DERIVING VALUE

Internal Capital Formation

The value created by the Bank for itself through activities, relationships and linkages leads to the formation of capital that is internal to the Bank. While what is most visible and quantifiable is financial capital, internal capital also includes several intangibles that, as discussed previously, constitute institutional capital.

Financial Capital

The Bank as well as the Group concluded yet another successful year with all key financial indicators of performance showing robust growth. A carefully articulated strategy, timely and effective execution and diligent monitoring were the key determinants of such performance of the Bank and Group.

Profitability

Key financial indicators of the Bank and Group are summarized below:

	BANK			GROUP		
	2013 LKR mn	2012 LKR mn	% change	2013 LKR mn	2012 LKR mn	% change
Net interest income	**6,812**	5,597	22	**7,012**	5,819	20
Total operating income	**15,865**	8,815	80	**11,549**	14,938	(23)
Impairment charges for loans and investments	**1,238**	106	1,067	**1,261**	51	2,354
Operating expenses	**4,944**	4,102	21	**5,564**	4,496	24
Operating profit before value added tax on financial services	**9,683**	4,607	110	**4,724**	10,391	(55)
Profit after tax	**7,723**	2,924	164	**2,712**	8,932	(70)
Profit attributable to shareholders	**7,723**	2,924	164	**2,642**	8,854	(70)

Net Interest Income

The Bank's Net Interest Income (NII) rose by 22% to a healthy LKR 6,812 mn as compared with the LKR 5,597 mn in 2012. The year under review saw policy rates being reduced in stages, resulting in an overall downward trend in interest rates in the industry that also stimulated credit growth. The Bank achieved such record growth levels, despite stiff competition, through vigilant and continuous monitoring of its asset and liability portfolio yields and their compositions. Accordingly the Bank was able to maintain its net interest margins at 3.7% for both 2013 and 2012.

The Group NII also grew by 20% from LKR 5,819 mn in 2012 to LKR 7,012 mn in 2013.

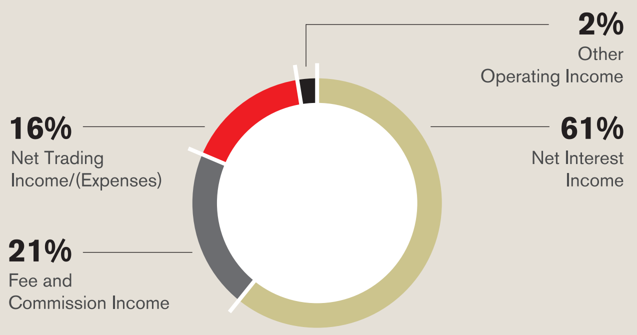
Total Operating Income

The Bank's total operating income includes NII, fee and commission income, net trading income and other operating income as summarized below:

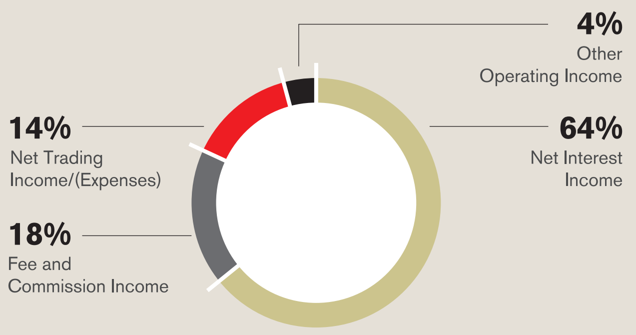
	BANK			GROUP		
	2013 LKR mn	2012 LKR mn	% change	2013 LKR mn	2012 LKR mn	% change
Net interest income	**6,812**	5,597	22	**7,012**	5,819	20
Fee and commission income	**1,614**	1,211	33	**2,411**	1,720	40
Net trading income	**1,272**	1,010	26	**1,868**	1,272	47
Other operating income	**6,167**	997	518	**258**	6,127	(96)

Composition of the Group's total operating Income for 2013 and 2012, excluding the one-off equity capital gains earned by the Group in 2012, is depicted below.

Composition of Total Operating Income - 2013



Composition of Total Operating Income - 2012



Fee and Commission Income

Fee and commission income of the Bank grew by 33% from LKR 1,211 mn in 2012 to LKR 1,614 mn in 2013. This growth was primarily due to the increase in the overall asset base of the Bank and the better utilization of synergies between Group companies, particularly exploiting opportunities for cross selling products and services. NDB Group's subsidiary companies also contributed positively by increasing their fee income by over 40% over the prior year.

Net Trading Income

Net trading income increased by 26% and was primarily due to the increase in forex trading and capital gains earned from trading in Government Securities. The net trading income of the Group increased by 47% over 2012, supported by the marked to market capital gains from the Unit Trust trading portfolio of the Capital Market Cluster.

Other Operating Income

Other operating income of LKR 6,167 mn consisting of dividend received from Group companies, capital gains from Group companies, and gains on revaluation of foreign exchange reserves, increased significantly in 2013. This was predominantly due to the exceptional capital gain of LKR 5,372 mn made by the Bank during the first quarter of 2013. NDB Group earned significant capital gains of LKR 5,751 mn on the strategic divestment of AVIVA NDB Insurance PLC to American International Assurance (AIA) Company Ltd. of Hong Kong in December 2012. The same gain was transferred to the Bank from the Group in March 2013, via a share buyback agreement between NDB Capital Holdings PLC and the Bank.

Impairment Charges for Loans and Other Losses

Impairment charges for loans and other losses were LKR 1,238 mn in 2013 compared to LKR 106 mn in 2012. This was a result of the increased stress levels within the industry for loan recoveries and the Bank's prudent adoption of fair valuing the impaired loans based on sound judgment and objective evidence on future recoveries.

This provision is calculated based on the risk assessment of individual loans and a collective provision is made considering the economic factors relevant to each portfolio segment. These provisions are arrived at in accordance with the Sri Lanka Accounting Standards LKAS 32 - 'Financial instruments: Presentation', LKAS 39 - 'Financial instruments: Recognition and Measurement', and as per a Board-approved impairment policy of the Bank. Settlements of loans made by borrowers and improved facility performance levels were the key factors assessed in arriving at the risk level of each borrower to decide on the provision amount.

The impairment charges for loans and other losses are summarized below:

LKR mn	2013	2012
Impairment of loans and receivables to other customers	1,261	57
Impairment of investments	(23)	49
Total impairment charges	1,238	106
Total loans and advances of the Bank	141,651	120,099
% of impairment charges	0.87	0.09

The low growth in impairment charges compared to the growth in the asset portfolio reflects the quality of the Bank's overall asset portfolio management.

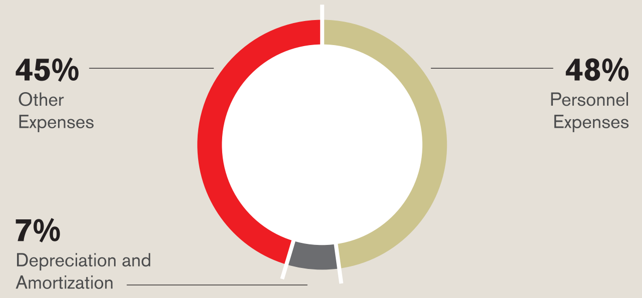
Operating Expenses

The Bank's operating expenses during 2013 was LKR 4,944 mn, an increase of 21% over LKR 4,102 mn for the year 2012. The corresponding figures for the Group were LKR 5,564 mn (2013) and LKR 4,496 mn (2012), which is an increase of 24% year on year.

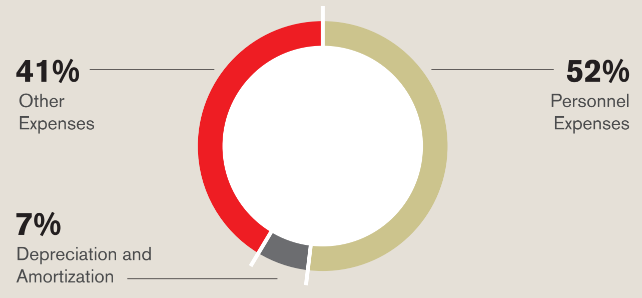
Management of operating expenses remained a key strategic concern of the Bank as well as the Group companies. The Group continuously seeks and adopts ways and means by which cost structures can be made leaner and more efficient. Centralization of key processes is one such example. Another is training and exposure of staff prior to placements to ensure job efficiency and effectiveness.

The compositions of the Group's operating expenses are depicted below.

Composition of Total Operating Expenses - 2013



Composition of Total Operating Expenses - 2012



Cost to Income Ratio

The Bank's cost to income ratio was 51% in 2013, when the exceptional capital gains from the strategic divestment of AVIVA NDB Insurance PLC is excluded, compared with 47% for the year 2012. The Bank is currently increasing its branch network and opened nine new branches during the year. The Bank aims to maintain its cost to income ratio below 50% through effective cost management strategies and initiatives despite the expected growth levels in the future.

Operating Profit before Value Added Tax on Financial Services

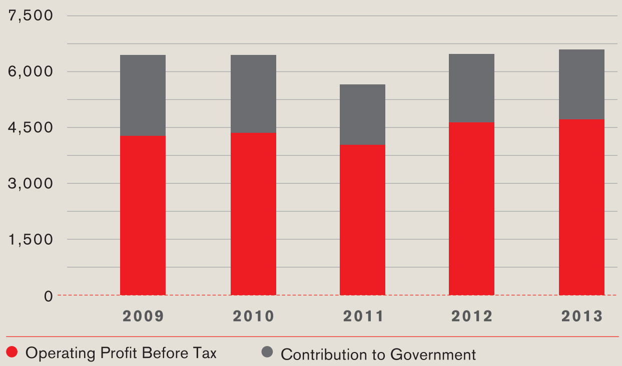
The Bank recorded the highest ever profit before tax of LKR 9,683 mn in 2013, an increase of 110% over the LKR 4,607 mn of 2012. The exceptional increase was primarily due to the one-off exceptional capital gain of LKR 5,372 mn made on the strategic divestment of AVIVA NDB Insurance PLC by the Group.

Taxation

The Group continues to make a significant contribution to the Government of Sri Lanka in the form of Financial Services Value Added Tax and Income Tax. This amounted to LKR 1,871 mn in 2013, averaging LKR 1,924 mn per annum over the past five years.

