiveness

of the Bank's internal controls over financial reporting as of 31 December 2016, as required by the Banking Act Direction No.11 of 2007, 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' Subsection 3 (8) (ii) (b), based on the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued by The Institute of Chartered Accountants of Sri Lanka. The result of the assessment is given on pages 276 and 277 in the "Directors' Statement on Internal Control" in the Annual Report. The External Auditors have also issued an Assurance Report on the Directors' Statement on Internal Controls. The report is given on page 279 of the Annual Report.

Group Audit

Vice President, Group Audit reports directly to the Board Audit Committee.

The Audit universe consists of all auditable Areas/processes of the banking group, which are audited annually based on a risk based audit plan approved by the BAC.

The Audit Committee reviewed the findings of the Group audits completed and their evaluation of the Bank's Internal Control Systems. The Committee also reviewed progress on coverage including the action plans given to address the issues and the implementation status.

The Audit Committee also reviewed the independence, objectivity and performance of the Group Audit function and the adequacy of its resources. The Audit Committee also reviewed the performance of Vice-President Group Audit and the senior members.

Compliance with the Revised Sri Lanka Accounting Standards

The adoption of the revised Sri Lanka Accounting Standards (SLFRS/LKAS) and the impact of the same on the

Bank's Financial Statements have been independently validated by the External Auditors during their year-end audit and the process was continuously reviewed by the Committee.

Regulatory Compliance

The Group Audit performed verifications covering applicable regulatory requirements during their process audits ensuring that systems and procedures are in place to ensure compliance with such requirements.

Group Audit Charter and Audit Manual

The Group Audit function is governed by the Group Audit Charter which defines the mission, authority, responsibility, independence, reporting, commitment and access in order to assist Group Audit to discharge its function independently. The Group Audit Charter and the Audit Manual were revised in April and June 2016 respectively and approved by the Board.

External Audit

The Audit Committee undertook the annual evaluation of the independence and objectivity of the External Auditors and the effectiveness of the audit process.

During the audit, the External Auditors presented to the Committee their audit approach and procedures, including matters relating to the scope of the audit and Auditor's independence.

The Committee reviewed the audited Financial Statements with the External Auditors responsible for expressing an opinion on its conformity with the Sri Lanka Accounting Standards.

The Committee reviewed the Management Letter issued by the External Auditors and the management responses thereto.

The Audit Committee was of the view that the non-audit services provided by the External Auditor were not within the category of services identified as prohibited under;

1. The guidelines issued by the Central Bank of Sri Lanka for External Auditors, relating to their statutory duties in terms of Section 39 of Banking Act No. 30 of 1988 and amendments thereto.
2. The guidelines for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka.

In carrying out the overseeing responsibilities, the Committee adopted the overview principles of the Basel Committee on Banking Supervision on External Audits of the Banks, issued in March 2014.

Re-appointment of External Auditor

The Audit Committee performed an evaluation of the External Auditor based on certain defined criteria and recommended to the Board of Directors that Messrs' Ernst & Young, Chartered Accountants, to be reappointed for the financial year ending 31 December 2017 subject to the approval of the shareholders at the next Annual General Meeting.

Good Governance and Whistleblowing

The Bank's Whistleblowing Policy was also revised in October 2016. The Policy is intended to serve as a channel of corporate fraud risk management. The Policy will encourage any team member who has a legitimate concern on an existing or potential 'wrong doing', done by any person within the Bank, to come forward voluntarily, and bring such concern to the notice of an independent designated authority. Concerns raised are investigated and the identity of the person raising the concern is kept confidential. A process has been established to track such whistleblowing and take necessary action as required.

Evaluation of the Audit Committee

The Audit Committee carried out a formal self-evaluation/appraisal on the effectiveness of the Committee and reported the results of the same to other members of the Board. The Board concurred that the Committee had carried out its responsibilities in an effective and satisfactory manner.

Appreciation

The Committee wishes to convey its gratitude to former member K D W Ratnayaka for his valuable contribution.



T L F Jayasekera
Chairman of the Audit Committee

21 February 2017
Colombo

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

Composition of the Related Party Transactions Review Committee

The Board appointed Related Party Transactions Review Committee, comprised of seven Board members and the Chairman of the Committee is the Chairman of the Bank and an Independent Director as set out below. The Chief Executive Officer (CEO) has been present at meetings only if invited by the Committee.

