

A World Class Sri Lankan Bank



t e a m w o r k s e r v i c e c a r e p a s s i o n i n t e g r i t y



A World Class



service



integrity

>> our values
teamwork
service
care
passion
integrity

teamwork



passion



care

Sri Lankan Bank

Consolidating its position as one of Sri Lanka's most successful financial conglomerates, the NDB Group synergies have been further strengthened through investment and integration; bringing together the project finance expertise of the National Development Bank covering a diverse portfolio of sectors, with the commercial banking and allied services of its Group Companies, to create a World Class Sri Lankan Bank.



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Vision and Mission

Our Vision

To be a world-class Sri Lankan Bank.

Our Mission

To be dominant in the financial services sector, creating superior long term shareholder value and contributing to economic development in Sri Lanka by exploiting regional opportunities and delivering innovative solutions, with best-in-industry service excellence, through an inspired team.

Teamwork

We will work together as a team, supporting each other, respecting every individual and drawing strength from our diversity.

At NDB we strive to provide our customers with world-class solutions. To do this effectively, we need to work together as a single cohesive team. And because we understand the need to build a strong team spirit, we are committed to learning from each other and contributing towards the growth of the Bank as a whole.

Service

We will always strive for excellence in serving our internal and external customers, through professionalism, innovation and creativity.

The Bank is confident that we now possess the skills, strategy and focus to deliver a level of service unmatched in the industry. We have also focused intensively on enhancing our customer service facilities, on training our service people, and constantly pursuing improvement.

Care

We will never lose the human touch. We will care for our colleagues, our customers, our community and our environment.

NDB operates to the highest business standards and we are committed to follow socially and environmentally responsible business practices.

We strive to offer a positive benefit to the community and the individuals in it, and we support this commitment by creating a company culture that fosters awareness and social consciousness at all times.

Passion

We will embrace challenges with passion, and aggressively pursue our goals.

We believe in what we do and how we do it. We are proud of how we have grown over the years to be a leading financial group in Sri Lanka.

We are constantly inspired to be the best in all we undertake and are committed to achieving our objectives with enthusiasm and pride.

Integrity

We believe in truth, justice and fair play, above all else.

Responsible corporate behaviour in accordance with internationally recognised principles is central to our management policy and is a key factor in the success story of the Group.

The Bank is therefore committed to conducting all its operations with honesty, integrity and transparency, maintaining respect for the rights and interests of every stakeholder.

Economic Fact Sheet

	2002	2003	2004(a) Annual estimates
OUTPUT			
GDP at current market prices (Rs bn)	1,585	1,763	1,988
Per capita GDP at market prices (Rs)	83,384	91,566	102,197
Per capita GDP at market prices (US\$)	872	949	1,011
REAL OUTPUT (Percentage change)			
GDP	4.0	5.9	5.2
Sectoral Classification of GDP			
- Agriculture	2.5	1.5	-0.5
- Industry	1.0	5.5	4.9
- Services	6.1	7.8	7.3
AGGREGATE DEMAND & SAVINGS (Percent of GDP)			
Investment	21.3	22.3	25.3
- Government	2.0	2.3	2.6
- Public Corporations	2.6	3.0	2.8
- Private	16.7	17.0	22.7
National Savings	19.7	21.6	21.4
PRICES (Percentage change)			
Colombo Consumer's Price Index (CCPI)(b) (1952 = 100)	9.6	6.3	7.6
GDP Deflator	8.4	5.0	7.2
GOVERNMENT FINANCE (Percent of GDP)			
Overall Deficit	-8.9	-8.0	-8.7
Deficit Financing	8.9	8.0	8.7
- Foreign	0.5	2.9	1.7
- Domestic	8.0	4.5	6.9
- Privatisation proceeds	0.4	0.6	0.1
Government Debt	105.4	105.9	106.4
- Foreign	45.5	47.9	48.2
- Domestic	59.8	57.9	58.2
EXTERNAL TRADE (US\$ mn)			
Exports - Total	4,699	5,133	5,564
Imports - Total	6,106	6,672	7,777
Trade Balance	-1,406	-1,539	-2,213
EXTERNAL FINANCE			
Current account balance (Percent of GDP)	-1.4	-0.6	-3.8
External assets (months of same year imports)	4.9	5.8	4.6
EXCHANGE RATES (b)			
End year			
- Rs/US\$	96.73	96.74	104.60
INTEREST RATES (percent per annum at year end)(b)			
Treasury Bills			
- 91 days	9.92	7.35	7.25
- 364 days	9.91	7.24	7.65
Repurchase rate (overnight)	9.75	7.00	7.50
Reverse repo rate (overnight)	11.75	8.50	9.00
Deposit rates -			
- Commercial banks' weighted average deposits	7.47	5.27	5.31
Lending rates -			
- Commercial banks' weighted average prime lending	12.17	9.26	10.23
CAPITAL MARKET (b)			
ASPI (1985=100)	815.1	1,062.0	1,506.9
Milanka Price Index (1998 December = 1000)	1,374.6	1,898.0	2,073.7
Market Capitalisation (Rs bn)	162.6	262.0	382.1

Source: Recent Economic Developments, Highlights of 2004 and Prospects for 2005, Central Bank of Sri Lanka, November - 2004.

(a) Provisional estimates for 2004 are based on information available as at end September 2004.

(b) Actual

AA (sri) National Rating

In September 2004 Fitch Rating Lanka Limited assigned AA (sri) national rating for the Implied Long Term Unsecured Senior Debt of National Development Bank. AA (sri) rating, indicates that there is a very low expectation of credit risks, and a very strong capacity for the timely payment of financial commitments.

	BANK			GROUP		
	2004	2003	% Change	2004	2003	% Change
(Rs mn)						
Total Income	3,539	4,897	(27.73)	5,919	6,071	(2.50)
Net Interest Income	1,177	1,717	(31.45)	2,246	2,201	2.04
Net Other Income	676	773	(12.55)	1,442	1,356	6.34
Net Income	1,853	2,489	(25.55)	3,688	3,557	3.68
Profit Before Tax	921	1,146	(19.63)	1,287	1,526	(15.66)
Profit After Tax	679	904	(24.89)	805	1,221	(34.07)
Shareholders' Funds	7,755	7,385	5.01	8,377	7,897	6.08
Total Assets	32,399	34,722	(6.69)	58,985	43,873	34.44
Total Lending Portfolio	24,435	24,325	0.45	34,335	23,654	45.16
Total Portfolio	26,103	26,459	(1.35)	38,883	26,466	46.92
Gross Dividend Proposed/Paid	323	309	4.53	323	309	4.53
Retained Profits for the year including transfer to reserves	679	904	(24.89)	703	1,123	(37.40)
(%)						
Return on Average Equity	8.98	13.06	(4.08)	8.64	15.26	(6.62)
Return on Average Assets	2.02	2.55	(0.53)	1.57	3.16	(1.59)
Capital Adequacy Tier 1	28.44	28.00	0.44	17.11	28.45	(11.34)
Tier 1 & 2	13.63	21.93	(8.30)	16.91	25.05	(8.14)
(Rs per Share of Rs 10)						
Earnings	12.64	16.81	(24.81)	13.08	20.90	(37.42)
Book Value	144.29	137.39	5.02	155.84	146.92	6.07
Dividends Proposed/Paid	6.00	5.75	4.35	6.00	5.75	4.35
(Times)						
Debt/Equity	3.04	3.49	(12.89)	4.53	3.27	38.53
Net Income/Overheads	3.16	4.51	(29.93)	1.73	2.66	(34.96)
Interest Cover	1.71	1.72	(0.58)	2.02	1.89	6.88
Debt Service Cover	2.96	3.45	(14.20)	2.77	3.21	(13.71)