	2009 LKR mn	2010 LKR mn	2011 LKR mn	2012 LKR mn	2013 LKR mn
Operating profit before tax	4,276	4,352	4,030	4,640	**4,724**
Contribution to Government (VAT and income tax)	2,185	2,090	1,616	1,859	**1,872**
% contribution	51	48	40	40	**40**

Profit Before Tax & Contribution to Government [LKR mn]

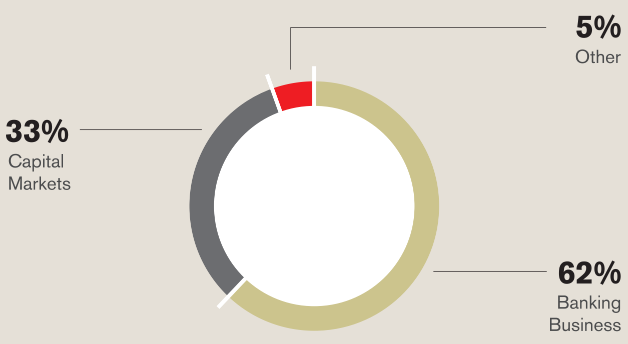


Profit Attributable to Shareholders

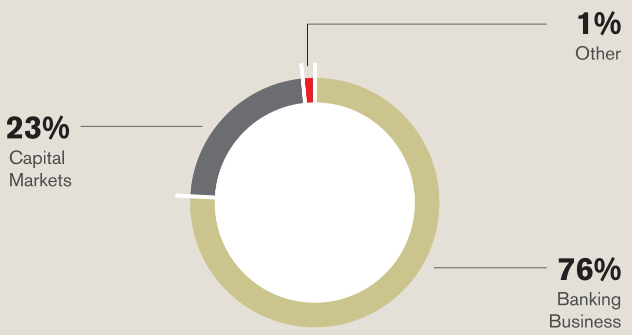
Group Profit Attributable to Shareholders (PAS) was LKR 2,642 mn, a decline of 70% over LKR 8,854 mn for 2012. As explained above, NDB Capital Holdings PLC (NCAP), a subsidiary of the Bank divested its strategic investment in AVIVA NDB Insurance PLC to American International Assurance (AIA) Company Ltd. of Hong Kong in December 2012. The same gain was transferred to the Bank from the Group via a share buyback agreement between NCAP and the Bank, in March 2013, resulting in the Group PAT declining by the same amount compared to the previous year. Thus, the timing difference of realizing this income within the Group and the Bank explains significant variation in the Bank's PAT and the Group's PAS over the comparative year.

Depicted below are the compositions of Group PAS in 2013 and 2012, excluding the one-off equity capital gains earned due to the strategic rearrangement and divestment of Group investments.

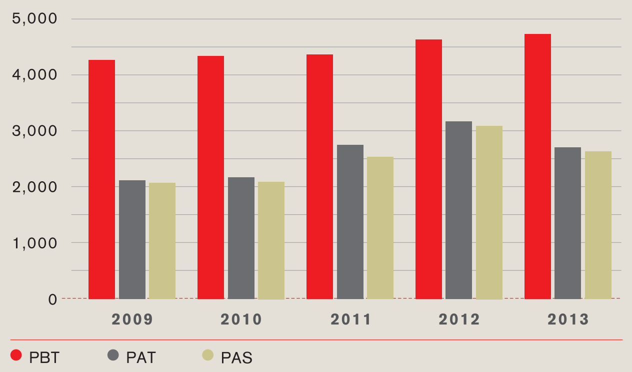
Composition of Group Profit Attributable to Shareholders - 2013



Composition of Group Profit Attributable to Shareholders - 2012



Group Profitability Over the Past Five Years [LKR mn]



*Excludes the one off equity gains of LKR 5,751 mn earned by the Group in 2012.

Assets and Liabilities Portfolio

Summary of the assets and liabilities portfolio of the Bank and the Group are summarized below.

	2013		2012		% Growth	
	Bank LKR mn	Group LKR mn	Bank LKR mn	Group LKR mn	Bank	Group
Total assets	201,258	206,817	163,474	174,103	23	19
Loans and receivables	141,651	141,710	120,098	120,145	18	18
Customer deposits	129,830	129,422	107,601	107,394	21	21
Borrowings	46,555	46,527	34,931	34,893	33	33

Total Assets

The Bank's Total Asset base grew by 23% in 2013, compared to the 17% growth rate of the banking sector. This growth was supported by an 18% growth in loans and receivables and a 78% growth in investments, which was a close replication of the growth in the assets composition of the banking industry.

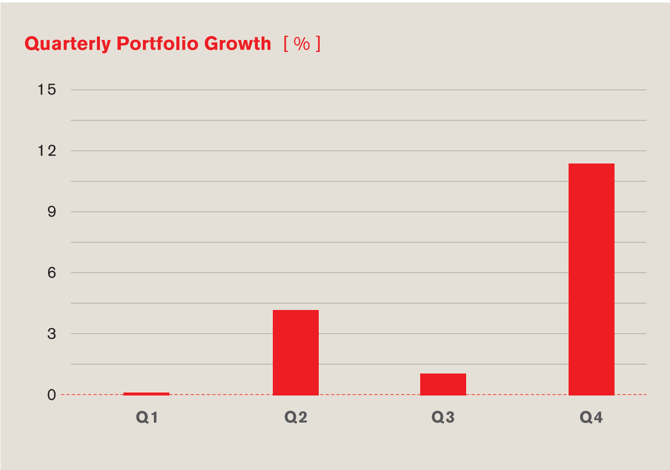
Loans and Receivables

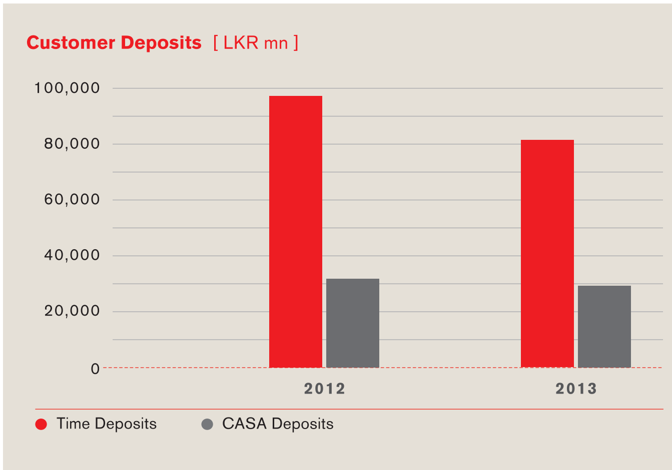
The Bank's loans and receivables comprises the following:

	2013 LKR mn	2012 LKR mn	% Growth Bank
Loans and receivables - to banks	642	1,183	-46%
Loans and receivables - to other customers	141,009	118,915	19%
Total	141,651	120,098	18%

The loans and receivables portfolio as at the end of each quarter for 2013 is given below.

	Q1 31 March 13 LKR mn	Q2 30 June 13 LKR mn	Q3 30 Sep 13 LKR mn	Q4 31 Dec 13 LKR mn
Loans and receivables - to other customers	119,976	125,196	126,569	141,651





Driving the growth of loans and receivables of 18% over 2012, were retail and SME financing, project and infrastructure financing and working capital financing to various business sectors. The Bank continued to align its overall lending strategy towards national development during the year.

Customer Deposits

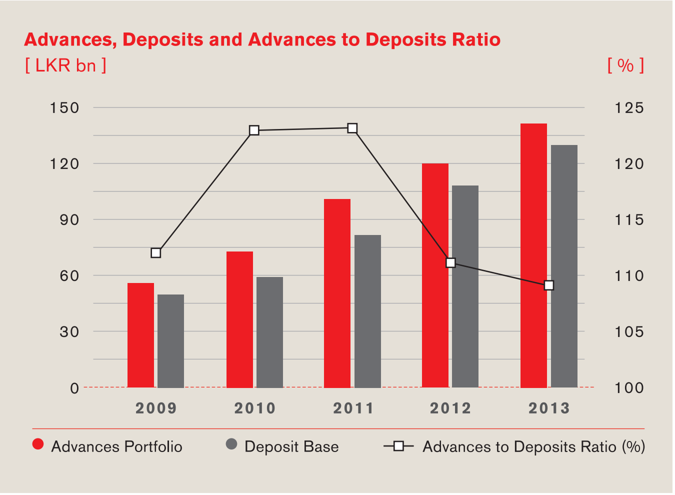
The Bank's customer deposits also grew significantly by 21% to reach LKR 129,830 mn during the year and compares with an industry average of 15% for the year 2013. The total customer deposits as of end 2013 comprised 75% time deposits and 25% Current and Savings (CASA) deposits.

The CASA ratio of 25% is commendable given that our business model as a licensed commercial bank is just nearing a decade.

Advances to Deposits Ratio

The Advances to Deposit Ratio (ADR) of the Bank improved from 111% to 109% during the year.

The Bank has been aggressively involved in commercial banking operations since the Bank obtaining the commercial banking license in 2005, and has progressively improved the ADR as depicted below. This was supported by the steadily expanding branch network that penetrates major economic centres of the country.



Asset Quality

The Non-Performing Loan (NPL) Ratio increased to 2.4% from the previous year's 1.3%. However, the Bank's NPL ratio is well below the industry norm. Despite increased NPLs, the Bank's asset portfolio is backed by a strong provision cover of 51%.

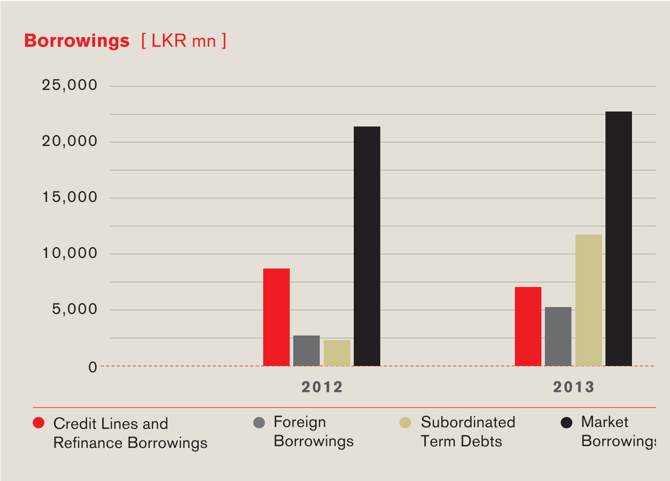
Borrowings

The total borrowings of the Bank as of 31 December 2013 was LKR 46,555 mn, an increase of 33% over 2012. The Bank succeeded in obtaining a 10 year term loan from the International Finance Corporation (IFC) of USD 24 mn, to be utilized for the growth of the Small and Medium Enterprises (SME) portfolio of the Bank.

