

## General

The Directors of National Development Bank PLC 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 2013 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 National Development Bank PLC ('Bank'), originally established by an Act of Parliament in 1979 as the National Development Bank PLC of Sri Lanka was incorporated 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.

## Principal Activities of Bank and its Subsidiaries (Group)

The principal activities of the Group are described in the Business Model on page 20 of our Annual Report.

## Vision, Mission and Values

The vision, mission and values of the Bank are given on page 1 of this Report. The Group practices high ethical standards in carrying out their business activities in line with the vision of the Bank.

## Registered Office and Head Office

The registered office and head office of the Bank is situated at No. 40, Navam Mawatha, Colombo 2.

## Review of Business

A review of the operations of the Bank and the Group and future developments are discussed in the Chairman's Message, Chief Executive Officer's Review (pages 12 to 19) and the Management Discussion and Analysis (pages 30 to 75). These reports form an integral part of the Annual Report of the Board of Directors.

## Financial Statements

These Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS) and is given in detail on pages 184 to 267 of this Annual Report.

The Financial Statements of the Bank and the Group for the year ended 31 December 2013 are duly signed by the Vice-President - Finance and Planning, the 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 pages 184 to 267.

## 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 184 to 267 inclusive, give a true and fair view of the state of affairs of the Bank and the Group as at 31 December 2013 as well as the profit for the year then ended.

The Statement of Directors' Responsibility for Financial Reporting is given on pages 176 and 177 and forms an integral part of the Annual Report of the Board of Directors.

## 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 2013 and their report on those Financial Statements are given on page 183 of the Annual Report.

## Significant Accounting Policies

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 192 to 202. The significant changes to accounting policies adopted if any, in the preparation of the Financial Statement are given on pages 192 to 202.

## 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.

## Financial Performance

The Group's Profit Before Taxation including that of its subsidiaries and its share of profit from associate companies amounted to LKR 4,774 mn (compared to LKR 10,830 mn in 2012). After deducting LKR 2,061 mn (compared to LKR 1,898 mn in 2012) for taxation, the Profit After Tax for the year amounted to LKR 2,712 mn (compared to LKR 8,932 mn in 2012). The Group profit attributable to shareholders amounted to LKR 2,642 mn (compared to LKR 8,854 mn in 2012).

The Bank's Profit Before Taxation amounted to LKR 9,683 mn (compared to LKR 4,607 mn in 2012). After deducting LKR 1,959 mn (compared to LKR 1,683 mn in 2012) for taxation, the Profit After Tax for the year amounted to LKR 7,723 mn (compared to LKR 2,923 mn in 2012).

Details are given in the Income Statement on page 184.

## Reserves

The reserves of the Bank and the Group consists of the following:

LKR '000	Bank		Group	
	2013	2012	2013	2012
Capital	1,172,904	1,093,095	943,746	863,937
Statutory Reserve Fund	958,527	878,718	958,527	878,718
Investment Fund Account	1,706,751	924,332	1,706,751	924,332
Available-for-Sale Reserve	106,669	-	150,614	-
Share-based Payment Reserve	22,367	-	22,367	-
Retained Earnings	15,653,260	12,046,256	20,731,801	22,216,054
Total	19,620,478	14,942,401	24,513,806	24,883,041

## Total Operating Income

The total operating income of the Group for 2013 was LKR 11,549 mn (as compared with LKR 14,939 mn), while the Bank's total operating income was LKR 15,865 mn (as compared with LKR 8,815 mn for 2012). An analysis of the income is given on page 184 to the Financial Statements.

## Taxation

The income tax rate applicable on the Bank's domestic operations and FCBU on-shore and off-shore banking operations is 28% (2012 - 28%). The Bank's profit is also liable for Value Added Tax on Financial Services at the rate of 12% (2012 - 12%). 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.

## 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.

## Dividends

An interim dividend of LKR 5.00 per share (2012 - LKR 5.00) was paid on 5 November 2013 to the shareholders of the Bank for the financial year 2013. The Directors authorized and approved a final dividend of LKR 5.00 per share (2012 - LKR 10.00 per share) to be paid for the financial year ended 31 December 2013.

In declaring the dividends the Directors ensured due compliance by the Bank of the solvency provisions contained in the Companies Act No. 07 of 2007.

