Organizational Profile

Legal Form

Tracing its origins to 1979 as a state-owned development bank set up under the National Development Bank of Sri Lanka Act No. 02 of 1979, National Development Bank PLC ('Bank') today operates as a Licensed Commercial Bank under Section 5 of the Banking Act No. 30 of 1988 (Refer Corporate Information on pages 296 and 297 for further details). The Bank is listed on the Colombo Stock Exchange, and comprises 19% individual and 81% corporate shareholders, both Resident (70%) and Non-Resident (30%).

The Bank's Registered Office and principal place of business are situated at No. 40, Navam Mawatha, Colombo 2, Sri Lanka.

Group Structure

The main activities of the Bank, its subsidiaries and associate companies ('Group') encompass retail banking, Small and Medium Enterprises (SME) banking, corporate banking, project & infrastructure financing, investment banking, leasing, housing finance, investments advisory and securities trading, wealth management, property management and bancassurance. They are delivered through the core banking activities of the Bank and the Group companies of which, the principal activities are listed below.

Name of Group company	Domiciled in	Bank's direct holding, %	Bank's indirect holding, %	Principal activities
NDB Capital Holdings PLC	Sri Lanka	99.6%	–	Full Service investment banking
NDB Investment Bank Ltd.	Sri Lanka	–	99.6%	Investment banking
NDB Securities (Pvt) Ltd.	Sri Lanka	–	99.6%	Investment advisory and securities trading
NDB Wealth Management Ltd.	Sri Lanka	–	99.6%	Wealth management
NDB Capital Ltd.	Bangladesh	77.8%	–	Investment banking
Development Holdings (Pvt) Ltd.	Sri Lanka	58.7%	–	Property management
Maldives Finance Leasing Company (Pvt) Ltd.	Maldives	35%	–	Leasing
Ayojana Fund (Pvt) Ltd. (Under liquidation)	Sri Lanka	50%	–	Venture capital
NDB Venture Investments (Pvt) Ltd. (Under liquidation)	Sri Lanka	50%	–	Venture capital

Markets Served

The Group's significant operations are located within Sri Lanka, with services delivered through locally domiciled entities.

The Bank operates a network of 78 branches (2012: 69) that are categorized into eight Regions. They cover 22 districts in the nine provinces of the country, and serve a broad spectrum of clientele ranging from individuals, micro enterprises, SMEs, emerging and large corporates to state-owned enterprises and multinational companies. In addition, the Bank reaches out to its customers through automated distribution systems such as ATMs, Internet banking, telemarketing, call centre, a mobile commerce application (MPOS) and a unique Feet on the Street sales force.

(Refer Customer Capital on pages 55 to 61 for further details).

Scale of Operations

Total operating income of the Group for the year ended 31 December 2013 was LKR 11,549 mn, with a Profit Attributable to Shareholders of LKR 2,642 mn. Total assets of the Group grew by 19% to LKR 206,817 mn during the year, driven largely by a commendable growth of 18% in Loans and Receivables and a 47% increase in the Investment Portfolio.

The Bank's market capitalization stood at LKR 26,433 mn as at 31 December 2013, and was ranked No. 20 amongst the 289 listed companies on the Colombo bourse.

In terms of market share in the Banking industry, the Bank claimed a 3.8% share in Loans and Receivables, 2.9% share in Customer deposits and 3.2% share in Total Assets within the industry while being ranked 9 in each of those three segments. The industry comprises of 24 Licenced Commercial Banks and 9 Licenced Specialized Banks, 33 players in total.

The Bank's staff strength increased by 13% to 1,583 persons by end 2013 to support business growth, with the corresponding figure for last year being 1,389.

Although the Bank does not have any employees covered by collective bargaining agreements, it encourages an open door policy and has in place many mechanisms to encourage employees to discuss their grievances.

Operating Environment

The Macro Economic Analysis

The Global Economic Performance

The global economy grew at a moderate pace during 2013 at 3.0% exceeding the expectation of 2.9% as set out by IMF in October 2013. This growth however is marginally lower than the 3.1% recorded in 2012. This reiterates that the global economic growth continues to encounter several challenges across emerging and developing economies.

The emerging and developing economies largely benefited from increased demand from advanced economies. The same economies continued to be the major contributors of the global growth, continuing the shift in world economic powers towards them. However several risks remained, arising from the continued uncertainty regarding the US debt ceiling and the impact of the possible tapering of quantitative easing measures on emerging market economies.