In December 2013 the Bank raised LKR 10 bn through rated, unsecured, and subordinated redeemable debentures which are listed in the Colombo Stock Exchange. This was the largest debenture issue in the country and was rated A+ (lka) by Fitch Ratings Lanka Ltd. The objectives of the debenture issue were to strengthen the Tier II capital base of the Bank and maintain the capital adequacy requirements in line with the Bank's future expansion plans. In particular, the debenture issue will support operations and growth of the asset base, facilitate the raising of medium term funds to match the medium and long term lending of the Bank, minimize the interest rate risk and help manage the gap exposures of the Bank's assets and liabilities.

The composition of the borrowings of the Bank and the Group is given below.

	BANK			GROUP		
	2013 LKR mn	2012 LKR mn	% change	2013 LKR mn	2012 LKR mn	% change
Credit lines and refinance borrowings	7,014	8,647	(19)	7,014	8,647	(19)
Foreign borrowings	5,207	2,691	93	5,207	2,691	93
Subordinate term debts	11,682	2,254	418	11,682	2,254	418
Market borrowings	22,652	21,339	6	22,624	21,301	6
Total borrowings	46,555	34,931	33	46,527	34,893	33



Returns to Shareholders

The Basic Earnings Per Share (EPS) of the Bank increased by 164% up to LKR 46.96. The Group's EPS however decreased by 70% to LKR 16.48, owing to the aforementioned timing difference of recognizing the one-off equity gain within the Group and the Bank. The Bank's EPS excluding the one-off equity gain was LKR 16.45.

The Bank's Return on Average Shareholders' Funds for 2013 was 44.69% which was a 111% increase compared to the previous year. The same metric for the Group however decreased by 75% to 10.70% due to the timing difference of recognising capital gains earned on the strategic divestment of a Group company. The Bank's Return on Average Shareholders' Funds net of the one-off equity gain was 13.61%.

The market price per share of the Bank closed at LKR 160.50 for the year, resulting in a Price Earning (PE) ratio of 9.74 (times). The PE ratio thus recorded an impressive growth of 291%.

The Bank paid LKR 10.00 per share as dividends to its ordinary shareholders in respect of the financial year 2013 (2012 : LKR 15.00).

Capital Adequacy

The Bank ended the year with a core capital base of LKR 18,350 mn and a total capital base of LKR 27,220 mn. Tier I and Tier I & II capital adequacy ratios stood at 12.05% and 17.87% respectively, which is well above the minimum statutory requirements. The same ratios for 2012 were 11.14% and 12.38% respectively. This enhanced capital base provides the Bank with the essential edge to realize its ambitious growth expectations and maximize its profitability while being able to weather any potential losses arising from the business.

Tier 1 and Tier I & II ratios of the Group as at 31 December 2013 was 15.15% and 21.04% respectively as compared with 18.72% and 20.66% respectively, as at 31 December 2012.

Economic Value Generated and Distributed

The Bank continued to create value for itself for growth and to meet contingencies, as well as distribute value to its multiple stakeholders. Total value created and distributed during the year are given below:

Value Addition and Distribution

For the year ended 31 December	2013		2012	
	LKR mn	%	LKR mn	%
Values Added				
Income from banking services	23,556		19,448	
Cost of services	(15,858)		(13,038)	
Value added by banking services	7,698		6,410	
Non-banking income	6,100		754	
Loan losses and provisions/impairments	(1,238)		(106)	
Total value added	12,560		7,058	
Value Distributed				
To employees				
Salaries and other benefits	2,389	19	2,173	31
To providers of capital				
Dividend to shareholders	3,222		657	
Interest to debenture holders	95		–	
Total to providers of capital	3,317	26	657	9
To Government				
Income tax	854		1,023	
VAT on financial services	911		622	
Crop Insurance Levy	77		–	
Total to Government	1,842	15	1,645	23
For expansion and growth				
Retained profit	4,501		2,267	
Depreciation/amortization	302		265	
Deferred taxation	194		38	
Total for expansion and growth	4,997	40	2,570	36
To community				
Donations	14	–	13	1
Total value distributed	12,560	100	7,058	100

Economic Value Added (EVA)

One of the key objectives of the Bank's strategy is to maximize shareholder's wealth through economic value creation. Results achieved in 2013 and 2012 are tabulated below:

For the year ended 31 December	2013 LKR mn	2012 LKR mn
Invested Equity		
Shareholders' funds	19,620,478	14,942,401
Add: Allowance for impairment charges	4,378,973	2,971,622
Total	23,999,451	17,914,023
Earnings		
Profit after tax and dividend on preference shares	7,723,236	2,923,958
Add: Impairment provisions and other losses	1,238,202	106,112
Less: loan losses written off	(76,246)	(66,769)
Total	8,885,192	2,963,300
Cost of equity (Based on 12 months weighted average T-bill rate plus 2% for the risk premium)	13%	14%
Cost of average equity	3,119,929	2,507,963
Economic value added	5,765,263	455,337

Contribution by Business Units

The discussion thus far looked at the Bank and the Group as a whole in creating and deriving value. In this section we will drill down further and review the financial performance of the Bank's principal lines of businesses - both core banking and capital markets operations - from a financial capital formation context. These same operations create and deliver value to stakeholders, particularly customers and society. Such aspects are discussed in the section that begins on pages 55 to 75.

Corporate Banking

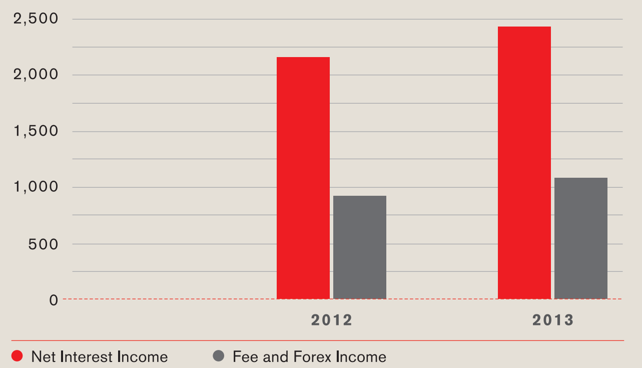
The Bank's corporate banking business focuses on two areas, namely, Commercial Banking and Project & Infrastructure Financing (PIF). Since the acquisition of the Sri Lanka operations of ABN AMRO Bank in 2001, the commercial banking segment has grown at a rapid pace and has become a significant solution provider for working capital needs of large and middle market businesses in the country. The PIF Unit with its broad experience in all industry segments spanning a period exceeding three decades, finances large scale long-term projects. These two business units together provide a nexus of financial solutions, effectively addressing the short-term and the long-term needs of the large and middle market customers.

Performance of the Commercial Banking Unit

Well equipped with a full suite of commercial banking products, the Bank provides seamless financial and banking solutions to its existing customer portfolio while aggressively marketing for prospective new clients.

Steady growth was achieved on key performance indicators such as Net Interest Income (NII) and Fee and Forex Income to support Core Banking Revenue while asset and liability growth were prudently managed.

Commercial Banking Business Performance [LKR mn]



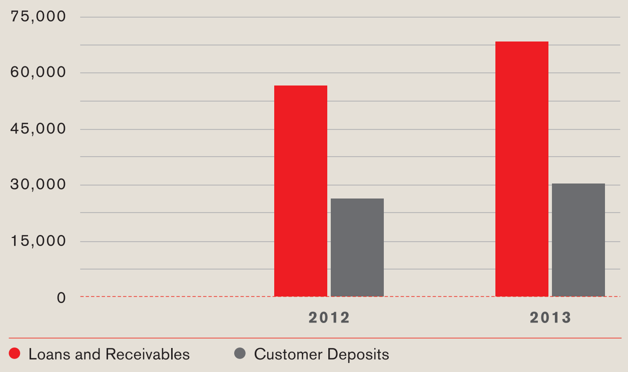
Although the Central Bank of Sri Lanka continued with its relaxed monetary policy stance, the control on imports continued in order to reduce the trade account deficit. This coupled with the moderate growth in exports contributed to the low volumes of the country's external trade. In addition, despite the reduction in interest rates during the year, credit demand from the private sector was moderate and competition for this limited credit was enormous, with a corresponding pressure on the overall net interest margins. However, a focused and professional business approach ensured the continued growth in the NII, Fee and Forex Income. A key ingredient for success is our strong relationship management skills, which ensured the continuous flow of business from a loyal and growing customer base.

The Commercial Banking Unit's asset portfolio grew by 21% despite the challenges faced during 2013. This was mainly due to the implementation of the focused asset growth strategies coupled with the aggressive customer acquisition drive carried throughout the year. The trade finance volumes of the Business Unit continued to be maintained despite the reduction in the overall trade volumes of the country.

The liability base of the Business Unit grew by 15% in 2013, driven by the successful strategy of rolling out cash management solutions to large local corporates and middle market businesses. The Current Accounts and Savings Account (CASA) portfolio of the Business Unit was 34% in 2013 (2012 - 28%) and has contributed to the reduction to the overall cost of funds of the Bank.

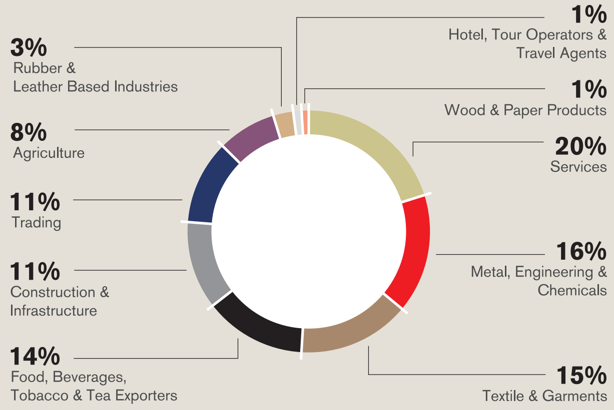
Commercial Banking

Commercial Banking Portfolio [LKR mn]



The Commercial Banking Unit continues to focus on the core sectors aligning itself to the overall economic strategy of the country. The sectoral composition of the asset portfolio is given below:

Sectoral Composition of the Commercial Banking Asset Portfolio - 2013



Portfolio Quality

The economic pressures experienced locally and globally impacted overall businesses in the country. This led to an increase in the credit terms extended by both export and domestic businesses.