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

## Capital Expenditure and Commitments

Total Capital expenditure incurred by the Bank and the Group on acquisition of investment property, property, plant & equipment, intangible assets and work-in-progress amounted to LKR 355 mn and LKR 364 mn, respectively (2012 - Bank - LKR 403 mn and Group - LKR 416 mn).

## Property, Plant & Equipment

The details of Property, Plant & Equipment are given in Note 27 to the Financial Statements.

## Donations

The Bank made Donations amounting to LKR 14.40 mn for the year 2013 (2012 - LKR 13.44 mn), 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.

## Pending Litigations

In the opinion of the Directors and the Bank's lawyers, pending litigations against the Bank disclosed in Note 46.2, to the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

## Events Occurring after the Date of the Statement of Financial Position

In pursuance of the policies announced by the Government encouraging the consolidation of certain banking businesses, the Boards of Directors of DFCC Bank (DFCC) and of the Bank, have commenced preliminary discussion with a view to achieving such consolidation. The consolidation of the two entities will be dependent on relevant approvals and possibly, the passage of facilitative legislation.

There have been no other events that require adjustment to the Financial Statements or disclosure in the Financial Statements that has occurred subsequent to the date of the Statement of the Financial Position of the Bank.

## Stated Capital and Debentures

The stated capital of the Bank at the beginning of the year was LKR 1,093,094,670/- and at the end of the year was LKR 1,172,903,620/- and comprised of 164,201,902 ordinary shares at the beginning of the year and 164,693,034 ordinary shares at the end of the year.

In December 2013, the Bank, by way of a public offer, issued one hundred million (100,000,000) rated, unsecured, subordinated, redeemable debentures of the par value of LKR One Hundred (LKR 100/-) each aggregating to the value of LKR Ten Thousand Million (LKR 10,000,000,000/-). The proceeds of these debentures were utilized to support the Bank's Tier II Capital.

The details of the said debentures are disclosed in Note 35 to the Financial Statements.

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. The details of the said debentures are also disclosed in Note 31 to the Financial Statements.

### Information on Shares

The information relating to earnings, dividends, net assets and market price per share is given in the financial highlights on the inner front cover of the Annual Report. Information on share trading is given on page 278 of this Annual Report.

### Shares and Shareholders

The Bank had 7,695 registered shareholders as at 31 December 2013. The distribution, public holding, 20 largest shareholders and the share price during 2013 are set out in page 277 of this Annual Report.

The Bank issued 491,132 ordinary shares to the Trustee of the Equity Linked Compensation Plan (ELCP), Corporate Services (Pvt) Ltd. in July 2013 as a Share Grant to eligible employees of the Bank under the ELCP approved by the Board of Directors and shareholders of the Bank in March 2010.

### The Board of Directors

In terms of the provisions of the Articles of Association of the Bank, the Board of Directors, as at 31 December 2013, consisted of ten (10) Directors, including the Chairman and was made-up as follows:

- Six (06) Directors have been appointed by the shareholders;
- Two (02) Directors have been appointed during the year 2013 to fill casual vacancies;
- One Director has been appointed as a representative of the Ministry of Finance in terms of the Articles of Association of the Bank; and
- The Chief Executive Officer is an ex-officio Director, with voting rights.

The list of Directors who held office during the year under review and changes thereto are given on pages 79 to 81.

In terms of the provisions of the Articles of Association of the Bank, one-third of the elected Directors shall retire from office and new Directors will be elected by the shareholders at each Annual General Meeting of the Bank. 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 election or appointment. Accordingly, Mr Ashok Pathirage and Mr Sujeewa Rajapakse will retire and stand for re-election by the shareholders at the Annual General Meeting of the Bank.

Further, in terms of the provisions of the said Articles, Directors who filled casual vacancies during the year will be reappointed by the shareholders at the next Annual General Meeting of the Bank and accordingly, Mr Sunil Wijesinha and Mrs Indrani Sugathadasa will stand for reappointment by the shareholders at the Annual General Meeting.