Group Companies

Ayojana Fund (Private) Limited

7th Floor, McLaren's Building,
123, Bauddhaloka Mawatha, Colombo 4
Tel: +94 11 4510505

NDB's investment: Rs 0.1 mn
Profit after tax: Rs 6.4 mn
Net Assets under management: Rs 63 mn

Directors

R L Nanayakkara
G C B Wijeyesinghe
N S Welikala (appointed wef 24.05.2004)
D S P Wikramanayake
(alternate to N S Welikala appointed wef 24.05.2004)
Ms A Byworth (appointed wef 10.08.2004)
S Enderby (resigned wef 10.08.2004)
A R Gunasekara (resigned wef 24.05.2004)

 NDB 50% Aureos Capital Ltd 50%

NDB Venture Investments (Private) Limited

7th Floor, McLaren's Building,
123, Bauddhaloka Mawatha, Colombo 4
Tel: +94 11 4510505

Cost of NDB's investment: Rs 138 mn
Profit after tax: Rs 7 mn
Net Assets: Rs 224 mn

Directors

R L Nanayakkara
G C B Wijeyesinghe
N S Welikala (appointed wef 24.05.2004)
D S P Wikramanayake
(alternate to N S Welikala appointed wef 24.05.2004)
Ms A Byworth (appointed wef 10.08.2004)
A R Gunasekara (resigned wef 24.05.2004)
S Enderby (resigned wef 10.08.2004)

 NDB 61% CDC Group Plc 39%

Eagle Insurance Company Limited

Eagle House,
75, Kumaran Ratnam Road, Colombo 2
Tel: +94 11 2310300

Cost of NDB Group's investment: Rs 1,783 mn
Profit after tax: Rs 254 mn
Net assets: Rs 1,077 mn

Directors

H D S Amarasuriya
C Jayaratne
N S Welikala
D S P Wikramanayake
L de Mel
S N P Palihena
R L Juriansz
E Wickremaratne (alternate to D S P Wikramanayake)
C L K P Jayasuriya (alternate to R L Juriansz)
S N Jayasinghe
(alternate to N S Welikala - appointed wef 24.08.2004)
A R Gunasekara
(alternate to N S Welikala - resigned wef 24.08.2004)

 NDB Finance Lanka (Pvt) Ltd 87.27% Others 12.73%

NDB's indirect holding - 65.9%

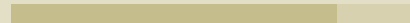
NDB Investment Bank Limited

(Formerly Citi National Investment Bank Ltd)
40, Navam Mawatha, Colombo 2
Tel: +94 11 2300385

Cost of NDB's investment: Rs 32 mn
Profit after tax: Rs 17 mn
Net assets: Rs 58 mn

Directors

S K Wickremesinghe
N S Welikala
E Wickramaratne
L de Mel
A Wickramaratne
V Kulatilleke (CEO and Ex Officio Director)

 NDB 80.1% Citi Group 19.9%

NDB Housing Bank Limited

712, Galle Road, Colombo 3
Tel: +94 11 2552552

Cost of NDB Group's investment: Rs 330 mn
Profit after tax: Rs 25 mn
Net assets: Rs 633 mn

Directors

S K Wickremesinghe
N S Welikala
R V S Rao (appointed wef 19.03.2004)
I A Wickramasinghe (appointed wef 30.04.2004)
D S P Wikramanayake
W D Barnabas (CEO and Ex Officio Director)
A R Gunasekara (resigned wef 13.05.2004)

 NDB 30% IFC 15% HDFC 15% CDIC 15% Others 15% Eagle 10%


NDBS Stock Brokers (Pvt) Limited

40, Navam Mawatha, Colombo 2
Tel: +94 11 2314170

Cost of NDB's investment: Rs 27 mn
Profit after tax: Rs 17 mn
Net assets: Rs 83 mn

Directors

S K Wickremesinghe
N S Welikala
S N Jayasinghe
L de Mel
D S P Wikramanayake (appointed wef 25.08.2004)
A R Gunasekara (resigned wef 13.05.2004)

 NDB 100%

Maldives Finance Leasing Company (Pvt) Ltd

3rd Floor, Aifaanu Building,
Buduthakurufaanu Magu, Male,
Republic of Maldives
Tel: +(960) 315605 / 315606

Cost of NDB's investment:	Rs 165 mn
Profit after tax:	Rs 32 mn
Net Assets:	Rs 553 mn

Directors

Nadiya Hassan

Rifaath Jaleel

Hussain Afeef

Moosa Zameer

N S Welikala

S Senanayake

Abdul Mushin Abdulla

D S P Wikramanayake

(alternate to N S Welikala appointed wef 02.08.2004)

S K Jilani *(alternate to Hussain Afeef)*

Aishath Nadira *(alternate to Rifaath Jaleel)*

D Soosaipillai

(CEO and Ex-officio Director appointed wef 02.08.2004)

A R Gunasekara

(alternate to N S Welikala resigned wef 02.08.2004)

W D Barnabas

(CEO and Ex-officio Director resigned wef 02.08.2004)

NDB	IFC	MTCC	BOM	IPP	CBP	VMP
35%	25%	15%	10%	5%	5%	5%

Shareholder	Holding
National Development Bank of Sri Lanka	35%
International Finance Corporation	25%



	Date
	2-25
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	2-23
	2-22
	2-21
	2-18
	2-17
	2-16
	2-15
	2-14

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Other handwritten notes on the grid include:

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"Coming together is a beginning, staying together is progress, and working together is success."

TEAMWORK

We will work together as a team, supporting each other, respecting every individual and drawing strength from our diversity.

Board of Directors



(a)

(b)

N S Welikala (a)

Director/General Manager

Mr Welikala is a Bachelor of Laws of the University of Sri Lanka, a Fellow of the Institute of Chartered Accountants of England and Wales, and an Associate Member of the Institute of Chartered Accountants of Sri Lanka. He worked for several years at the London offices of Ernst and Young, and prior to joining NDB, was CEO of Citibank NA Colombo. Mr. Welikala served on the Board of NDB as an alternate director for the ADB, since its privatisation, and joined the NDB as the Deputy General Manager in January 1999. He assumed duties as the General Manager of NDB on 1st January 2002. He is also a director of several of the NDB Group companies.

H D S Amarasuriya (b)

Director

Mr Amarasuriya brings to NDB an impressive range of management, marketing and business skills from his tenure as Chairman of the industrial conglomerate Singer Sri Lanka, and his experience on the Boards of such companies as Regnis Lanka, Commercial Leasing, Bata Shoe Company, First Capital and Eagle Insurance. He also brings with him substantial experience in international management as a Vice President of Singer N.V. He serves as Chairman of the Singer Global Business Council for 2003/2004.



(c)

S K Wickremesinghe (c)

Chairman

Mr Wickremesinghe is a well known and much respected figure both in Sri Lankan business and diplomatic circles. He was Sri Lanka's High Commissioner to the UK from 1995 to 1999. Before and after this assignment, he chaired the Boards of a number of Sri Lankan blue chip companies including Commercial Bank of Ceylon Ltd., Ceylon Tobacco Company, Chemical Industries (Colombo), CTC Eagle and Sri Lankan Airlines.