The Commercial Banking Unit manages its non-performing loan portfolio through its excellent credit origination methods followed throughout the years and the proactive credit administration through the well-systemized early warning mechanism. The strong risk management system in place will ensure that a high quality portfolio is maintained amidst the aggressive search for business volumes.

The Future

Taking into account the country's economic strategy of positioning Sri Lanka as the business hub in the region, the Business Unit is geared to exploit every opportunity which will be offered. The five hubs namely maritime, aviation, commercial, tourism, knowledge and energy present many opportunities and the Business Unit expects to play a pivotal role in structuring financial solutions for local and overseas businesses which would be operating in and around these hubs. The strong foundation built by the Commercial Banking Unit is geared to cater to the various working capital needs of enterprises stemming from the overall economic strategy of the country.

The Commercial Banking Unit also acts as a link in providing customers with the full range of financial services by leveraging its close working relationships with the Group companies and the PIF Unit. The latter has been a pioneer long-term infrastructure financier in the country. This hand in hand business approach which has been followed throughout the years has catered to growth and is expected to significantly contribute in the future.

The Continuous Process Development (CPD) adopted by the transactional banking platform, whilst maintaining the ISO 9001:2008 certification for both the Trade Services and Commercial Banking Units has strengthened operational flows. In addition, the state-of-the art electronic banking solutions are expected to further add convenience to the transactional flows. The Commercial Banking Unit's expertise in trade financing along with its key strategic partners will avail unique global product offerings to Sri Lankan businesses operating locally and overseas. This will support its business strategy of 'We Follow You', a commitment given to growing businesses in the country.

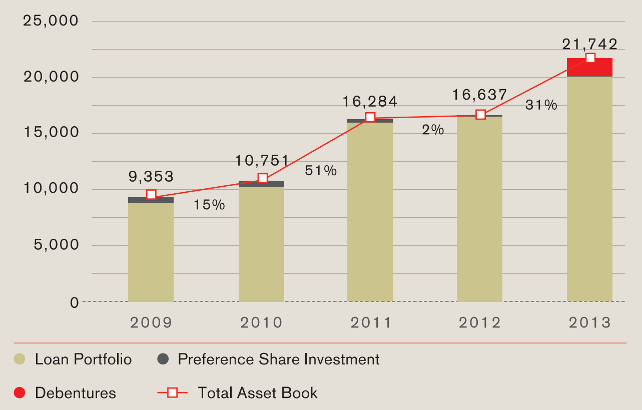
The Commercial Banking Unit will continue to pursue its quest for opportunities arising regionally and is confident of being a significant local and regional player in the coming years. This blends well with the Bank's overall strategic focus and belief that 'Size Matters'.

Performance of the Project and Infrastructure Financing (PIF) Unit

The PIF Unit maintained a prudent balance between aggressive asset growth and portfolio quality. The asset portfolio of the PIF Unit increased by 31% over the previous year.

The PIF Unit has been continuously funding the development initiatives of the country, and this intensified after the cessation of the war. Depicted below are the composition and growth of the PIF asset portfolio over the past five years.

PIF Asset Portfolio [LKR mn]



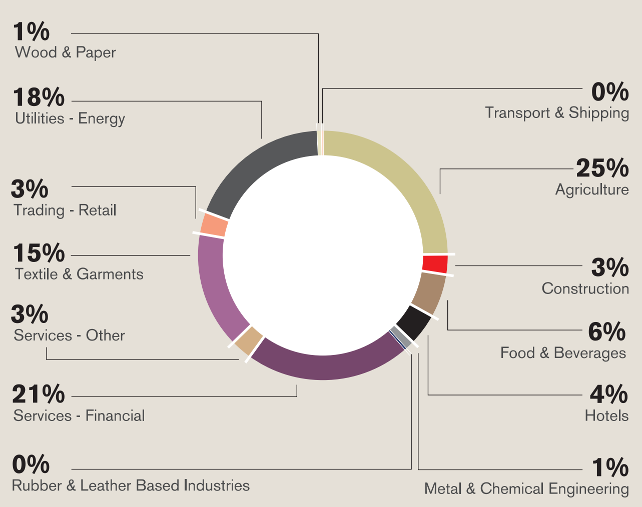
The Bank approved a large facility during the year for the purpose of financing the country's first waste to energy project. This pioneering project includes renowned multilateral agencies for both debt and equity funding. While addressing a key municipal waste management issue in an environmentally friendly manner, the 10 MW plant will add 'green energy' to the national grid when commissioned.

Going further in the energy sector, the Bank granted a facility of over USD 10 mn to set up a 52 MW thermal power plant in Bangladesh promoted by a leading Sri Lankan group of companies. Reaping the benefits of synergy and cross selling within our own Group, this facility was arranged by the investment banking arm of the Group while part of the debt funding was granted by the Bank.

Other significant projects financed include one in the food sector to export organic tea, spices and frozen food. Our presence in the Eastern Province was enhanced with a facility to manufacture polysacks, while the Bank continued to support the leisure sector with new facilities amounting to about LKR 890 mn.

The PIF Unit caters to a wide range of business sectors and depicted below is the sector wise portfolio composition as at 31 December 2013.

Sectoral Composition of the PIF Asset Portfolio - 2013



Portfolio Quality

The NPL ratio of the PIF Unit stands at 0.7% by end 2013 compared with 2012. Whilst the asset quality of the PIF Unit is backed by strong risk management and stringent recovery process, the recovery of a long outstanding loan which was jointly financed with few other banks was also a contributor towards managing the NPL ratio.

The Future

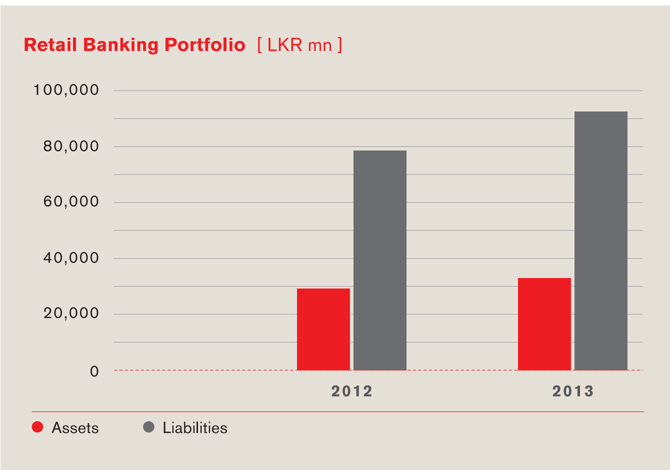
the strategy of the PIF Unit would be to take the leadership role in financing major projects in available opportunities using the strong balance sheet and unique pool of expertise developed and preserved over the years on project finance. The PIF Unit envisages good project financing prospects in sectors such as tourism, construction, power and energy in the years to come. With opportunities also appearing in regional economies, it is expected that project and infrastructure financing, will increase its impact on the Bank's balance sheet from the present 15% to around 17% of total assets in the next five years. In addition, intra-group opportunities for cross selling commercial banking and investment banking products and services will also gain momentum.

Performance of the Retail Banking Unit

2013 was a busy year for the Retail Banking Unit of the Bank, with several new initiatives being undertaken to boost the asset and liability portfolios. The Bank continued its significant presence in the retail arena within the industry, during the year through its rich assortment of asset and liability products, reaching out with abundance of convenience and novelty, unveiling a unique retail banking experience to the Sri Lankan retail clientele. Retail banking remains important also become our definition of development includes developing the individual citizen(s) in Sri Lanka and provide solutions as their aspirations in terms of home ownership, vehicle ownership, long-term savings or entrepreneurship.

The retail banking portfolio encompasses a wide range of products including deposit products tailored to suit individual investment needs, conveniently processed loans and receivables (housing, personal, hassle free auto finance and leasing solutions etc.), remittances and bancassurance.

The assets and liabilities of the Retail Banking Unit grew by 13% and 18% year on year respectively, while continuing to strengthen the overall performance of the Bank.



Emphasizing on the need to inculcate the savings habit amongst Sri Lankans, the operationalization of the high interest yielding deposit product NDB Real Saver was given prominence during the year. It drew great enthusiasm and interest amongst all segments of the Sri Lankan society.

The successful blend of process improvement and product innovation prompted the introduction of 3-hour personal loans, which enabled eligible clients to obtain a Dream maker Personal Loan within three hours.

Portfolio Quality

Amidst a challenging environment for loan recoveries in the retail segment of the industry, the Retail Banking Unit was able to restrict its NPL ratio to 2.9% which was well below the industry norms.

The Future

The Retail Banking Unit is well aligned with the overall five year strategy of the Bank and positioned to exploit new opportunities that unfold in the industry in the future. It has got the right mix and quantum of skills and potential of an experienced pool of dedicated staff.

The Unit also has a line of exciting new innovations for its target customer segments, including the salaried customers. The new products will encompass not only the financial needs of individuals but also environmental sustainability.

Performance of the SME Banking Unit

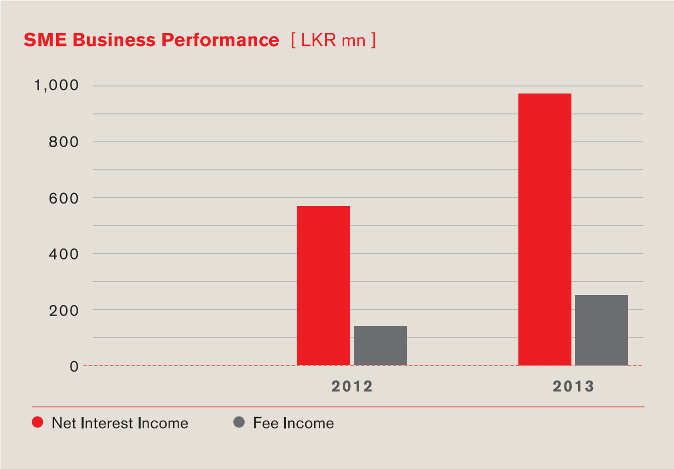
As a pioneer of Small and Medium Enterprises (SME) financing in Sri Lanka with a history spanning over 35 years, the Bank is of firm conviction that a culture of enterprise is key to sustainable development. Transforming from a development bank catering to the long-term financial needs of entrepreneurs, the Bank today is a universal bank catering to the wide and varied needs of small and medium entrepreneurs with a range of products and service offerings.