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 87 to 131 of the Annual Report. In terms thereof the classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2013 is given below:

Name of Director	Independent/ Non-Independent	Executive/ Non-Executive
Mr Sunil G Wijesinha	Independent	Non-Executive
Mr Ashok Pathirage	Non-Independent	Non-Executive
Mr Rajendra Theagarajah (CEO)	Non-Independent	Executive
Mr Trevine Jayasekara	Independent	Non-Executive
Mr Sarath Wikramanayake	Non-Independent	Non-Executive
Mrs Kimarli Fernando	Independent	Non-Executive
Mr Anura Siriwardena	Independent	Non-Executive
Ms Chandra Ekanayake	Non-Independent	Non-Executive
Mr Sujeewa Rajapakse	Non-Independent	Non-Executive
Mrs Indrani Sugathadasa	Independent	Non-Executive
Mr Hemaka Amarasuriya (retired w.e.f. 30 November 2013)	Independent	Non-Executive
Mr Russell de Mel (CEO, retired w.e.f. 23 August 2013)	Non-Independent	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 116 to 131 of the Annual Report. In terms thereof, the classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2013 is given below:

Name of Director	Independent/ Non-Independent	Executive/ Non-Executive
Mr Sunil G Wijesinha	Independent	Non-Executive
Mr Ashok Pathirage	Non-Independent	Non-Executive
Mr Rajendra Theagarajah (CEO)	Non-Independent	Executive
Mr Trevine Jayasekara	Independent	Non-Executive
Mr Sarath Wikramanayake	Non-Independent	Non-Executive
Mrs Kimarli Fernando	Independent	Non-Executive
Mr Anura Siriwardena	Independent	Non-Executive
Ms Chandra Ekanayake	Independent	Non-Executive
Mr Sujeewa Rajapakse	Non-Independent	Non-Executive
Mrs Indrani Sugathadasa	Independent	Non-Executive
Mr Hemaka Amarasuriya (retired w.e.f. 30 November 2013)	Independent	Non-Executive
Mr Russell de Mel (CEO, retired w.e.f. 23 August 2013)	Non-Independent	Executive

### Directors of Group Companies

The Directors of the Group companies are set out on page 297 of the Annual Report.

### Other Directorships of Directors

Information of the other Directorship of the Directors of the Bank as at 31 December 2013 is given below:

Name of Director	Other Directorships
Mr Sunil G Wijesinha	Watawala Plantations PLC Siyapatha Finance Ltd. Sampath Centre Ltd. United Motors Lanka PLC Unimo Enterprises Ltd. Orient Motor Company Ltd. TVS Lanka (Pvt) Ltd. TVS Automotives (Pvt) Ltd. TVS Autoparts (Pvt) Ltd. UML Property Developments Ltd. UML Agencies & Distributors (Pvt) Ltd. BizEx Consulting (Pvt) Ltd. National Chamber of Commerce of Sri Lanka (limited by guarantee)
Mr Ashok Pathirage	Softlogic Holdings PLC Asiri Hospital Holdings PLC Asiri Surgical Hospital PLC Asiri Central Hospitals PLC Central Hospital Private Ltd. Asiri Hospital Kandy (Pvt) Ltd. Uni Walkers Private Ltd. Ceysand Resorts Ltd. Softlogic Finance PLC Softlogic Capital PLC Asian Alliance Insurance PLC NDB Capital Holdings PLC Softlogic Information Technologies Private Ltd. Softlogic Properties (Pvt) Ltd. Softlogic Australia (Pvt) Ltd. Softlogic City Hotels (Pvt) Ltd. Abacus International Lanka (Pvt) Ltd. Ominga International Lanka (Pvt) Ltd. Softlogic Restaurants (Pvt) Ltd.
Mr Rajendra Theagarajah	NDB Capital Holdings PLC NDB Wealth Management Ltd. NDB Securities (Pvt) Ltd. NDB Investment Bank Ltd. Development Holdings (Pvt) Ltd. Carson Cumberbatch PLC
Mr Trevine Jayasekara	Brandix Lanka Ltd. John Keells Hotels PLC
Mr Sarath Wikramanayake	NDB Capital Holdings PLC Eco - Lodgia (Pvt) Ltd. NDB Wealth Management Ltd. NDB Investment Bank Ltd. Orient Finance PLC

Name of Director	Other Directorships
Mrs Kimarli Fernando	LB Finance PLC Vallibel One PLC Lewis Brown & Company Ltd.
Mr Anura Siriwardena	Nil
Ms Chandra Ekanayake	Nil
Mr Sujeewa Rajapakse	Asian Alliance Insurance PLC Dipped Products PLC Haycarb PLC Cornucopla Lanka (Pvt) Ltd. Lanka Holdings (Pvt) Ltd. Development Holdings (Pvt) Ltd.
Mrs Indrani Sugathadasa	Kalubovitiyana Tea Factory Ltd.