Drivers of Global Growth

Advanced economies grew by 1.3%, a large share of this growth coming from the US with the easing of fiscal consolidation measures and a continuation of supportive monetary policy measures. The European Union also experienced further recovery as indicated by continued improvement in business indicators.

Emerging market economies slowed down during the year, growth being restricted to 4.7%, compared to 4.9% in 2012. India, Brazil and Central and Eastern Europe experienced sound growth over the year. China continued to hold its ground at 7.7% growth while the growth rate in Russia declined from 3.4% in 2012 to 1.5% in 2013. Among other countries that reported growth rates lower than 2012 who accounted for most of the decline in overall emerging markets segment were ASEAN countries, Mexico, Middle East and North African countries. Tightening credit conditions in response to the expected unwinding of quantitative easing measures adopted by advanced economies, capacity constraints and less room for policy to support growth were some of the reasons for the recorded slowdown in these emerging market economies.

Global Inflation Levels

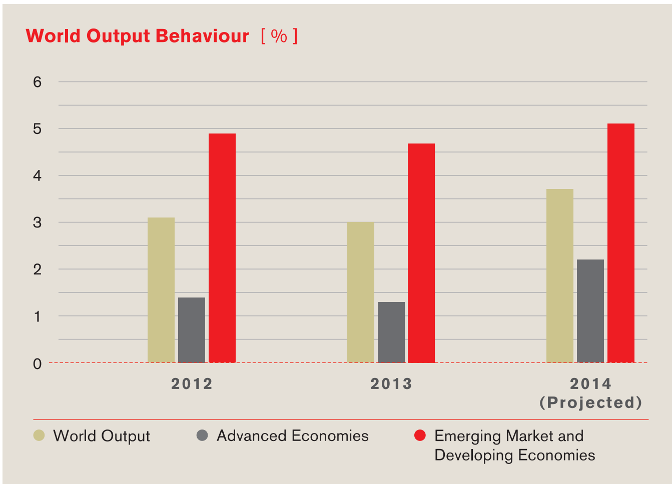
Global inflation remained moderate and subdued with the easing of commodity prices and continued negative output gaps in advanced economies. However, inflation levels were exposed to the risks of the on-going instability in the Middle-East, with its potential impact on international oil prices. In advanced economies, inflation remained below target levels. In the European Union, slow growth and downward pressure on wages contributed towards maintaining inflation below targeted levels.

Future Expectations for Global Growth

Growth expectations are ambitious for the years ahead. The global economy is expected to grow by 3.7% in 2014. Advanced economies are expected to grow by 2.2%. United States is expected to grow by 2.8% fuelled by increased domestic demand and reduction in fiscal drag as a result of the recent budget agreement. Growth in the European Union is projected to strengthen to 1% in 2014 with much contribution anticipated from exports as opposed to domestic demand. On the emerging markets and developing economies, a 5.1% growth is anticipated for 2014.

World output: Past, present and future

	2012	2013	2014 (Projections)
World Output	3.1	3.0	3.7
Advanced Economies	1.4	1.3	2.2
Emerging Market and Developing Economies	4.9	4.7	5.1



Sources: "World Economic Outlook Update – January 2014" of the IMF.

Sri Lankan Economic Performance

Economic Growth

The economic growth was impacted by unfavorable weather conditions, subdued global growth and the lag effect of tight monetary policy measures introduced during the first half of 2012. However, the country managed to grow at a pace faster than most emerging economies at 7.2%.

Inflation

Inflationary pressure remained at benign single digit levels during the year, resulting from prudent demand management policies, stable international commodity prices and significant improvements in domestic food supplies. Year-on-year headline inflation declined to 4.7% in December 2013 from 9.8% in January 2013, while core inflation declined to a record low level of 2.1% in December 2013, on a year-on-year basis. Going forward, inflation is projected to remain at single digit levels during the remainder of 2014.