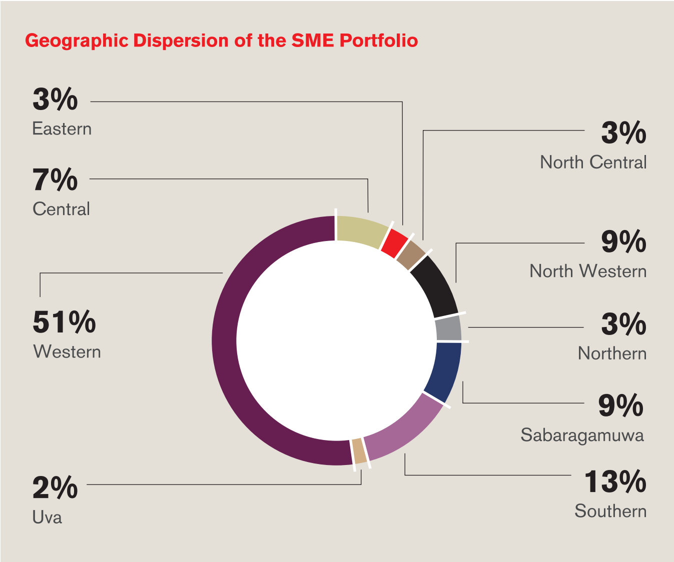
During the year, the SME Banking Unit financed over 3,000 ventures and created over a 30,000 direct and indirect employment opportunities island-wide.

With its traditional development orientation, the Bank offers unique products and services dedicated to SME clients. They range from traditional long/short-term lending instruments to more specific products tailor-made to finance the identified needs of industries. For example, our Tea Manufacturer Financing Programme originated at grass roots level to address the unique working capital needs of small scale tea manufacturers.

The Bank's SME lending has been on a continuous upward trend, reflecting the Bank's continued commitment to this sector. As at end 2013, the Bank had an overall SME loan portfolio of LKR 15,469 mn with an average SME loan size of LKR 1.8 mn.

The performance of the SME Banking Unit is depicted below:





Asset Quality

The NPL ratio was 4.94% as at end of 2013 compared with 2.2% as at end of 2012, which is a close replication of the NPL levels of the SME industry.

The Future

Supporting the growth of SME continues to be a high priority for the Bank, which aligns well with national priorities. With emphasis on the SME sector in the recent Government Budget and the strategic focus on the five-hub concept in the country's Development Road Map, there will be a several opportunities to grow the micro and SME sectors in all geographic regions. The proposed mega investments in the infrastructure segment too would undoubtedly cast a trickle-down effect on the small and medium industries, thus opening up new avenues of opportunity.

Amongst new initiatives planned, the most ambitious is the national campaign titled 'Cinnamon to the World' where the Bank would pioneer a giant national initiative that aims to empower and encourage the many stakeholders of the industry to propel the Sri Lankan cinnamon industry growth: while helping 'Ceylon Cinnamon' achieve recognition as an international brand. Such initiatives would be complementary to the Bank's customary role of providing financial assistance to the entire value chain associated with the industry

Exploiting the latest developments in information technology, the Bank has ambitious plans to revamp the SME sector with tech edge cash management products and trade service offerings which would offer unparalleled opportunities to this vital sector. While addressing the financial needs of the SME sector, the Bank will continue its role as a forerunner in dissemination of knowledge and expertise to this sector.

Reaffirming its commitment to uplift the service standards of the Micro and SME sectors, the Bank will further enhance the Mobile Point of Sale (MPOS) initiative to empower Micro/SME business entities to maximize their sales opportunities through the usage of debit/credit cards as opposed to cash transactions.

Treasury Services

Treasury plays an important role in striking the right balance between interest rate risk, liquidity risk and foreign exchange risk within predetermined parameters whilst generating profits through its operations. In addition, it carries out inter-bank operations to manage the Bank's proprietary trading business, being a direct customer contact point and a front line service provider.

Foreign Exchange Trading, Sales, Fixed Income Securities and Asset and Liability Management operations form the core arms of Treasury operations. The services of the business unit are extended to the Bank's corporate clientele, private and institutional investors, financial institutes and a wide range of other exchange market participants including individuals.

FX spot and forward contracts, FX swaps, dual currency deposits and FX options are the key foreign exchange products offered through Treasury, while Government debt sales, repurchase/reverse repurchase contracts and corporate debt securities comprise the debt securities products. Interest rate swaps and currency swaps are also offered as hedging instruments, in addition to tailor-made products.

Performance of Treasury Services

The Bank's Treasury was well-poised throughout the year to face evolving market situations and improve its internal objectives on profitability and prudent risk levels.

Enhanced involvement in sales, structuring, market-making and trading across a broad range of financial products including foreign exchange, interest rate debt and other structured derivatives were key to complete a successful year. The foreign exchange desk focused on forward contracts, USD/LKR swaps, dual currency deposits, and plain vanilla options to achieve its revenue while debt trading focused primarily on Government Security Trading. Income reflected in Treasury relates only to trading, market-making, risk-warehousing and investment activities. The Foreign Exchange (FX) and Option Desks in synchronized formation presented enhanced products to clients in both ends of the spectrum, amidst a restrictive trading environment in the market compared to 2012. The FX sales volumes grew by 25% during the year while increasing the market share of the existing client base. The total FX revenue recorded was LKR 954 mn for 2013.

Treasury helped draw in new customers by providing advisory services on market movements and through competitive pricing, significantly improving business volumes. The unit was also very active in developing client relationships. Treasury sales continued its collaborations with Corporate Banking Unit to deliver tailor-made solutions to satisfy the ever evolving needs of the market, affirming its commitment to customer service excellence.

The Treasury also continued its active and strategic involvement in the Repurchase and Reverse Repurchase Markets and the Secondary Government Debt Market. Debt trading yielded a healthy LKR 213 mn return, largely supported by a roller coaster secondary market yield curve and easing monetary policy.

Asset and Liability Management (ALM)

Further enhancement of managing and mitigating balance sheet risk through ALM was achieved in 2013. The groundwork for such stringent ALM processes was done in the year 2012 with the establishment of a dedicated ALM Unit. Enhanced understanding of the balance sheet gaps, detailed MIS analysis and advanced risk management techniques were explored to further the role of ALM, which in turn yielded LKR 222 mn in profits for 2013.

Asset and Liability Management Committee (ALCO)

Treasury acts as the key information provider to the ALCO members on interest and exchange rate updates and other macroeconomic developments. ALCO in turn sets prudent parameters for the management of maturity mismatch risks in the Statement of Financial Position and also sets product transfer pricing rates, taking into consideration the prevailing market conditions. The ALCO process ensures that various internal business units are made aware of any balance sheet and funding issues faced by the NDB Group. This promotes consensus in the process of allocating available resources to various lines of business.

Treasury spearheads the fund management of the Bank. The funding requirements of all business lines including Corporate, Retail and SME Banking are assessed and appropriate funding mechanisms are tabled at ALCO for discussion. ALCO decisions are then executed within the approved risk parameters of the Group. The funding and gapping process is a key element of the Net Interest Income component and is managed appropriately at ALM under advice to ALCO.

The Future

With anticipated contained inflation and sustained market liquidity, the yield curve is expected to hover or dip marginally during the first half of 2014. Interest rates are expected to remain at the current levels until such time the economy experiences accelerated credit growth in the private sector. Inflationary pressure will also weigh heavily in maintaining the yield curve at the current levels.

A stable Sri Lankan rupee is envisaged for much of 2014 with the budgeted inflows, and depreciation is expected to be contained well within the policy framework of maximum 5%.

Amidst such anticipations on the macro indicators, the Bank's Treasury aspires to be 'The Most Preferred Treasury Solutions Provider Amongst Banks'. Aligning towards this endeavour, Treasury will maintain continued engagement with other business units and all customers of the Bank, not restricting such engagement to corporate sales alone. Treasury will diversify and broaden its product range, enabling the Bank to capture wider segments of the market.

Treasury will also focus on increasing the efficiency in managing interest rate risk, liquidity risk and foreign exchange risk through efficient balance sheet management. The processes and policies in this regard will be continuously updated to meet global standards and best practice.