### 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.

### Directors' Interest Register

The Bank, as per the Companies Act No. 07 of 2007, maintains the Interest Register. All Directors have made declarations as provided for in Section 192 (2) of the Companies Act aforesaid. The related entries were made in the Interest Register during the year under review. The share and debenture ownership of Directors is indicated elsewhere in this Report. Entries were made in the Interest Register on share disposals, Directors' interest in contracts, remuneration paid to the Directors etc. the Interest Register is available for inspection as required under the Companies Act.

### Directors' Interest in Contracts

Directors' interest in contracts or proposed contracts with the Company, both direct and indirect are disclosed on pages 174 and 175 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.

### Insurance and Indemnity

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

### Directors' Interests in Shares

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 279 of this Annual Report.

### Directors' Interests in Debentures

Directors holdings in Debentures of the Bank as at 31 December 2013 are set out on page 281 of this Annual Report.

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

### Related Party Transactions

The Directors 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 50 to the Financial Statements.

### Directors' Emoluments

Directors fees and emoluments in respect of the Bank and the Group for the financial year ended 31 December 2013 are as follows.

	BANK	GROUP
Directors' fees and emoluments (LKR mn)	62.5	66.1

The Bank has in place a Board approved remuneration policy to guide the Remuneration and Human Resources Committee in their deliberations.

### 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 is 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 for the ELCP will 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 details of the grants and options granted, grants and options exercised, the grant price and the grants and options cancelled or lapsed and outstanding as at 31 December 2013 is given in Note 41 to the Financial Statements.

### **Environmental Protection**

The Bank and the Group has not engaged in any activity that is detrimental to the environment, and have complied with the environmental laws and regulations at all times.

### **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 141 to 164 of this Annual Report.

### **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 178 and 179 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 180 of this Annual report.

### **Operational Excellence**

To increase efficiency and reduce operating costs, the Bank has ongoing initiatives to drive policy and process standardization and to optimize the use of existing technology platforms.

### **Corporate Governance**

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

The Directors declared that the Bank complied with all applicable laws and regulations in conducting its business and have not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provision in various laws and regulations confirm compliance in each quarter to the Board Integrated Risk Management Committee

All endeavours have been made to ensure that shareholders in each category have been treated equitably in accordance with the original terms of issue

A description of the Bank's Corporate Governance Practices is set out on pages 87 to 131.

### **Board Sub Committees**

There are six permanent committees of the Board, namely, Integrated Risk Management Committee, Audit Committee, Strategic Issues Committee, Remuneration and Human Resources Committee, Nomination Committee and Corporate Governance and Legal Affairs Committee. Details of the members of these six committees are given on pages 132 to 140.

### **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 141 to 164.

### **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.

### **Auditors**

The Financial Statements for the year ended 31 December 2013 have been audited by Messrs Ernst & Young, Chartered Accountants.

The fees paid to the Auditors during the year for the Bank and the Group was LKR 8.0 mn and LKR 10.0 mn respectively. (2012 - Bank LKR 7.2 mn and Group LKR 9.0 mn). The fees paid for non-audit work during the year by the Bank and the Group was LKR 18.2 mn and LKR 18.2 mn respectively (2012 - Bank and Group - LKR 5.7 mn).

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.

### First Integrated Annual Report

The Bank has taken the initiative to present its first Integrated Annual Report for the year ended 31 December 2013. 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.

### 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.

A data base has been developed based on the requirements of shareholders and accordingly, 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.

### Notice of Meeting

The 9th 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 28 March 2014. The notice of meeting is given on page 298 of this Annual Report.

### 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.

For and on behalf of the Board,



**Sunil G Wijesinha**  
Chairman



**Rajendra Theagarajah**  
Chief Executive Officer



**Shehani Ranasinghe**  
Secretary to the Board

13 February 2014