RESIGNED

D M Swaminathan

Director (Resigned on 12.05.2004)

J R Cooney

Director (Resigned on 23. 07.2004)

S E Captain

Director (Resigned on 15.10.2004)

S Enderby

Director (Resigned on 16.11.2004)



(d)

(e)

S R de Silva (d)

Director

Mr. de Silva is a lawyer, holding an LL,B(Hons.) degree. He was the Chief Executive of the Employers' Federation of Ceylon which he served for 25 years till end 1989. He served the International Labour Organization from 1990 until his retirement in July 2001, as Regional Adviser to Employers' Bureau in Geneva. For two years from August 2001 he was Senior Adviser to the International Organization of Employers (IOE), Geneva. He is a director of Emsolve Consultants (Private) Ltd., and is a member of the Boards of Directors of NDB Bank Ltd., Lanka Walltile Ltd., Lanka Tiles Ltd., Ceradec (Pvt) Ltd. and Lanka Tiles Trading (Pvt) Ltd.

L de Mel (e)

Director

Mr. Lal de Mel was Managing Director of CIC Paints from 1995 to 2001, prior to which he was a director of Chemical Industries (Colombo). He was Chairman of the Sri Lanka Insurance Corporation and a director of the Bank of Ceylon in 2001. He is currently the Chairman of N. Chandraratne Decorators Ltd and Language Skills Development (Pvt) Ltd. He is a director of a number of NDB Group companies including Eagle Insurance, and several other companies. He is Co-Chairman of the Trade & Tariff Cluster of NCED and a Council member of the Sri Lanka Standards Institute. He has served as Chairman of the Ceylon National Chambers of Industries, as President of the Federation of Chambers of Commerce & Industry and as President of the Sri Lanka Institute of Marketing. Mr. de Mel is a member of the Chartered Institute of Marketing, U.K. He has a Bachelor of Science degree from the University of Ceylon and Diplomas in Marketing (CIM) and Management (NIBM).



A G Karunasena (f)

Director

Dr Karunasena is Assistant Governor, Central Bank of Sri Lanka, and holds a B.A.(Hons.), a M.A. and a Ph.D in Economics. He is also currently the Vice Chairman of the Institute of Bankers of Sri Lanka. He has worked extensively in the area of economic policy, and has represented Sri Lanka at a number of international/regional economic forums. He served as a Senior Economic Consultant to the World Bank from 1992 to 1995, and as Alternate Executive Director at the IMF from 1998 to 2000.

G C B Wijeyesinghe (g)

Director

Mr Wijeyesinghe is a Fulbright Scholar and has had a distinguished professional career, retiring as Precedent Partner of KPMG Ford Rhodes Thornton & Co. He also served on the board of KPMG - Asia Pacific, and on the External Audit Committee of the IMF. He is currently a member of the Sri Lanka Accounting & Auditing Standards Monitoring Board, Council Member of the Commonwealth Association of Corporate Governance and holds directorates in other public quoted companies. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka, and a Fellow of the Association of Authorised Public Accountants - UK, and a Fellow of the Society of Chartered Management Accountants.

P M Nagahawatte (h)

Director (Appointed on 15.10.2004)

Mr Manik Nagahawatte holds a LLB (Hons) Degree and a Master of Laws Degree. He is the Chairman of the Bank of Ceylon. He is also Chairman of Property Development Ltd. and Director/Chairman of Hotels Colombo (1963) Ltd. and a Director of Mireka Capital Land (Private) Ltd. and Hotel Developers (Lanka) Ltd. He is a former Deputy Governor of the Central Bank of Sri Lanka. He was also Chairman of the Credit Information Bureau of Sri Lanka, a Commissioner of the Securities and Exchange Commission of Sri Lanka, a Director of the Insurance Board of Sri Lanka and a Director of the Private Sector Infrastructure Development Company. Earlier too he had served as a Director of the National Development Bank of Sri Lanka for a period of about seven years.

Mrs S Cooray (i)

Director (Appointed on 15.10.2004)

Mrs Sujatha Cooray is the Director General of the External Resources Department since 2002. She holds B.A.(Hons) and B. Phil degrees from the University of Colombo and a M.A. in Economic Development from ISS, the Netherlands. She has extensive experience in the field of mobilizing external financing from multilateral and bilateral agencies for development projects. She has also led the Sri Lankan team on many international loan negotiations. Mrs Cooray has represented Sri Lanka at many regional and international fora relating to economic development. She has served on the Boards of the Lanka Electricity Company Pvt. Ltd., and Sri Lanka Tourist Board and currently serves on the Board of the Board of Investment.



(h)

(i)

A R Gunasekara (j)

Director (Appointed on 30.08.2004)

Mr Gunasekara is a Fellow of the Institute of Chartered Accountants of Sri Lanka. His career includes a spell of seventeen years overseas where he worked for several years with Coopers & Lybrand in Zambia and Botswana. He then joined the Lloyds Insurance Broking Group, Minets, as Head of Finance of its Botswana operation before transferring to Minet's head-office in London where he served as Financial Controller/Executive Director of the international holdings company. On returning to Sri Lanka in 1994, he joined NDB, and retired as its Chief Financial Officer in 2004.

Alessandro A Pio (k)

Director (Appointed on 06.12.2004)

Mr Pio is Country Director of the Asian Development Bank (ADB) Sri Lanka Resident Mission. He recently completed eleven years of service at ADB, including three years with the Strategy and Policy Department, and almost six years working at the Vietnam desk, first as Senior Economist and later as Principal Programs Economist in Hanoi. He was Country Economist for Sri Lanka in 1997-1998, and prepared the 1998 Sri Lanka Country Operational Strategy. Prior to joining ADB he taught macroeconomics and development economics and carried out research on Latin American development for nine years at Bocconi University in Milano, Italy. He earlier worked at the United Nations' Economic Commission for Latin America in Santiago, Chile, and with UNICEF in Peru and Argentina and UNDP in the Dominican Republic. Mr. Pio has an undergraduate degree in Economics from Bocconi University, and a Masters degree in Community and Regional Planning from the University of Texas at Austin (USA).



(j)

(k)

Chairman's Review

I am pleased to present to you the Annual Report and Audited Accounts of the Bank and the Group for the year 2004. I also draw attention in my review to the impact the Tsunami had on the Group's business and the progress made in relation to the merger of the National Development Bank (NDB) and the NDB Bank.

The Sri Lankan economy performed relatively well in 2004, growing at a rate of around 5.5% compared to 5.9% in 2003. The services sector made a significant contribution with a growth of 7.3%, over the previous year, while industry continued to show steady progress with an increase of about 5%. The agricultural sector, however, fared poorly recording a negative growth of 0.5%, largely due to the drought conditions that affected both the Maha and Yala rice crops. The cease-fire between the Government Forces and the LTTE continued to hold during the year. This helped to ensure that the country achieved a satisfactory rate of growth but the political uncertainty over a permanent peace agreement contributed to the economy performing below its potential. The adverse balance of trade, largely due to much higher oil prices, led to a depreciation of the Sri Lankan Rupee in the latter part of 2004. At the same time, secondary market interest rates which had declined earlier started to climb again towards the end of the year, creating an adverse impact on the economy.

The relief extended by governments and individuals all over the world to aid rehabilitation and reconstruction after the devastation caused by the Tsunami, is expected to lead to a large inflow of foreign funds into the country. This has been supplemented by steps taken by the leading donor countries to grant Sri Lanka debt relief in respect of past loans granted to the country. As a result, the Sri Lankan Rupee has gained strength since the beginning of 2005. This will help to lower the future costs of imports but will have an adverse impact on exports.