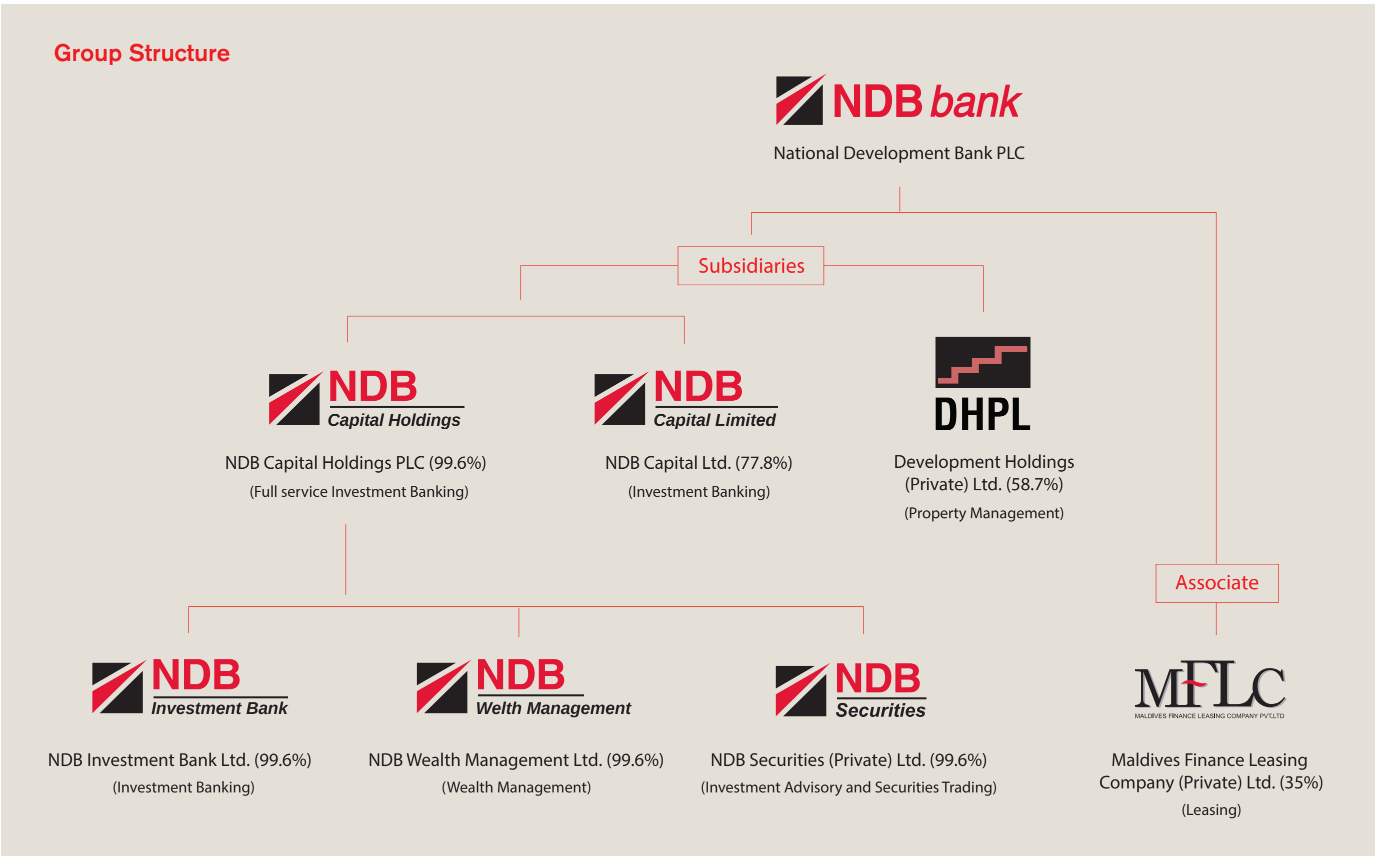
Treasury also envisages engaging with Group companies to promote advisory services and distribution channels. These companies reach a broad-base of customers which provide the Bank with solid ground for cross selling opportunities. Efforts are already underway in Treasury to promote holistic Treasury solutions, customized and specialized to suit varied client segments and increase the awareness of the same. The ultimate objectives of these efforts are to enable wider sales and volume growth of Treasury operations while delivering enhanced customer satisfaction.

Performance of Group Companies

The Group marks its presence in the industry not purely by the size it has grown to, but also by the multiple segments of banking and financial services that it offers, bringing in convenience to varied groups of customers. The Group has established itself as the best financial conglomerate in the country, with commercial banking, wealth management, investment banking, investment advisory and securities trading and property management shaping its robust structure. The Group is the only one of its kind, which provides a one stop solution for investors/customers seeking a wide range of related services under one roof.

Group Structure

The shareholding structure of the Group Companies and their principal business activities are as follows:



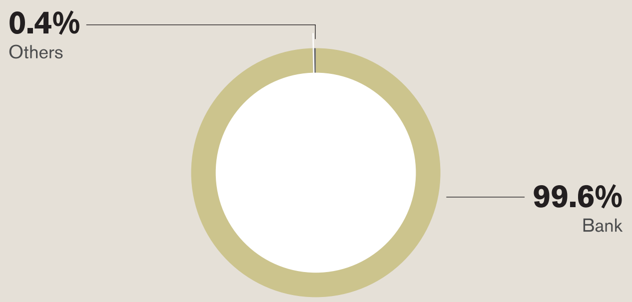
Here is how the subsidiaries were aligned towards the overall strategy of the Bank, and helped the Group to grow to a size that truly matters.

NDB Capital Holdings PLC

NDB Group's investment	LKR 1,748 mn
Profit after tax (Group)	LKR 932 mn
Net assets (Group)	LKR 5,852 mn

Bank's direct holding - 99.6%

NDB Capital Holdings PLC



NDB Capital Holdings PLC (NCAP), formerly Capital Development and Investment Company PLC (CDIC), was formed in 1983 as a venture capital company and was subsequently listed in 1996 on the Main Board of the Colombo Stock Exchange. As a result of the internal restructuring process of the NDB Group in mid-2012, CDIC was transformed into a full service investment bank and rebranded as NDB Capital Holdings PLC.

NCAP's fee-based operations are carried out through its fully-owned subsidiaries, NDB Investment Bank Ltd. (NDBIB), NDB Wealth Management Ltd. (NWM) and NDB Securities (Pvt) Ltd. (NDBS). NDBIB, the flagship company of the Investment Banking Cluster, is the market leader in both debt and equity structuring and placements. NCAP provides wealth management services to clients through NWM, the largest private sector wealth management company in Sri Lanka. NCAP's stock broking operations are through NDBS, a full-member firm of the Colombo Stock Exchange (CSE) which offers high-end research and brokerage services to both Sri Lankan and foreign investors in the Colombo Bourse. With its unique portfolio of services comprising investment banking, wealth management and stock brokering, NCAP plans to cater to the growing needs of the Sri Lankan corporate sector and the capital markets.

Business Performance

NCAP together with its subsidiaries (collectively referred to as 'Investment Banking Cluster') recorded a remarkable 2013 despite the challenging capital market conditions which prevailed during the year. Stemming from the restructuring carried out within the NDB Group in 2012, NCAP further consolidated its position as the country's leading full-service investment bank.

Year 2013 was highly eventful to NCAP due to several reasons. During the year, NCAP took a giant step towards materializing its plans to venture into Private Equity (PE) fund management in partnership with Zephyr Management LP (Zephyr), a New York-based leading emerging market PE fund manager. This completes the missing link in the product offering portfolio of NDB Group which makes it a truly diversified financial services conglomerate. NCAP and Zephyr entered into an agreement to work together, subject to obtaining all regulatory approvals, to set up a PE management company and eventually launch Sri Lanka's first dedicated country PE Fund.

Also in 2013, NCAP conducted the largest share repurchases in the history of the country by returning approximately LKR 6 bn to its shareholders. Additionally, NCAP paid a handsome dividend amounting to over LKR 700 mn during the year.

Being at the forefront of a knowledge driven industry, NCAP and its group has realized the value added through human capital development. The Investment Banking Cluster engaged in staff training programmes and overseas training for selected members. Based on the belief that access to information, knowledge sharing and a good education promotes national harmony, NCAP initiated a scholarship scheme for needy university students as a part of its CSR activities.

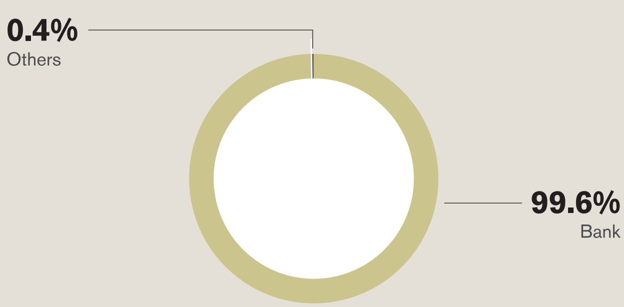
The Future

NCAP is determined to continue its successful business performance in the coming year as well. A priority activity for 2014 would be to float Sri Lanka's first dedicated private equity country fund (subject to receiving all regulatory approvals). In addition, NCAP plans to improve synergies with the Investment Banking Cluster and with the Bank's core banking operations in 2014.

NDB Investment Bank Ltd.

NDB Group's investment	LKR 290 mn
Profit after tax	LKR 170 mn
Net assets	LKR 499 mn

Bank's indirect holding - 99.6%



NDB Investment Bank Ltd. (NDBIB) commenced operations in 1997 as a joint venture between National Development Bank PLC and Citibank N.A. In year 2010, NDBIB became a fully owned subsidiary of the Bank. Subsequently, NDBIB became a fully-owned subsidiary of NDB Capital Holdings PLC (NCAP) as a planned part of restructuring in 2012 and acts as the fee-based investment banking arm of NDB Group.

Over the years, NDBIB, has been recognized as the market leader for both Debt and Equity structuring and placement in the country. NDBIB, through its two divisions, Corporate Advisory and Debt and Equity, offers a range of products and services in the investment banking sector.

Business Performance

NDBIB continued to strive towards providing best-in-class advice and impeccable execution on the most complex transactions across products. Its efforts were amply recognized through the numerous accolades awarded for its excellence. (Refer pages 76 and 77 for details).

NDBIB has positioned itself to be the leading trusted financial advisor to its clients, which include corporations and financial institutions providing unsurpassed financial advisory and capital raising services. At the crux of its efforts in delivering first class services and retaining best talent in the industry, NDBIB continuously engaged in staff training and human resource development initiatives during the year.

A noteworthy performance was recorded by NDBIB and rose to unprecedented heights raising a total LKR 42 bn in debt and exploring new avenues in fund raising in 2013. Revenues from debt raising were significantly higher compared to 2012 fuelled by the tax concession introduced by the Government on quoted debenture issues. Debt Division thrived on listed debenture issues during 2013 with this product contributing to approximately 70% of the total funds raised. Through its efforts, NDBIB managed to capture a larger market share in Debenture issues amounting to over 40% in 2013. Two prominent Debenture issues totalling LKR 15 bn were secured from the banking and finance sector with one being the issue carried out for its ultimate parent company, National Development Bank PLC. The Debt Division of NDBIB raised approximately LKR 40 bn via debenture issues, securitizations, USD denominated term loans and commercial papers.

Corporate advisory activities were more challenging during the year under review. NDBIB having being considered as a longstanding market leader in Mergers and Acquisitions (M&A) space successfully advised on an M&A transaction in the manufacturing sector amounting to LKR 1.7 bn and managed the subsequent Mandatory and Voluntary Offers arising therefrom. Further, NDBIB advised on the share repurchase amounting to approximately LKR 6 bn for its parent company, NDB Capital Holdings PLC. Numerous valuation assignments, restructuring and advisory transactions were carried out for firms in the leisure, power, financial services, transportation and manufacturing sectors. Moreover, Corporate Advisory Division too expanded its client base to foreign power companies, business processes outsourcing entities and trading businesses.

Revenue from equity placements were however, lower compared with 2012, primarily reflecting a decline in the IPO and equity related market. NDBIB intends to launch several IPO transactions in 2014 when the sentiments in the equity market stabilize. In addition, NDBIB is engaged in fund raising for a larger scale infrastructure project showing a promising performance for the next year.