Balance of Payment

Exports recorded growth on a year on year basis, which were mostly supplemented by growth in tea and recovery of textile and garments. Overall import expenditure also dropped (during the first eight months of the year) as a result of policy measures adopted in 2012 to rationalize imports, lower demand for intermediate goods, mainly of petroleum and petroleum related products due to lower thermal power generation and revisions to customs duties together with reduced input demand from export industries and moderating international commodity prices. Reversing the deficit of USD 169 mn recorded during the first half of 2013, the overall BOP is estimated to generate a surplus of USD 990 mn for 2013, mainly benefiting from an improvement in the trade account, higher receipts from tourism and workers' remittances, increased inflows to the corporate and banking sectors, including the receipt of proceeds from the bond issue of the National Savings Bank in September and inflows to the banking sector.

Exchange Rates

The exchange rate policy in 2013 focused on maintaining flexibility in the determination of the external value of the Sri Lanka rupee. The Sri Lanka rupee which was stable until mid-June 2013, depreciated through August 2013 responding to market conditions. With the receipt of higher foreign exchange inflows to the banking sector, the rupee stabilized thereafter. Accordingly, the Sri Lanka Rupee depreciated against the US dollar only by 2.75% during the year to 31 December 2013, which is a minimal depreciation compared to few other Asian currencies.

Fiscal Management

Fiscal management was challenging during the first half of 2013, predominantly resulting from reducing government revenue. However, government expenditure was maintained within budgetary targets during the same period. As a result, the overall budget deficit during the first half of 2013 was 4.3% of projected GDP. The budget deficit for the year is estimated at of 5.8% for 2013.

Interest Rates

Easing monetary policy stance adopted by the Central Bank of Sri Lanka (CBSL) resulted in market interest rates being adjusted downwards during the year. Lowering of policy interest rates and the Statutory Reserve Ratio, increased levels of liquidity and improved foreign investor appetite, however together with lower credit disbursement by banks to the private sector exerted downward pressure on the yield rates of government securities and the same was witnessed in deposit rates within the banking sector to the public.

Banking Sector Performance

Asset Growth

The banking sector performed moderately well during the year, recording a growth of 16.6% in assets, the total assets nearing the LKR 6 tn mark. Credit growth saw moderation during the year mainly due to improvements in the fiscal consolidation, reforms in the state owned enterprises and the unexpected reduction in gold prices. The majority of the growth was generated by the Licensed Commercial Banks.

Main contributor towards the overall increase in the asset portfolio was the increase in investments, which recorded a 39% growth in 2013, compared to 15% in 2012.

Non Performing Loans (NPLs)

NPLs increased during the year across the industry owing to increased stress levels in loan recoveries, predominantly in the gold pledged loans category as a result of the decline in the price of gold across the world. The gross industry NPL ratio as at 31 December 2013 was 5.6% as compared to 3.7% for 2012.

Profitability

Profitability of the banking industry experienced a dip with a negative growth of 9.8% at Profit After Tax level, as compared with a positive growth of 26% for 2012.

Highlights of the Banking Sector - Growth Rates in Key Performance Indicators

KPIs	Growth in 2013	Growth in 2012
Total Assets	16.6%	19.9%
Loans & Receivables	8.8%	21.1%
Investments	39.3%	15.2%
Cash & Dues from Banks	8.3%	17.2%
Deposits	15.0%	18.0%
Borrowings	26.1%	26.7%
Capital Funds	12.7%	17.5%
Net Interest Income	(0.2%)	19.5%
Profit after Tax	(9.8%)	25.9%

* Source - Publications by Central Bank of Sri Lanka

National Vision and the Banking Sector

Sri Lanka aspires to be a South Asian economic hub, focused on five hubs - maritime, aviation, commerce and tourism, knowledge and energy. Underpinned by this vision, the Sri Lankan economy is targeted to grow at 6 to 7% annually and reach a per capita income of USD 4,000 by 2016.

Realization of this vision will, inter alia, require a paradigm change in the local banking sector. We see immense prospects for direct loans and syndications, project financing, SME development as well as roles in FDIs, mergers and acquisitions (M&A) and initial public offerings (IPO) in a growth focused economy. At the same time a few issues regarding the financial services sector and the banking sector in particular, need to be addressed.

Implications for the Banking Sector

The CBSL has announced a clear Road Map for the Banking and Finance sector, aimed at developing an industry comprising of an optimum number of players and healthy levels of competition among them. This Road Map envisioned for 2016, aims for the industry to have at least five Sri Lankan banks with LKR 1 tn or more assets, thereby such banks having a strong regional presence.

The Road Map has also brought to light the need for a large Development Bank that will provide substantial impetus to development banking activities in the country. We believe that the Bank has a very prominent role to play in the CBSL's vision for the future of the banking and finance industry. The Bank is ready to embrace and welcomes positive changes that these new initiatives will herald.