The global economy grew by 5% in 2004, which was its fastest growth in three decades. The principal engine of this growth was the United States, but significant contributions also came from countries in Asia and Latin America such as China, India and Brazil. The picture for 2005 is, however, less favourable with a forecast growth of 4.25%. The United States and China will continue to make major contributions though their economies are expected to slow down in 2005. The weakness of the US Dollar and the consequent strengthening of the European and UK currencies are likely to lead to a dampening of growth in the European Union countries. An uncertain factor in any forecast pertaining to the global economy is the price of oil, which will remain under pressure due to unpredictable international production levels.

The disastrous Tsunami, which hit Sri Lanka on 26th December 2004, had a major impact on the banking sector and the country's economy, particularly the fisheries and tourism sectors. The damage to the property of the NDB was relatively small and was confined to the destruction of its Galle Branch. The business losses and the implications for its future progress were, however, of much greater significance.

The planned merger of the NDB with the NDB Bank moved closer when Parliament, on 10 December 2004, approved the National Development Bank of Sri Lanka (Consequential Provisions) Bill for the purpose of converting NDB into a Public Limited Company under the Companies Act No 17 of 1982. NDB has now submitted a set of Memorandum and Articles governing its future activities as a Public Company, for approval by the Central Bank and the Ministry of Finance, and an application for a commercial banking license to the Central Bank. Arrangements have also been made to obtain independent valuations of the two banks from an international firm of accountants. After approval is received from the Central Bank and the Ministry of Finance, Extraordinary General Meetings of the NDB and the NDB Bank will be summoned to obtain the consent of the shareholders for the merger. In the meantime the two banks have made considerable progress in the co-ordination of their activities in anticipation of the merger.

“The merged bank will concentrate on development activities through its project lending to the Corporate and SME sectors while at the same time embarking on an expansion of its commercial banking activities.”

The NDB Group has completed a difficult year with a reduction in its level of profits. The Group's profit before tax in 2004 fell to Rs 1,287 mn from Rs 1,526 mn the previous year, due to provisions made in respect of losses suffered by NDB and Eagle Insurance on account of the Tsunami and the imposition of back taxes in the 2004 budget, on profits made from trading in Government securities in 2003. These liabilities amounted to a total of Rs 332 mn. The after tax group profit for 2004 was Rs 805 mn compared to Rs 1,221 mn in 2003. The after tax profit of NDB itself in 2004 amounted to Rs 679 mn compared to Rs 904 mn in the previous year.

During the year NDB increased its shareholding in NDB Bank to 92.5% at a cost of Rs 1.34 bn, through purchases on the trading floor and a mandatory offer it had to make in accordance with the rules of the Colombo Stock Exchange. It also continued with the consolidation of Eagle Insurance, in which NDB acquired a controlling interest in mid 2003. These two acquisitions, which were made with cash from NDB's own funds, have had an impact on the current profitability of the Bank, although this has been compensated for by inclusion of attributable profits in the Group accounts. However, it should be noted that a build-up of the returns on these investments will take more time.

I am pleased to announce that your Board of Directors has recommended the payment of a first and final dividend of Rs 6.00 per share, which amounts to a total payment of Rs 332.5 mn, on the issued capital of the Bank.

Looking ahead to the future, 2005 will be an important year for the NDB though we will, no doubt, face many problems during the process of welding the NDB and the NDB Bank together to form a diversified bank. The merged bank will concentrate on development activities through its project lending to the Corporate and SME sectors, while at the same time embarking on an expansion of its commercial banking activities. Judging by the results of similar mergers in other countries, one can predict that, after an initial period spent in expanding the branch network, the banking systems and the range of products, there will be good potential for future growth and success.

The Monetary Board and officials of the Central Bank and the Ministry of Finance have been of great assistance to us during the year. I wish to use this opportunity to thank them sincerely for their advice and support.

During 2004, we bade farewell to Mr S E Captain and Mr S Enderby, two directors who had been associated with the Bank for long periods of time, and I would like to express our grateful appreciation to them for the invaluable contributions they made to the progress of the Bank. Mr D M Swaminathan and Mr J R Cooney also resigned from our Board last year, when they relinquished office in their respective organisations. I thank them for their unfailing support and assistance during their terms of office. I would like to extend a warm welcome to Mr A R Gunasekara, Mrs S Cooray and Mr A Pio, who joined the Board of Directors last year. I also take this opportunity to thank Mr P M Nagahawatte who joined our Board in October last year and submitted his resignation at the end of February 2005, because of the new restrictions made applicable to directors of banks under the recent amendments to the Banking Act.

In conclusion, I wish to convey my sincere appreciation to my colleagues on the Board for their unstinted support, and to the staff at all levels for their dedication and for the valuable contribution they have made during the year towards achieving the objectives of the Bank.



S K Wickremesinghe

Chairman

10 March 2005

Chief Executive's Review

Strategic Objectives

The NDB Group performance for 2004 is analysed in the context of the achievement of a major milestone, namely the passage of enabling legislation on 10th December, which paves the way for the merger of National Development Bank (NDB) and NDB Bank Ltd (NBL), subject to further regulatory, and shareholder approvals.

The merger will enable NDB to build on its existing strengths to achieve its long stated strategic goal. That goal is to build a sustainable, integrated financial services institution based on world class standards of business and ethics, which will provide enduring benefits to all its stakeholders. It is worth emphasising, as we embark on this new journey, that we do so, not as a new, start-up bank. Our existing strengths are very great. We have well established businesses, particularly in project finance and SME lending, which we will grow and to which we can now cross-sell new financial products. Our Group includes a profitable commercial bank, which is expanding rapidly. It also includes strong businesses in the insurance, investment banking and housing sectors, among others, which we will integrate more closely with our core business. Additionally, we are one of the best capitalised banks in the country, which allows us room to grow. Our credit process is strong. Non-performing loans are on a declining trend, and are extremely well provided for. Our pool of experienced professionals provide us with a strong competitive advantage, as do our IT systems. Based on these solid foundations, we are strongly positioned to achieve our ambitious objectives. Our goal cannot be achieved overnight. We must invest now in distribution, people and systems, which will transform our vision into reality in the medium term.

Performance

NDB Group profits before tax of Rs 1,287 mn for 2004 compare with Rs 1,526 mn for 2003, a decline of 16%. Profit attributable to shareholders reduced from Rs 1,123 mn to Rs 703 mn, a reduction of Rs 420 mn (37%).

Profits were affected in particular by Tsunami related provisions and costs, and by increased tax charges.

Tsunami costs reduced after tax profits by Rs 150 mn at NDB. Group profits were also depressed by the Tsunami related 20% decline in profits at Eagle Insurance Ltd (Eagle) amounting to Rs 64 mn from Rs 318 mn in 2003 to Rs 254 mn in 2004. The NDB Group owns 65.9% of Eagle.

The tax charge for 2004, was Rs 176 mn higher than in the previous year, and included a one-off provision of Rs 123 mn for taxes levied in the Budget for November 2004 on gains on Government securities earned in 2003. Tsunami costs at NDB and Eagle and 2003 taxes resulted in a reduction of profits attributable to shareholders by Rs 332 mn in 2004. The overall effective tax rate for the Group increased from 20% in 2003 to 37% in 2004.