The Future

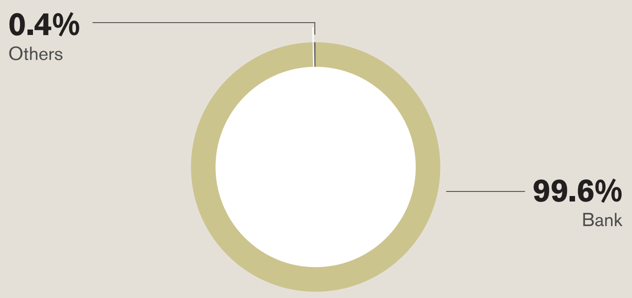
NDBIB's plan for 2013 was ambitious and the Company envisages resurgence in the Sri Lankan capital markets for 2014. The investor sentiments at the equity markets are expected to bounce back to its past glory with the debt capital markets maintaining its stability. NDBIB is well poised to enjoy a fruitful year ahead, with a healthy portfolio of debt and equity deals already in the pipeline. Corporate Advisory Division has managed to secure mandates for large scale equity raisings and loan syndications which are expected to be executed successfully during 2014. The Debt Division intends to ride on the success it had in 2013 and maintain its superior position in the market.

NDB Wealth Management Ltd.

NDB Group's investment	LKR 412 mn
Profit after tax	LKR 87 mn
Net assets	LKR 361 mn

Bank's indirect holding - 99.6%

NDB Wealth Management Ltd.



NDB Wealth Management Limited (NWM) began its journey in 1992 as a Securities & Exchange Commission registered licensed Unit Trust Management Company and has now extended its services as a licensed Investment Manager. The Company probably is the most successful private sector institutional and retail Asset Manager with representative portfolios from Provident Funds, Insurance Companies, Banks and Non-Governmental Agencies and Unit Trusts.

Business Performance

NWM is the largest private sector wealth management company in Sri Lanka, with over 20 years of experience and over LKR 65 bn of funds under management. NWM has over 5,000 clients in their roster, large and small, institutional and mass market. NWM has a highly qualified and experienced team of professionals which has created an unparalleled reputation in the Sri Lankan market.

NWM's comprehensive product offering encompasses three distinct services - Discretionary Portfolio Management, Private Wealth Management, and NDB Wealth Funds. They are each clearly defined to support the varying wealth planning needs of the market today and are in a unique position to offer a series of wealth plans which will cover needs from children's education, retirement savings and retirement income. The wealth planning service is further enhanced by combining it with the Bank's core operations which is unique to the NDB Group. As a result, 'Privilege Select', the exclusive solution for discerning clients, is now presented with the unique opportunity of combining world class banking from the Bank, with a comprehensive wealth planning solution from NWM.

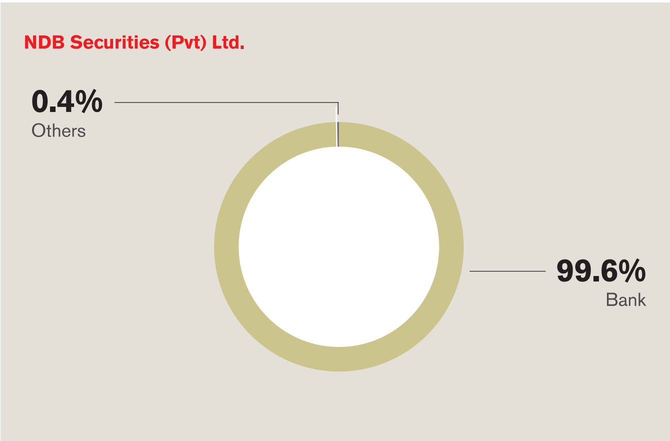
NWM specializes in the management of Unit Trusts or 'pooled investments' and these are marketed coupled with expert advice, to individuals as a convenient and affordable means of enhancing returns on their savings.

The Future

Since 2009 the demand for Unit Trusts managed by NWM has continued to increase and we expect the trend to continue in to the future. In 2014, NWM will not only strive to deliver the good returns to its clients but also expects to consolidate its position as the leader in the Wealth Management business in Sri Lanka.

NDB Securities (Pvt) Ltd.

NDB Group's investment	LKR 292 mn
Profit after tax	LKR 3 mn
Net assets	LKR 287 mn
Bank's direct holding - 99.6%	



Established in 1992, NDB Securities (Pvt) Ltd. (NDBS) is one of the pioneering and leading stock brokering companies in the country. NDBS, a licensed stockbroker, is a full member of the Colombo Stock Exchange (CSE) which provides a variety of investment advisory-related services on both listed debt and equity securities.

NDBS has been an important player in the CSE over the years. It was the lead stockbroker in some of the largest IPOs in the CSE and introduced a number of local and foreign high net-worth individuals and institutional investors to the market. NDBS facilitated many placements of strategic stakes of listed companies. Despite tough competition by twenty-eight licensed stockbrokers and the adverse market conditions which prevailed in 2013, NDBS managed to increase its market share while adhering to the strictest ethical guidelines.

NDBS initially catered largely to the institutional segment. However, with the increasing participation of retail investors in the market, NDBS has capitalized on the growing retail segment by developing the infrastructure required to handle a large retail client base.

Business Performance

2013 was a tough year for NDBS. The upbeat movement witnessed over early parts of 2013 sustained till mid 2013 with All Share Price Index (ASPI) nearing the 6,500 level amidst subdued activity levels. Net foreign inflow to the bourse topped LKR 22.3 bn during the year, lifting investor confidence and market sentiments. However, market turnover levels remained subdued with the absence of significant retail activity.

In order to exploit dynamic opportunities and not limiting itself to equity market activities, NDBS rebranded itself as NDB Securities (Pvt) Ltd. from NDB Stockbrokers (Pvt) Ltd. This rebranding was in line with the Group's efforts to grow through integration and leverage on Group dynamics. NDBS, as the marketing arm of the investment banking cluster offers one of the broadest product portfolios by a single financial institution in Sri Lanka.

To capitalize on the diverse product range and superior client service, NDBS expanded its marketing team with the intent of expanding its services to cater to the requirements of the high net worth clientele. Furthermore, NDBS took steps to expand its client base locally and internationally through the expansion of the branch network and appointment of foreign agents. Currently NDBS has 8 branches outside Colombo tapping into regional clientele and providing them with advice and opportunity to invest in more attractive securities. Thus, NDBS which was formerly focused on institutional clientele has successfully transformed itself to a broking entity with significant exposure to high net worth and retail individuals.

NDBS Research has continued to support sales efforts in client advisory with stock recommendations and market analysis. Expanding its client services, NDBS became one of the first to provide trilingual research services. Furthermore, according to Bloomberg, in 2012 and 2013, NDBS Research had the highest investment returns for its stock recommendations amongst the analysts covering the CSE.

2013 also saw NDBS upgrading its IT systems from a legacy system to a core system. This will enable NDBS to introduce a wide variety of new services improving clientele accessibility and convenience. The improvements to the IT infrastructure will continue into 2014 including novel services targeted at client's evolving needs.

The Future

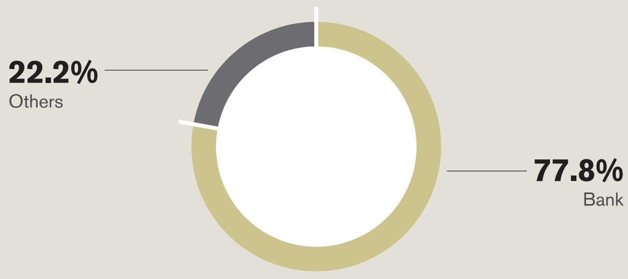
NDBS is amongst the top stockbrokers at the CSE and has focused its efforts to improve client reach and services over the past few years. NDBS hopes to expand its retail base by leveraging on its strong branch network. Continuous technology upgrades are underway to ensure seamless connectivity and systems efficiency for its clients. Selected strategies are launched targeting a high net worth and foreign clientele while ensuring a portfolio approach to suit the risk return profile of the client. This has put NDBS in a position to capitalize on the growing Sri Lankan capital markets over the medium term and establish itself as a total financial solutions provider.

NDB Capital Ltd., Bangladesh

NDB Group's investment	LKR 131 mn
Profit after tax	LKR 6 mn
Net assets	LKR 78 mn

Bank's direct holding - 77.8%

NDB Capital Ltd. Bangladesh



NDB Capital Ltd. (NDB Capital), with its diversified and experienced professionals has been offering high-end investment banking services to the Bangladeshi capital market since 2009.

Business Performance

2013 was a challenging, yet successful year for NDB Capital. The stock market of Bangladesh finally demonstrated some stability after almost two and a half years. The liquidity in the banking system too eased off creating windows of opportunities for debt raising which helped NDB Capital to successfully conclude three major deals amounting to approximately USD 86 mn.

NDB Capital closed a BDT 2,000 mn (approximately USD 25 mn) fund raising for a leading player in the power sector in Bangladesh via a preference share issue. In addition, NDB Capital raised approximately USD 36 mn for a power project (in Bangladesh) of a leading Sri Lankan power producer via a combination of convertible preference shares and a USD term loan. NDB Capital managed to tap in to the Group synergies via raising part of the finance from the Sri Lankan banks. In addition, NDB Capital managed to raise BDT 2,000 mn (approximately USD 25 mn) for the largest steel manufacturer in Bangladesh to finance a greenfield project for a capacity expansion. In order to minimize the greenfield risk and to achieve the desired credit rating, NDB Capital structured a unique convertible corporate bond coupled with a put option which was well taken-up by the market. It is important to note that NDB Capital managed to raise funding at very competitive rates leveraging the strong structuring skills of NDB Group, a good example of Group synergies. In addition, NDB Capital together with NDBIB presently is in the process of raising further USD 36 mn for another power project in Bangladesh. NDB Capital also managed to obtain a mandate from a UAE-based investment bank to provide advisory services. This advisory mandate would enhance the international exposure of the team of NDB Capital.