Strategic Direction

Backed by a strong balance sheet and a dynamic and capable team, the Bank is well poised to play a leading role in supporting the national vision and the emerging scenario in the banking sector.

The Bank has in place a very clear strategy spanning the medium and the long term, which well aligns the Bank's vision, mission and values in to one nexus. This strategy spans across 2014 to 2018 and has been developed in consultation with the management and the Board of Directors. Thus, this strategy well encapsulates the thoughts and opinions of the very people who will be driving and actualising this strategy. The Bank remains strongly committed to an exemplary corporate governance regime and the propagation of a truly sustainable business model that nurtures and delivers value to all its stakeholders.

The Bank has defined clear and ambitious growth targets in the five year strategy covering key areas of market share, maximising sustainable profits, effective cost management, balance sheet growth, return on assets, return on equity, asset quality and a strong capital base. The articulation of this strategy is not devoid of the national growth prospects and economic conditions. We have well taken in to consideration the direction and the momentum of the national economic development that the country aspires to achieve. Strengthening of the SME and micro business sectors embedded within a rural centric development strategy, per capita income target of USD 4,000 by year 2016, construction, power and tourism industry resurgence are few such national development priorities that we have captured in our business strategy.

The projected growth in the Banking Industry will be stimulated by the large business opportunities arising via the South Asian Economic Hub concept discussed earlier. The Group, as a financial conglomerate has inimitable in house expertise in all of these key areas and is well prepared with their five year strategy to efficiently grasp and execute on these new developments as they unfold.

The Strategic Approach

In realising the above strategy, the Bank has identified seven pillars of strategic execution backed by a strong Corporate Governance framework and staying committed to Corporate Social Responsibility.

The seven pillars of strategy execution

- Profitable balance sheet growth

  Aggressive broadening of the asset base through new products; exploring untapped markets coupled with optimum management of net interest margins and share of fee income; efficient allocation of resources.

- Operational excellence

  Focusing on customers' needs; keeping employees energized and empowered; continuous improvement of systems and procedures to achieve greater efficiency and effectiveness.

- Strong sales culture

  Identifying and optimizing customer value creation; capitalizing on cross selling opportunities.

- Growth in fee-based income

  Seeking opportunities for cross selling within the Group and additional services such as consultancy, legal and custodial services through a linked platform across the Group.

- Cost optimization

  Balancing costs and benefits without compromising on the brand value of the Bank.

- Best in class, engaged and inspired team

  Focusing on delivering on business goals through people programmes, plans and initiatives; having an efficient and agile structure with an appropriate mix of skills, technical knowledge and analytical capability coupled with a streamlined work processes to enable flawless administration and execution.

- Exemplary governance, transparency and compliance

  Identifying and managing the various types of risks faced; cultivating an ethical culture throughout the organization while ensuring compliance with all applicable laws, regulations and standards.

Stakeholders

Stakeholder Identification

Our stakeholders are persons or organizations who may be significantly affected by our activities; and in turn, whose actions may affect our ability to perform successfully. In this context the primary stakeholders of the Group comprise our shareholders, customers and business partners, employees, regulators and analysts, and the society and environment in which we conduct our business.

Stakeholder Engagement

Engagement with stakeholders is both programmed as well as ad hoc. Often it is a combination of both, and based on statutory as well as business interests. Simply, when the Bank owns or controls the capital ('capital' in the broader context is discussed on pages 30 to 75, the Bank's management and those charged with governance are accountable through applicable laws and regulations, which in turn prescribe the engagement process. On the other hand, when the capital is not owned or controlled by us, we still maintain an ethical responsibility that is guided by striking a balance between stakeholder expectations and business interests.

For example, we engage with customers on a day-to-day basis through a variety of channels, both tangible and intangible, while engagement may also be undertaken for a specific purpose. They are largely driven by ethical business interests. On the other hand our stewardship role - particularly in relation to investors - places certain additional legal responsibilities.

Concerns raised by stakeholders are usually dealt with at the time of questioning. During the year, shareholder queries were largely on matters such as return on equity, capital, interest margins, taxation, loan growth and deposits. Employees' concerns - mainly on work-life balance, compensation review and training & development - were addressed through internal mechanisms.