The cost of credit declined this year with improved portfolio quality, and the Group is exceptionally well provisioned in accordance with NDB's commitment to maintaining a high quality of earnings. Thus non-performing loans (NPLs) continued to decline, whereas provisioning cover increased. NPLs at NDB and NBL together reduced from Rs 3,119 mn at 01.01.2004 to Rs 2,518 mn at 31.12.2004. The combined NPL ratio was 7.1% at 31.12.2004 compared with 9.8% at 01.01.2004. Total provisions as a percentage of NPLs for the combined banks increased from 83.2% to 84.9% during the year, while specific provisions coverage increased from 75.3% to 78.2%.

NDB's loan book remained flat during the year under review, compared with 2003, despite new loans approved and disbursed of Rs 14.09 bn and Rs 14.08 bn respectively, but increased significantly at Group level, because of the inclusion of the fast growing portfolio of NBL. Unlike a typical commercial bank, where loans tend to grow at the pace of inflation, a project loan portfolio diminishes with scheduled repayments of principal by borrowers.

Net interest income (NII) declined significantly at NDB. The decline resulted partly from the utilisation of NDB's own funds for the acquisition for cash of shares in Eagle and NBL. Accordingly,

“Our existing strengths are very great. We have well established businesses, particularly in project finance and SME lending, which we will grow and to which we can now cross-sell new financial products. Our Group includes a profitable commercial bank, which is expanding rapidly. It also includes strong businesses in the insurance, investment banking and housing sectors, among others, which we will integrate more closely with our core business.”

NII at NDB reduced, but was compensated for, by the consolidation of the earnings of those entities in the Group accounts. However, a more structural reason for the decline was the reduction in interest rate spreads, as a result of increased competition, and in accordance with Government policy. Transformation into a lower spread, lower cost, higher return paradigm is a fundamental and urgent challenge, which faces the entire financial sector in this country today. With the proposed merger, the Group is positioning itself to implement the deep-rooted structural changes that are needed to achieve this objective.

Overhead costs at NDB were well contained, and increased by 6% over the previous year. Overheads have been kept relatively flat for four years now. However, Group overheads increased by 59%, largely because of the distortion of comparative numbers by the consolidation of the results of Eagle and NBL from 1st July 2003 and 1st April 2004 respectively. In order to compare like with like, if the overheads of both companies are included in the Group accounts for the relevant periods for 2003, and 2004, Group expenses would have increased by only 6%.

Subsidiaries

The principal subsidiaries performed upto expectations in 2004, apart from the “one-off” costs of the Tsunami and 2003 taxes. With the mandatory offer in April 2004, which resulted in NDB taking over the control of NBL (92.5%), NBL expanded its activities in accordance with an ambitious medium term plan. Thus, the number of branches increased from 7 to 14, and loans and deposits grew by 37% and 46% respectively. Profit before tax at NBL increased by Rs 73 mn (32%) to Rs 298 mn. However, profit after tax reduced by 35% to Rs 113 mn, mainly because of the new tax charge relating to 2003 (Rs 62 mn).

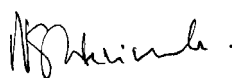
Meanwhile, NDB Investment Bank has established itself as the leader in its field, with landmark deals and innovative products. Its synergies with NDB and NBL are expected to contribute strongly to future Group performance. Eagle Insurance was successful in recording a growth in revenue of 11%. Following an independent actuarial valuation, the Life Fund was revealed to have grown by 21% to Rs 8 bn. The independent actuary has validated that the company has maintained a solvency margin in excess of the minimum requirement, and has provided for all claims as recommended by him. Eagle has confirmed that all prudential standards stipulated by the Insurance Regulator have been met. However, 2004 profits declined over the previous year as noted earlier. Eagle has also stated that profit would have increased by 8% over 2003, if not for Tsunami related costs.

Corporate Social Responsibility

NDB responded to the Tsunami, which devastated the country on 26 December, by starting a fund the “NDB Fishermen’s Relief Trust Fund”, dedicated to the task of restoring the livelihoods of the fishermen who were among the worst affected by the disaster. The funds will be used to repair and replace the boats of fishermen which were damaged or destroyed by the Tsunami. The Trust is managed by staff members of NDB and NDB Bank, who supervise the purchase and repair of boats and equipment, and their distribution to the neediest of fishermen. Details of this initiative are provided on <http://relief.ndbbank.com>.

Conclusion

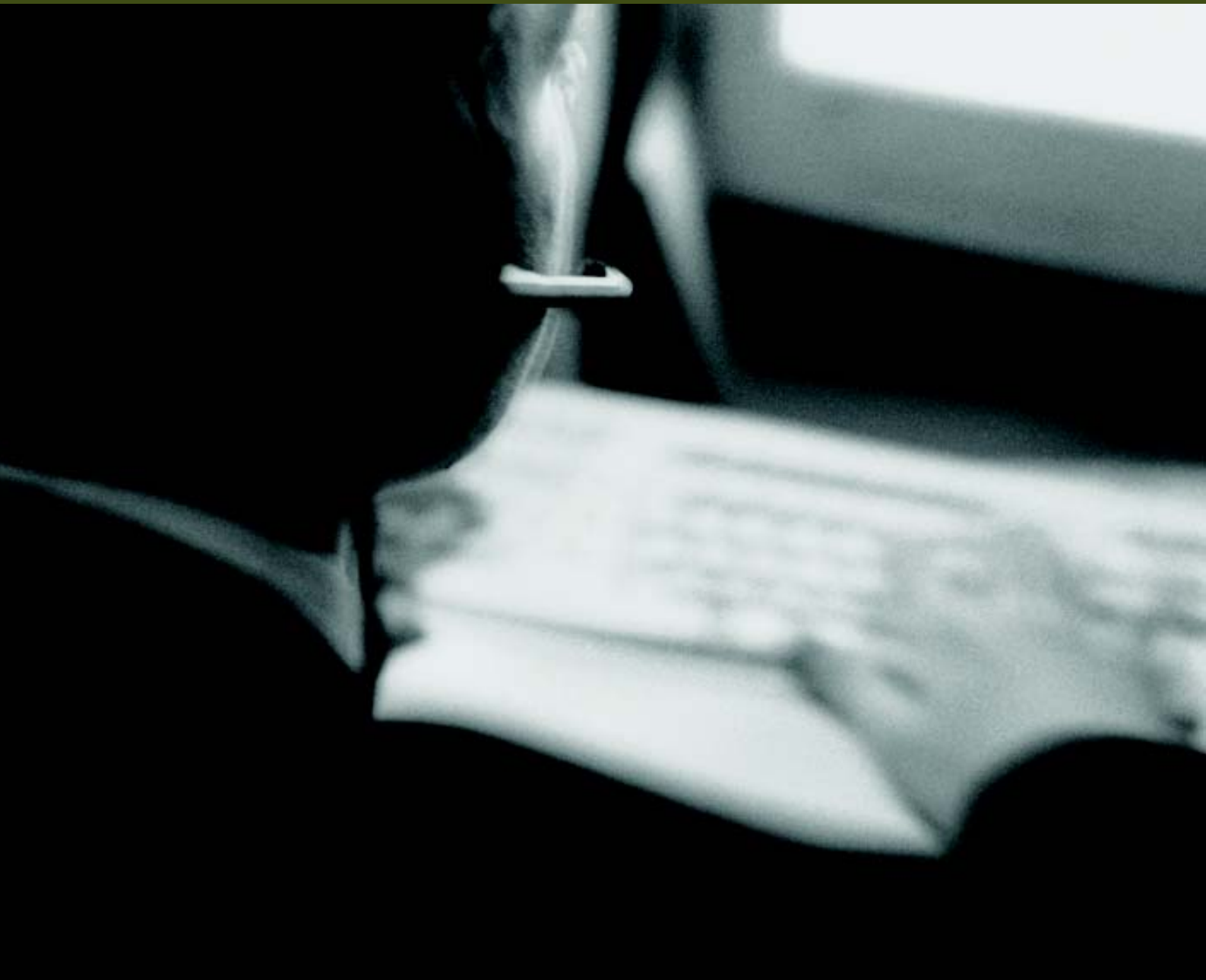
Let me conclude this review by thanking all our stakeholders for their continuing support. I would like to thank in particular, the Chairman and Board of Directors for their valuable guidance, and all our employees for their commitment and hard work.