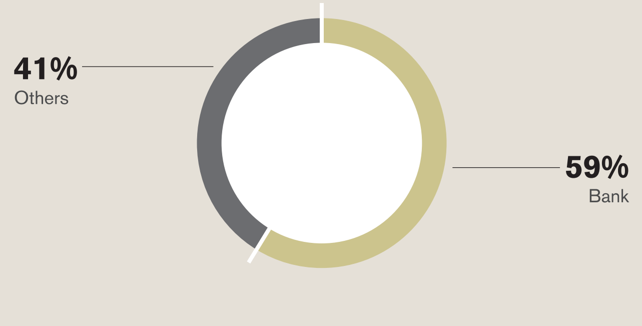
The Future

NDB Capital has been able to enhance the brand image in the Bangladesh market, though successful completion of deals. This has helped to ensure a steady deal flow for 2014 which includes a mandate to carry out the first ever Islamic Bond (Sukuk) in the country's capital market. Building on its successful track record in 2013 and strong deal pipeline, NDB Capital plans to establish itself as the leading investment bank in Bangladesh.

Development Holdings (Private) Ltd.

NDB Group's investment	LKR 228 mn
Profit after tax	LKR 193 mn
Net assets	LKR 1,946 mn

Bank's direct holding - 58.7%



Development Holdings (Private) Ltd. (DHPL) is managed by the Bank and the Sri Lanka Export Development Board (EDB). DHPL is engaged in the business of renting out a 15-storied high rise commercial property in the heart of Colombo, popularly known as the NDB – EDB tower situated in Navam Mawatha, Colombo 02.

Sri Lanka's iconic representation in the global export market, Sri Lanka Export Development Board is housed in the NDB-EDB tower, along with many other renowned local and global institutions. Amongst them are the International Finance Corporation, Japan International Corporation Agency (JICA), Microsoft Corporation Sri Lanka and NDB Wealth Management Ltd. They largely benefit from the locational convenience of the Tower. The variety of these tenants occupying the building renders it to be a mini-business hub of itself.

The NDB-EDB Tower is a state of the art modern commercial property, with many facilities. It has a fully-fledged auditorium with seating capacity for over 250 people. This auditorium is hired out for various business forums, seminars etc, right throughout the year and is one of the best in kind in the capital city. The NDB-EDB Tower provides ample and convenient parking space, with three floors of the building allocated for parking. The Tower also has a cafeteria which can accommodate 200 people at a time. A balcony lobby area is available, with the magnificent view of the Beira Lake and this lobby area is ideal for hosting events for small gatherings.

The NDB-EDB Tower is treated as an investment property, and is revalued in accordance with the Sri Lanka Accounting Standards. Accordingly, the profits of the Company also include revaluation surpluses of the building.

The Future

DHPL intends to continue the provision of a strategic location for the variety of its tenants. The property is timely upgraded to maintain its stature and prominence.

Institutional Capital

We will next discuss the second dimension of internal capital formation, namely, institutional capital.

Institutional capital covers a broad spectrum of non-financial components that are, like financial capital, internal to the Bank and the Group. As discussed previously on page 30 they are intangibles and comprise intellectual property, organizational knowledge, systems, processes, brand value, corporate culture, business ethics and integrity and so on. They are akin to 'hygiene factors' - aspects one often takes for granted until something goes wrong!

The paragraphs that follow touch on the key aspects of the Bank's institutional capital.

Organizational Knowledge

Set up as a specialized development finance institution in 1979, subsequently transformed into a licensed commercial bank in 2005, the Bank today leads a formidable universal banking Group that draws on past experience, new thinking and synergies in a resurgent economic landscape. In addition to individual training and development of employees, the Bank also has in place several mechanisms to promote institutional learning, which in turn, duly supported by consolidated strategic functions such as human resources, information technology and finance uniquely position the Group as 'The Knowledge Bank'.

Brand Value

Placing emphasis on personifying the Bank's value proposition through its brand identity, the NDB family is groomed to be the ambassador and guardian of the NDB brand. Brand building is therefore not limited to an external exercise but is given life from within; where daily operations, customer service proposition, front line servicing as well as products and services of the Bank are aligned to embody the distinct identity of the NDB brand.

The Bank implemented an integrated marketing communication strategy and conducted numerous brand building activities during the year to reinforce its position as an innovative, service-oriented banking conglomerate offering universal financial services under one roof. Key activities included partnering the AmCham - RCGC Gold Tournament, sponsorship of the APEA Sri Lanka Awards, De Lanerolle Brothers in Concert, National Chamber of Exporters Awards 2013 and sponsorship of the Commonwealth Festival Orchestra for Commonwealth Heads of Government Meeting 2013.

A customised research project was also undertaken during the year to revalidate the relevance of the Bank's brand values to stakeholders; with a progressive vision to further enhance the brand experience in time to come.

Online presence and the social media: The Bank relaunched its corporate website during the year with several new features. We also entered the social media platform with the launch of the NDB Facebook fan page. The Bank will cautiously further this engagement with the online community locally and internationally to maintain an active presence in diverse social media platforms.

In store visibility and outdoor presence: Product branding, signage and merchandize at branches were better aligned with the Bank's overall brand strategy. To improve branch ambience, LED TV screens were installed within customer areas at branches to display relevant information such as interest rates, exchange rates, new product details and special notices for customers and visitors. New hoarding sites and branding space on city notice boards countrywide were also acquired for greater visibility. The NDB brand in a short period has now become one of the top twenty national brands in the country.

Business Ethics and Integrity

Sound business ethics and integrity are aspects that are well understood and reinforced in all our activities. As discussed on pages 87 to 131, several frameworks, codes and control mechanisms are in place which are reviewed from time to time and upgraded based on need. What is more, we have brought our business partners too into this circle through a Sustainable Supply Chain Management Process that takes into account an assessment of suppliers in the context of environmental, labour and social factors. The Bank is proud of its unblemished record in this sphere.

Systems and Processes

The Bank has developed several internal systems, processes and procedures over the years which are unique to the institution.

The Bank's internally developed Environmental and Social Management System (ESMS) screens all projects to be financed against related laws, regulations and norms as well as inherent risks. It includes downstream aspects during project implementation. Our ESMS meets all relevant national regulatory standards, as well as those of international lending institutions.

Targeting the SME sector, the Bank developed a Receivables Management System and a Purchase Order Management System, both of which were fully operationalized in 2013.

During the year, we revamped our staff Performance Development System with the full involvement of employees. It is a home-grown product that serves to set individual targets, to identify training and development needs, and to assess and reward performance.

With a longer term focus on staff retention, the Bank reviewed and recalibrated its Equity Linked Compensation Plan with new criteria.

Information Technology (IT)

The use of IT in the banking sector has evolved to a level where it is constantly engaged, if not challenged, in providing an array of innovative customer solutions that are convenient, informative and secure. In fact, the provision of superior IT solutions to customers is a key market differentiator for many organizations in the services sector, including banks.

Bearing these in mind, the Bank continued its IT consolidation efforts during 2013 by integrating all core banking products into a single core banking application that enables a seamless view of the entire customer portfolio. The Internet Banking interface saw many features being added, promoting high user friendliness. On security of transactions, our SMS alerts service launched last year was extended to cover ATM and POS transaction alerts as well so that customers who are registered with this service receive immediate notifications whenever their card is used.

The value created through technology is not limited to external stakeholders. Its presence and contribution is integral for the successful functioning of multiple departments in the Bank. Internal information sharing platforms have been introduced by the IT Department to enable efficient and timely distribution of information within the organization. The Bank adopts technology to make information more accessible to decision-makers, enabling them to arrive at informed decisions regardless of time or location. Key beneficiaries of such platforms are the Business Units, Risk, Management, Corporate Governance and Finance and Planning Departments. IT also facilitates the HR Department in their E-Learning system and modules. This system has become a highly efficient mode of disseminating information and improving the knowledge agility of the Bank's staff, spread across its various locations.

To address contingencies, the Bank continued its successful disaster recovery simulations several times during the year; even operating the core banking system from the disaster recovery site for three continuous weeks in one instance.

We are working on providing more digital access to our customers via virtual and mobile devices to allow them to choose when, where and how to conduct their banking business. Such 'branchless banking' operations not only offer convenience but also serve to increase financial inclusion of individuals and businesses in remote locations.

Operations

In order to cater to a bigger bank with a bigger branch network, all support functions were brought under the umbrella of operations during the year. With this initiative, operations which originally covered Central Processing, Trade Finance and Treasury Operations, now plays a bigger role with Human Resources, Administration, Branch Operations, also coming under its purview.

Two main areas coming under the Operations Department, namely Human Resource Department and Trade Finance Department, both follow international best practices and are certified for ISO 9001:2008 standards by SGS UK Ltd. With continuously monitored efficiency levels, the Operations Department has maintained high serviced standards with minimum cost. These initiatives have not only catered for the increased branch network but also helped offer extended banking hours to its valued customers. Extended full service banking hours is a unique concept for the Bank which is made possible by dedicated and committed team of professionals from the Operations Department.

The Bank intends to further improve on the service standards by closely monitoring efficiencies and implementing workflow management systems into key product processes.

The Bank set up a new unit to market trade finance products to the SME sector with services provided by the experts in the centre who are known to be among the best in the industry.

Administration Department, which is another important area under operations, is responsible in setting up of new branches, relocation and renovation and refurbishment of premises. During the year, the Administration Department supported the fast growing branch network by setting up of nine new branches. Amongst them, the highlight is the refurbishment of the state-of the-art Privilege Select floor which is designed and built to the needs of the high net worth individuals focusing on their individual needs with special emphasis of privacy.

Transactional and Institutional Banking

During the last quarter of the year, a separate unit was set up to handle Correspondent and Institutional Banking under the umbrella of Transactional and Institutional Banking. The Bank set up this dedicated Correspondent Banking Unit with the view to exploring and enhancing new relationships and, increasing international guarantee issuance. This decision has proven to be very vital in the wake of large amounts of foreign investments expected to flow into the country.

This unit is expected to contribute towards Correspondent Banking relationships with flexibility and flair for services that support the trade sector and also the infrastructure development sector, while institutional relationships are expected to provide supporting links to specific sectors/services.

A new remittance system has also been developed for purposes of harnessing the potential and growing the inward remittance business particularly remittances to accounts of Sri Lankans who are presently gainfully employed or domiciled overseas and to accounts of their kith and kin. These new relationships with Remittance Organizations are expected to materialize in 2014.

Corporate Culture

Ours is a culture moulded by the five values of the Bank, namely, Integrity, Care, Passion, Teamwork and Service. Our employees are all aligned by these core values towards a culture that facilitates superior banking services. Internally, we believe meritocracy. Each individual is respected, rewarded and recognized for the competence, capabilities and knowledge he or she exhibits and the results delivered, both individually and collectively.