As at 31 December 2016 the Committee comprised of the following:

Name of the Board Subcommittee Member	Directorship Status	Membership Status
A W Atukorala (Appointed w.e.f. 6 September 2016)	Independent	C
T L F Jayasekera	Independent	M
D S P Wikramanayake	Non-Independent	M
Mrs. D M A Harasgama	Non-Independent	M
Mrs. K Fernando	Independent	M
Mrs. W A I Sugathadasa	Independent	M
N S Welikala (Appointed w.e.f. 11 November 2016)	Independent	M
N G Wickremeratne (Retired w.e.f. 31 August 2016)	Independent	C
K D W Ratnayaka (Resigned w.e.f. 5 March 2016)	Independent	M

C – Chairman, M – Member

Charter of the Related Party Transactions Review Committee

The Board of Directors of the Bank constituted a Related Party Transactions Committee voluntarily in December 2014 further to the provisions contained in Section 9 of the Listing Rules of the Colombo Stock Exchange (CSE) so as to ensure compliance with the Rules pertaining to Related Party Transactions as set out in the Listing Rules of the Colombo Stock Exchange, which required mandatory compliance from

1 January 2016. The composition and the scope of work of the Committee are in conformity with the provisions of the said Section in the Listing Rules.

The Terms of Reference of the Related Party Transactions Review Committee was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee reviewed the Terms of Reference in December 2016 and there were no material changes made.

The primary objective of the Committee is to assess and consider all transactions with related parties of the Bank in order to ensure that related parties are treated on par with other shareholders and constituents of the Bank.

The Committee carries out the following duties and responsibilities:

1. Reviewing to evaluate and to determine the advisability of any Related Party Transactions except for transactions set out in Rule 9.5 of the Colombo Stock Exchange (CSE) Listing Rules, that require consideration by the Committee under the Related Party Policy of the Bank;
2. Approving or rejecting Related Party Transactions upon the required internal approvals being obtained.
3. Determining whether the relevant Related Party Transaction is fair to, and in the best interests of, the Bank and its stakeholders; and
4. Recommending to the full Board what action, if any, should be taken by the Board with respect to any Related Party Transaction.
5. Recommending to the full Board where necessary that the approval of the shareholders of the Bank be obtained by way of a Special Resolution prior to the concerned transaction being entered into as specified in Section 9.1 and 9.4 of the Listing Rules, where necessary.

Committee Guiding Principles

The Committee is entrusted with evaluating and considering all transactions with related parties of the Bank except the exempted transactions as per the Listing Rules of the CSE in order to ensure that related parties are treated on par with other shareholders and constituents of the Bank and Related Party Transactions are evaluated according to the applicable rules and regulations. To this end the Committee shall ensure that necessary processes are in place to identify, approve, disclose and monitor related party transactions according to the provisions contained in the Board-approved Related Party Transaction Policy pertaining to the Bank and its subsidiaries.

The Committee is required to carry out the aforementioned approval of the related parties and Related Party Transactions in line with the regulations issued by the Central Bank of Sri Lanka, the Colombo Stock Exchange and/or Securities and Exchange Commission of Sri Lanka, the Banking Act Directions, the Companies Act Requirements and the Sri Lanka Accounting Standards.

Committee Meetings

The Committee met five (5) times during the year under review, and the attendance of committee members at meetings is stated in the table on page 219 of the Annual Report. The quorum for a meeting is four (4) members.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

Methodology used by the Committee

In carrying out the duties of the Committee the Committee avoids 'conflicts of interest' which may arise from any transaction of the Bank with any person particularly with related parties, ensure arm's length dealings with related parties whilst also ensuring adherence to the Corporate Governance Directions which

requires the Bank to avoid engaging in transactions with related parties in a manner that would grant such parties 'more favourable treatment' than accorded to other constituents of the Bank carrying on the same business, in line with the security requirements as stated in the Banking Act Directions and in compliance with the approval procedure set out in the Banking Act. The Committee is also guided by the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions, the Board approved Related Party Transaction Policy and the Terms of Reference of the Committee.

Summary of Activities

During the preceding year the Committee approved/ratified transactions relating to the procurement of goods and services carried out by the Bank/its subsidiaries with various related parties on an 'arms-length' basis. The Committee also considered and approved the entering into lease agreements with related parties of the Bank and renewed the Terms of Reference of the Committee. The Committee further deliberated on the related party approval process and methods of strengthening the monitoring system pertaining to Related Party Transactions.

Appreciation

The Committee wishes to convey its sincere gratitude to former Chairman N G Wickremeratne and former member K D W Ratnayaka for their valuable contribution to the Committee.



A W Atukorala
Chairman
Related Party Transactions
Review Committee

21 February 2017
 Colombo