N S Welikala

Director / General Manager

10 March 2005



"Always do more than is required of you."

SERVICE

We will always strive for excellence in serving our internal and external customers, through professionalism, innovation and creativity.

Operational Highlights

Bank	2004	2003
GROSS APPROVALS (Rs mn)		
Loans & Advances	13,272	10,862
Leases	317	101
Equity Investments	63	147
	13,652	11,110
Small & Medium Enterprises		
Refinance	504	112
	14,156	11,222
Off Balance Sheet Facilities		
Guarantees	128	288
DISBURSEMENTS (Rs mn)		
Loans & Advances	13,443	10,500
Leases	339	93
Equity Investments	38	341
	13,820	10,934
Small & Medium Enterprises		
Refinance	298	640
	14,118	11,574
Economic Significance of Bank's Assistance		
Gross Investments Generated from Direct Facilities	52,534	44,992
Employment Generated by Direct Facilities (No.)	3,800	5,096

Introduction

2004 was a challenging year for the Bank as it was set against a backdrop of political uncertainty at the start of the year, and a declining interest rate regime. The impact of spreads that narrowed was reflected in the reduction of net interest income earnings of the Bank. A reduction in interest rates was given to existing loans of small and medium sized clients, together with the Ministry of Finance & Planning, which also contributed to the decline in net interest income. Large corporates also benefited as competition amongst banks intensified in this market segment, driving down the lending rates and narrowing spreads.

Corporate sector performance was strong as it was the main beneficiary of the relatively low interest rate regime. The recovery in the global economy and continuation of the ceasefire offset the adverse effects of the uncertain environment in early 2004. This, together with the low interest rates enabled turnover growth and enhanced profitability, particularly in the exports sector. The corporate sector is likely to face a more challenging year ahead, especially as global commodity prices feed into local production costs. Corporate focus will necessarily have

to be increased on productivity improvements.

The export sector continued to borrow in dollars, taking advantage of the low interest rates whilst hedging the currency risk as well. The Bank's activities were limited in this market segment due to its inability to lend in foreign currency. Further, the low spreads impacted the Bank adversely, unlike the commercial banks who were able to maintain or increase the spreads in the wake of movements in short term deposit rates. These factors intensified the challenge to the Bank viz a viz its competitors, and the results reflect the need for a level playing field. The pending merger of NDB with NDB Bank will eliminate this disadvantage, enabling the Bank to perform to its potential.

The impact of the devastating Tsunami has affected the operations of the Bank by way of increased provisions for clients who suffered losses directly or indirectly. Provisions have been made on a prudential basis. However, the rebuilding phase is likely to provide opportunities for the Bank, particularly in its area of core competency, project finance.

Key areas of activity during the year were project finance, securitizations and balance sheet restructurings and some short term financing products. Demand for project financing was mainly from the services sector with telecommunications and other infrastructure projects being key recipients. Securitisations were mainly in the plantation and financial services sectors and were structured and arranged by the subsidiary, NDB Investment Bank. The Bank also participated in syndications to large scale projects which were structured together with NDB Investment Bank. The Bank also assisted in Balance Sheet restructuring of corporates where funding mismatches were expected to result in exposure to increased interest rate risks. The Bank also continued its cross sell to the group companies, leveraging off its large customer base and working towards its goal of being a one stop shop for financial services.

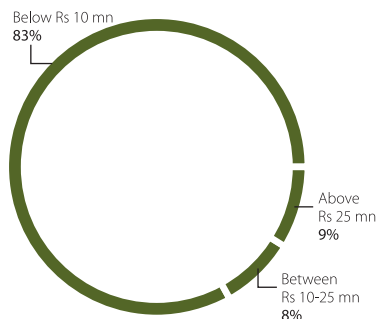
Loans and advances

The gross direct loan portfolio grew by 5.7% to Rs 20.4 bn during the year, due to increased approvals and disbursements. Apart from project loan approvals, the Bank met the customers' demand for shorter term financing and securitisation. The overall quality of the portfolio improved during the year, due to the

Sector Classification of Direct Credit Approvals/Portfolio

	Approvals				Portfolio			
	2003		2004		2003		2004	
	Rs mn	%	Rs mn	%	Rs mn	%	Rs mn	%
Food, Beverage & Tobacco	2,002.8	18.6%	1,863.0	13.7%	1,687.2	8.8%	1,723.0	8.5%
Agriculture, Agri Business & Fisheries	682.8	6.3%	742.4	5.5%	3,750.9	19.5%	3,490.2	17.1%
Textiles & Garments	279.6	2.6%	105.0	0.8%	1,763.2	9.1%	1,297.3	6.4%
Wood & Paper Products	40.9	0.4%	111.6	0.8%	213.4	1.1%	434.0	2.1%
Rubber & Leather Products	712.2	6.6%	1,595.9	11.7%	981.7	5.1%	1,741.3	8.5%
Metals, Chemicals & Engineering	2,105.3	19.5%	2,814.9	20.7%	3,664.4	19.0%	3,965.4	19.5%
Hotels & Tourism	42.9	0.4%	372.3	2.7%	665.9	3.5%	693.9	3.4%
Services	3,588.3	33.2%	4,982.5	36.7%	4,820.6	25.0%	5,522.5	27.1%
Others	1,338.1	12.4%	1,001.1	7.4%	1,726.5	9.0%	1,504.7	7.4%
Total	10,792.9	100.0%	13,588.9	100.0%	19,273.9	100.0%	20,372.4	100.0%

No. of Approvals by Size of Loans
Direct Credit Facilities - Bank

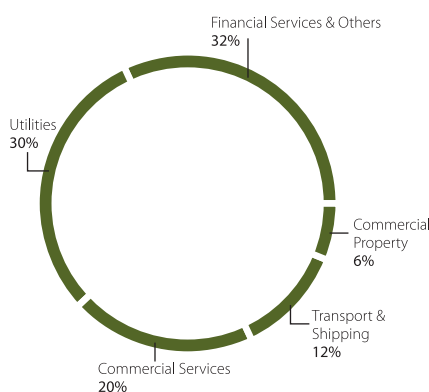


strong corporate sector performance and the results of focused marketing.

Approvals of direct financing increased from Rs 11.1 bn in 2003 to Rs 13.6 bn in 2004. Disbursements also increased during the year from Rs 10.9 bn to Rs 13.8 bn.