A detailed description of the Bank's engagement with its key stakeholders are given in the web version of this Annual Report.

Commitments to External Initiatives

As a responsible corporate citizen with a strong local presence but with a global outlook, we participate in several activities through memberships and affiliations. In the year 2013, the Bank renewed its membership with the Asia-Pacific Rural and Agricultural Credit Association (APRACA). The role of APRACA is to promote cooperation and facilitate mutual exchange of information and expertise in the field of rural finance.

Ethics and Integrity

A Vision Underpinned by Values

The Bank takes pride in the five values adopted by itself. These five values are Integrity, Care, Passion, Teamwork and Service. Utmost importance is placed in ensuring that all staff members display these five values in all aspects of their daily work, in dealing with their colleagues and superiors and in dealing with the customers of the Bank.

As the Bank grows it has taken measures to incorporate these values in daily work by making them more demonstrative through specific competencies. These competencies are internalized in employees through recruitment, training, performance management and other human resources related activities.

Translating Values into Practice

The values of the Bank are instilled in several ways. At the time of induction, employees learn how values impact on the Bank's core competencies, while these are reinforced during day to day work as well as formal performance evaluations. In addition, an 'In Retrospect' programme is conducted for those completing one year at the Bank, which serves as a forum to elicit both difficulties faced in working within the values framework as well as to share best practices established by them.

Core Competencies	Value Drivers		
Customer focus	Service	Care	Passion
Superior execution	Integrity	Passion	Care
Openness to innovation and change	Passion	Service	Teamwork
People leadership and development	Care	Teamwork	Passion
Growth and commercial mind set	Passion	Service	Teamwork
Teamwork	Care	Passion	Service

A higher degree of onus and expectation are placed on the Leadership Team for the achievement of the Bank's core competencies within the values framework.

While we emphasize on superior execution and commercial mindset that lead to value creation for shareholders, we ensure that these are achieved within our values by upholding ethical and transparent business practices.

Our Values and the Supply Chain

Stemming from the above, we have also begun to take a closer look at our business boundary where we interface with suppliers and business partners. We recently reviewed our procurement practices, particularly in the context of labour and environmental aspects of our suppliers, and have introduced a comprehensive 'Sustainable Supply Chain Management' process. This includes a code of conduct and checklist covering economic, social and environmental criteria.

All procurements are done locally.

A responsible supplier with shared values is not only a welcome member of our extended business family, but is also one that mitigates risks against our reputation and business continuity.

Management Approach

A Framework for Discussion

Our discussion on management approach outlines how the Bank's economic, social and environmental impacts are managed. Accordingly, we will first identify aspects that are material to the Bank and its stakeholders. We regard an aspect to be material if it substantively affects the Bank's ability to create value over the short, medium and long term. Relevance and importance thus determine materiality, with importance taking cognizance of both the magnitude of the impact as well as its probability of occurrence.

The brief discussion that follows on economic, social (sub-divided into customers, employees and society) and environmental aspects are based on why we consider the aspect to be material, what we do to manage them and how we evaluate our approach and results. They are elaborated further in the next section on Management Discussion and Analysis in the context of deriving and delivering value.

Material Economic Aspects

Economic Performance

Economic performance is important for a business to grow and prosper in the long term. The benefits are not limited to the business, as they also contribute to the well-being of the local community and ultimately the growth and prosperity of the economy at large. Positive economic performance is a win-win approach to a sustainable business. The Bank adopts a four-pronged approach to manage its economic performance, namely, strategic vision, goals, targets and performance monitoring. They are underpinned by the Bank's core competencies and values that were discussed earlier.

Market Presence

A broad geographical presence is important for business segments such as SME financing and retail fund mobilization. The benefits are mutual: local hires improve the diversity within the management team; they provide fresh insights on local needs that may also be replicable elsewhere, while the local community too enhances its human capital. The Bank has consistently expanded its market position through organic growth in the past, and is represented in every province and 22 districts of the country.

Indirect Economic Impacts

In addition to direct value creation and distribution through our own operations, the Bank's investments and market presence impact on the local communities in many ways. They include jobs created or supported in the supply chain, development of skills and knowledge, attracting investment, etc. The Bank's strategic planning and management of its economic performance give rise to direct and indirect economic impacts that contribute to value creation and a sustainable business.