The main source of economic growth has been the services sector, which contributed approximately 77% of the growth in GDP. The services sector accounts for the largest portfolio of Rs 5.5 bn (27%). The risk of high exposure to the sector is mitigated by the diverse nature of the subsectors within the main sectors which includes telecommunication, energy, financial services, printing, healthcare, transport, construction, and warehousing. The Bank was active in this sector with approvals during the year totalling to Rs 5 bn (37%). A key subsector -

Portfolio Analysis of Services Sector
Direct Credit Facilities - Bank



telecommunications, recorded significant growth of over 30% during the first half of the year contributing over 5% to the GDP. During the year the Bank participated in a debt syndicate of a leading mobile operator in the country. In the Energy subsector, the Bank continued to fund the implementation of mini hydro projects. Growth prospects in this service sector are strong in the light of the increased demand for services, the liberalisation of power, telecommunication and transport industries and the recovery of the construction industry. This should provide greater business opportunities for the Bank.

The metals, chemicals and engineering sector has the second highest exposure, amounting to Rs 4 bn at 19.5% of the Bank's loan portfolio. This sector is diverse in nature and includes subsectors of plastics, PVC products, ceramics, paints, electrical appliances, cement and detergents as well. Growth of the cement, paints, ceramics and PVC subsectors was fuelled by recovery of the domestic and large-scale construction industry and commencement of activities in the North and East. The ceramics subsector however, still faced stiff competition from imports. Increase in disposable income had a favourable impact on the electrical appliances market.

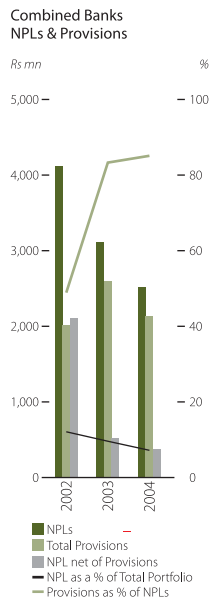
The Agriculture, agri business and fisheries sector has the third highest exposure at Rs 3.5 bn and 17% of the Bank's total portfolio. Approvals amounted to only 5.5% of the total approvals and comprised mainly of subscriptions to securitisation instruments for the plantations subsector, which were mostly short term in nature. Repayments during the year were gradual as the repayment period in this sector is longer than in others. The estimated growth rate of the sector is low at 2%. Considering the national importance in that generating 15.7% of the GDP and providing employment to over 2 mn persons, the Bank continued its assistance to this sector.

A few other sectors including rubber & leather products also grew during the year, fuelled by the growth of industrial exports, resulting from continued recovery in the global economy. Industrial exports constitute 75% of total exports of which nearly 65% are textiles and garments. The Textiles and garments sector grew by 7.8% during 2003. However, the outlook for the industry remains mixed in view of the phase-out of quotas at the end of 2004. In this respect, a detailed study was carried out during the year to review the Banks' exposure and to formulate and review a strategy for lending to and monitoring this sector.

The Hotels and Tourism sector performed well during the year. The continuing ceasefire, as well as aggressive promotional campaigns launched by the local tourism industry, could take credit for the record breaking number of tourist arrivals and the growth of this sector. However, this is a key sector impacted by the Tsunami, and the outlook for 2005 is as yet uncertain.

Portfolio Quality

The quality of the portfolio continued to improve. Non performing loans at the Bank peaked at Rs 4.4 bn in August 2002 and declined to Rs 2.4 bn at 31.12.2004, as a result of strengthened credit and recovery processes. Thus non-performing loans (NPLs) continued to decline, whereas the provisioning cover increased. Provisions for doubtful debts as detailed in Note 18.1 and 19.1 to the Accounts, was Rs 2.1 bn or more than 85% of NPLs at year end. At the Group level, i.e. NPLs at NDB and NBL together reduced from Rs 3,119 mn at 01.01.2004 to Rs 2,518 mn at 31.12.2004. The combined NPL ratio was 7.3% at 31.12.2004 compared with 9.8% at 01.01.2004. Total provisions as a percentage of NPLs for the combined banks increased from 83.2% to 84.9% during the year, while specific provisions coverage increased from 75.3% to 78.2%.



Direct Lending to SMEs

The Bank continued lending to SMEs through its network of 14 Branches including the Colombo Branch located at Head Office. During the year a few existing NDB branches were renovated, and commercial banking facilities are now made available in Kandy, Matara, Negombo, Kurunegala, Chilaw and Ratnapura through NDB Bank Branches, which operate under the same roof as those of the NDB Branch.

Also, certain changes were effected to the branch organisational structure with two Managers being appointed at Head Office, to concentrate on credit approvals and the branch administration and recoveries respectively. Furthermore, four Regional Managers were appointed to oversee the 14 branches. This included Regional Manager - Colombo to oversee the Colombo & Kalutara branches, Regional Manager - Greater

Colombo to oversee Gampaha, Negombo, Chilaw & Kegalle branches, Regional Manager - South to oversee Galle, Matara, Ratnapura & Badualla branches and Regional Manager - Central to oversee Kurunegala, Kandy, Anuradhapura and Puttalam branches.

Total credit approvals by the branches including the SME Unit at Head Office during the year stood at Rs 1,917 mn against 794 projects compared to the amount approved during the previous year of Rs 1,252 mn for 576 projects. In terms of the amount approved, this shows a growth of over 50% compared to the previous year.

The average size of a SME credit facility was Rs 2.4 mn as against the average loan size of Rs 11.9 mn in the Bank.

The year end credit portfolio of the branches was Rs 3,608 mn which compares with the previous year portfolio of Rs 3,511 mn.

Future expansion in the SME sector is expected to be supported by funds through a major credit line that is expected to be made available soon by the Japanese Bank for International Co-operation, amounting to Rs 9 bn to the Government for on-lending to SMEs through several banks including the NDB.

Auto Finance

During the year, a special unit was set up in the Bank to handle automobile financing requests in the form of leases and term loans. Approvals are handled both by this specialised unit in the Head Office and also by branches.

Whilst the unit was inaugurated in August 2004, total approvals under this scheme by the Head Office unit as well as the branches during the year ended 31.12.2004, stood at Rs 514 mn with Rs 381 mn being disbursed. The year end portfolio of this operation was Rs 352 mn.

An aggressive marketing campaign is being continued at national as well as regional levels to popularize this product.

Treasury Operations

At the beginning of the year, the Bank enjoyed a positive liquidity mismatch with maturing assets during the year exceeding maturing liabilities by Rs 3,200 mn. In addition to the above, the Bank also had investments in treasury securities totaling Rs 5,500 mn, giving it a total liquidity comfort of Rs 8,700 mn for the year.

The year 2004 saw interest rates moving within a narrow band. Treasury Bill rates moved from 7.3% to 7.7% during the year. Long term interest rates went up sharply during the second half of the year, as a reaction to the Central Bank Repurchase (Repo) rate hike in November 2004. The rate hike resulted in falling bond prices as long term rates moved up 100 to 200 basis points immediately afterwards.

The Bank's exposure to the money market (in order to bridge short term liquidity needs) averaged around Rs 600 mn for the year, which is within prudent limits. At all times, there were sufficient correspondent bank lines available to the Bank to borrow the

Direct Credit Facilities

Approvals (Amounts in Rs mn)	2003				2004			
	No	%	Amount	%	No	%	Amount	%
Head Office	244	32%	10,026	91%	413	29%	12,086	85%
Branches	521	68%	937	9%	728	71%	1,503	15%
Total	765	100%	10,963	100%	1,141	100%	13,589	100%

required funds from the money market.

Unlike in 2003, Treasury did not actively trade in Government securities, instead preferring to reduce its holdings. Liquidation of the Bank's trading portfolio in Government securities was done in a careful manner to minimize capital losses as much as possible. In an upward moving interest rate year, recording a capital gain of Rs 74.6 mn through bond sales can be considered a noteworthy achievement. Over the year, the Treasuries of NDB and NDB Bank continued to work together successfully, and the staff enthusiastically accepted the combined responsibilities entrusted to them.