Material Social Aspects

Customers

Product and Service Labelling

In this technologically savvy, data-driven society consumers demand clear information and transparency before making a purchase. Furthermore, with the popularity of social media as well as social interest groups there are several avenues for dissatisfied customers to air their grievances, let alone seek legal action if product information had been misleading. Furthermore, as financial products and services are often perceived to be complicated, the Bank takes great care in providing accurate and relevant information in a manner that could be easily understood by a layman.

Marketing Communications

Inaccurate or misleading communications could lead to financial loss through fines and penalties, as well as loss of reputation, public trust and customers. The Bank has in place marketing communications guidelines to ensure that all applicable laws, codes of conduct as well as business ethics are strictly followed. This includes advertising, promotion and sponsorship of products and services. All marketing communications material are subject to a three-layer checking process.

Customer Privacy

Banks are privy to sensitive and confidential financial information pertaining to customers, who in turn place high importance on the privacy and security of such information. A breach in customer privacy can lead to direct financial consequences such as fines and penalties, as well as loss of reputation and customer loyalty. Hence, the Bank places high importance on customer privacy and maintains secure systems that also include a pledge of confidentiality taken by employees.

Employees

Employment

Employees of the Bank are responsible for the delivery of business promises to all shareholders and stakeholders. Our practices are governed by the Shop and Office Act of Sri Lanka. The Bank goes well beyond meeting minimum legal requirements. This includes aspects on sourcing, training and retaining the best of talent in a work environment that supports our corporate values and business goals.

The Bank does not support forced labour or child labour.

Over 40% of staff are paid performance bonuses and the Senior Management of the Bank is entitled to an Equity Linked Compensation Plan (ELCP). The latter is a retention and shareholder value creation tool as well as a measure for attracting competent professionals.

Occupational Health and Safety

Employees who are healthy in body and mind not only perform better at work but also in their personal lives and in society at large. In this light, the Bank encourages all staff to embrace a healthy work-life balance which is reflected in the fitness facilities and welfare programmes that are made available. In addition, we take note of the well-being of all staff while on duty. In accordance with our Business Continuity Plan, the Bank has a team of over 50 trained first aid officers and 25 trained psychological first aid officers who are available on site.

There were no workers who were involved in occupational activities who have a high incidence or high risk of specific diseases.

Training and Development

As a key to organizational development the Bank continues to invest in its people, particularly through training and development. This takes into consideration the Bank's business needs and long term goals, staff performance evaluations and succession plans. Our investment in this area cuts across the entire employee base, which in turn supports other aspects such as promoting equal opportunity in the workplace, motivating self-improvement and managing one's career ending.

Diversity and Equal Opportunity

The Bank draws on diversity and equal opportunity as strengths to source and retain the best people across a range of talent, skills and education. Diversity is measured along several metrics such as gender, age group and minority groups, and compared across different employee categories to observe trends.

Equal Remuneration for Women and Men

There is no gender bias at the Bank. Rewards and remuneration are based on the principle of equal pay for equal value of work, and are benchmarked against industry norms. Individual performance is reviewed biannually through a transparent process against agreed criteria and targets, within the wider goals of the Bank and its strategic placement in the industry.

Society

Local Communities

The Bank operated 78 branches island wide as at 31 December 2013, spread across rural as well as urban areas. Community buy-in and acceptance is vital for the long term existence of these units, while distrust can damage business operations, brand image and sustainability of the business. The Bank engages with the local community through strategic and philanthropic Corporate Social Responsibility (CSR) initiatives. These initiatives have clear time-bound objectives and results, and are monitored and reviewed periodically.

Compliance

Banks in general have a special role in the economy of any nation as the effects of their problems go far beyond their corporate boundaries, often to those least able to bear the burden of distress. The safety of the banking system is of paramount importance and as such they are subject to a more stringent set of regulations than most other types of businesses.

The Bank's primary sources of compliance requirements stem from the Banking Act No. 30 of 1988 (as amended) and the Directions issued by the Central Bank of Sri Lanka, the financial reporting standards of the Institute of Chartered Accountants of Sri Lanka (ICASL) – including the requirements following the convergence of the Sri Lanka Accounting Standards with the International Financial Reporting Standards (IFRS), the Companies Act No. 7 of 2007 and the Listing Rules of the Colombo Stock Exchange. The Bank is in the process of adopting the Code of Best Practice on Corporate Governance issued jointly by ICASL and the Securities and Exchange Commission of Sri Lanka in 2013.

The governance framework of the Bank casts responsibility on the Board of Directors for the strategic direction, including the overall risk policy and risk management procedures and mechanisms. The Board functions through six Board Committees chaired by Non-Executive Directors. They cover audit, risk management, human resources and remuneration, nominations, strategic issues and corporate governance & legal affairs. The Board and the Chief Executive Officer are further supported by Management Committees focused on assets and liability management, credit, human resources, internal audit, information technology, market & operational risk, outsourcing and procurement.

In order to encourage engagement with the Bank's customers and stakeholders the Bank has in place a Customer Charter, a formal Complaint Handling Procedure a formal Communication Policy and a Disclosure Policy. The Bank's internal Compliance Policy and Code of Conduct governing all employees is an integral part of the governance framework of the Bank. The Code inter alia outlines the standards of professional and ethical conduct, and includes aspects such as general conduct and competence, confidentiality, conflict of interest, bribery and discrimination.

Material Environmental Aspects

Materials and Energy

Depletion of natural resources and climate change are critical concerns that directly affect everyone. The challenge for every business is therefore to reduce their material and energy intensity through the adoption of appropriate initiatives. They may include switching to alternative sources, reducing waste, recycling and reusing materials as well as changing the way we do business. The Bank strives to inculcate a culture of responsibility amongst employees where they themselves take responsibility for the effective and efficient use of materials and energy.

Products and Services

The Bank's project lending is an area where there could be adverse indirect impacts if not carefully managed. This could arise from the manner in which the project is implemented as well as from the sale, use and disposal aspects of the products or services generated by the project.

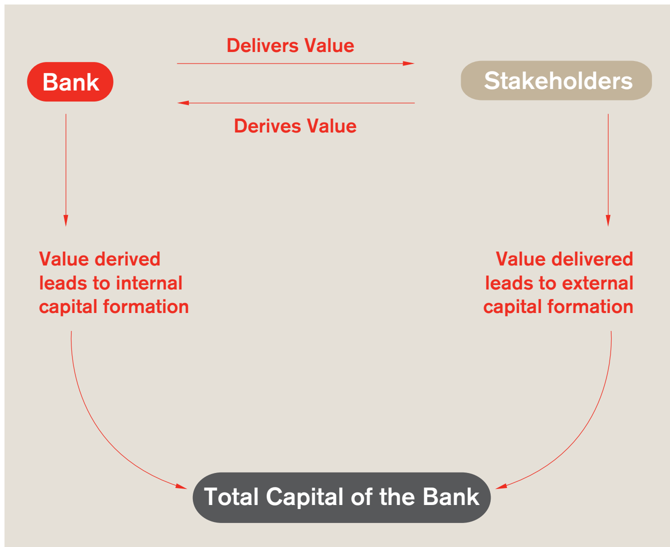
Such risks are addressed from the very inception, starting with advisory services where required, when the project is formulated. The proposed project is then subject to an appraisal process which includes an evaluation of the economic, environmental and social impacts. Guidance is provided in mitigating negative impacts, and implementing proposed action plans is made a pre-disbursement condition as appropriate. The vigilant stance adopted by the Bank on responsible investment serves to mitigate not only such negative impacts but also any consequential reputational and financial losses for both the client and the Bank.

The Dual Aspects of Value Creation

The above discussion covered the key elements of the Bank's business model, which is essentially a process that transforms the various forms of capital through business activities to create value over time.

The Bank delivers value, both financial and non-financial, to its key stakeholders in the context of the economic, social and environmental aspects within which it operates. These same stakeholders are of value to us, and they are nurtured and developed over a period of time. As stores of value, they constitute our stakeholder capital, and are external to the Bank; the key components being investor capital, customer capital, employee capital and social & environmental capital.

The Bank in turn derives value through the dynamic interaction between the external capital as well as its own internal capital to drive future earnings. The capital internal to the Bank comprises financial capital and institutional capital. The latter includes intellectual property, knowledge, systems, procedures, brand value, corporate culture, business ethics, integrity and the like.



The various forms of capital are in a state of flux with flows taking place among them. The Bank has access to and makes use of these forms of capital in creating value for itself (deriving value) and its stakeholders (delivering value) through its business model. They underscore the dual nature of value creation as depicted in the above diagram.

We will next review the performance of the Bank and the Group in this context.