Group Operations

The performance of NDB Bank Ltd and Eagle are reviewed separately on pages 28 and 30 of this report respectively. The operations of NDB's other major subsidiaries - namely NDB Investment Bank Ltd, NDB Housing Bank Ltd and NDB Stockbrokers Ltd are reviewed below. In accordance with the corporate objectives of creating an integrated financial services institution, the parent and group companies work closely together, in terms of management goals, product cross sell and service support.

NDB Investment Bank

NDB Investment Bank (NDBIB) continued its pioneering work in the country's fledgling capital market. It was successful in raising approximately Rs 10.5 bn from the market in 2004 through a series of specialized financial products that have offered cost effective fund raising alternatives to their client companies as well as new investment opportunities to the capital market.

NDBIB's corporate values and commitment to quality in product and service offerings, allowed them to enjoy a year marked by significant achievements, which culminated in the unprecedented success of the Lanka IOC Limited (LIOC) Initial Public Offering.

NDBIB's role was financial adviser, manager to the issue and book runner. The Rs 3.6 bn IPO, which is the largest equity issue in the history of the Colombo Stock Exchange, was 8.71 times oversubscribed on its opening day, with over 37,600 applications being received and processed. This brought the total funds subscribed to a staggering Rs 31 bn, of which US\$90 mn was subscribed by overseas investors, thereby recording the highest ever foreign participation in an equity offering in Sri Lanka. The Issue also holds the distinction of being the first to introduce book building to the local equity market.

NDBIB has continued to be a pioneer in the field of securitized instruments, having raised an estimated Rs 2.3 bn in 2004, by constantly enhancing securitization structures to suit different industries. This year has witnessed the successful completion of several securitizations for organizations in a diverse range of industries, including finance, leasing, hire purchase and real estate. The real success story was the conclusion of a landmark deal involving the formulation of a specialized structure to facilitate the securitization of future utility bill receivables.

Based on the experience and knowledge acquired during the year and given the prevailing economic scenario, declining interest rates and booming share market, NDBIB is confident not only of the existence of a wealth of future opportunities, but also in its ability to identify and capitalize on them, using Group synergies.

NDB Housing Bank

2004 was a successful year for NDB Housing Bank (NDBHB). The bank recorded approval volumes of Rs 679 mn, which is an increase of 78% over the volumes achieved in the last financial year. The disbursements for the year amounted to Rs 577 mn, which again recorded a significant growth rate of 125%, compared to the previous year. This resulted in NDBHB more than doubling its Housing

Loan portfolio. The portfolio as at December 31, 2004 amounted to Rs 945 mn. The portfolio value in the previous year was Rs 467 mn. However, given the low interest rate regime during the year and the competitive environment of the housing finance sector, margins were affected. This resulted in NDBHB's profitability declining as compared to the previous year. The net profit for the year amounted to Rs 25.3 mn as compared to Rs 31.8 mn in the previous year. However, the outlook for growth in this sector is very strong, and profitability is expected to increase significantly with strong portfolio growth occurring over the medium term.

NDBS Stockbrokers

The NDB's stockbrokerage arm, NDBS Stockbroker's net profit after tax of Rs 17.2 mn represents a ROE of 22%. The company experienced a decline in profits from 2003, mainly due to the decline in stock market activity in 2004 over 2003. The stock market turnover in 2004 was Rs 59 bn down from Rs 73.8 bn in 2003. The company's results were also affected by a regulator induced reduction in brokerage commissions and an increase in the effective income tax rate on its profits. Going forward, NDBS will work closely with the Group's investment bank and growing branch network, to increase turnover and profits.

Equity Investments

Non Quoted Equity Portfolio

The non-quoted equity portfolio as at 31st December 2004 amounted to Rs 561 mn, net of provisions. This comprised of ordinary shares of Rs 165 mn and preference shares of Rs 396 mn. The comparative figures for the previous year were Rs 223 mn and Rs 598 mn respectively. It is seen that the portfolio reduced substantially mainly due to planned divestments and redemptions.

Investments in three companies were divested during the year and the resulting capital gains amounted to Rs 32 mn. The

divestments also contributed to a reversal of provisions of Rs 5 mn. Five preference share investments amounting to Rs 92 mn were fully redeemed during the period, while the amount partially redeemed in respect of five other preference share investments was Rs 141 mn.

Dividend income during the year amounted to Rs 49 mn from the ordinary equity portfolio and Rs 101 mn from the preference equity portfolio.

Quoted Equity Portfolio

The Colombo Stock Exchange (CSE) which opened the year with an ASPI of 1062 points and a Milanka Price Index of 1898 maintained its upward momentum until the end of the year, reaching a peak ASPI of 1580 on 22nd December 2004 and a Milanka Index of 2228, its highest for the year, on 27th January 2004. The market closed in December with an ASPI of 1507 points and the Milanka Price Index with 2074 points. The Tsunami disaster didn't influence the indices negatively.

The Bank's quoted equity portfolio stood at Rs 115 mn (at cost) as at end December, while its market value was Rs 615 mn. Investments aggregating to Rs 38 mn in two companies were made during the year 2004. Divestments of shares in seven companies were made in the period under review, resulting in capital gains of Rs 63 mn.

Dividend income from the quoted portfolio amounted to Rs 37 mn.

SME Development

The Bank which pioneered SME project lending in the country, has for many years recognised the significance of the contribution made by the SME sector in the achievement of the country's overall economic growth. For this purpose the Bank has a dedicated team of professionals for the formulation and implementation of strategies for the development of the SME sector. The strategy comprises of two components. i.e. Direct Lending to SME's and refinancing through participating credit institutions (PCI's). The success and extent of the direct assistance to SME's is detailed on page 21 of this report. The progress of the re-finance operations are discussed below.

Re-Finance Operations

From its inception, the Bank operated several loan schemes to provide re-finance to other financial institutions in the country for on-lending to micro, small and medium enterprises. Resources for this operation were mainly mobilized through the Government, from multilateral agencies such as the Asian Development Bank (ADB), International Development Association (IDA) of the World Bank, Japan Bank for International Co-operation (JBIC) and the German Development Bank (KfW). Almost all the local commercial banks and development banks participated in lending to SME Entrepreneurs under these loans schemes. NDB too commenced lending direct to SMEs under these re-finance schemes in 1996, with the setting up of its branch network.

During the year 2004, five such ongoing re-finance schemes were in operation and another re-finance scheme was introduced with the help of the ADB, to upgrade the Inland fishery and aqua-culture sector. All initial arrangements for operations of this loan scheme named 'Miridiya Sampath', was completed during the year and approvals of re-finance will be commencing in early 2005.

The on-going re-finance schemes are the ADB funded Southern Province Rural Economics

Re-Finance Approvals and Disbursements - 2004

	Approvals		Disbursements	
	Number of projects	Amount (Rs mn)	Number of projects	Amount (Rs mn)
DASUNA	1,230	278.7	753	150.0
SMILE I Revolving Fund	75	32.1	48	22.3
SMILE II	202	146.0	173	92.6
SMILE II Technology Transfer Fund	26	16.4	25	11.2
KfW II Micro Credit	-	-	2	0.5
KfW III Micro Credit	83	30.7	66	21.5
Total	1,616	503.9	1,067	298.1

Advancement Project, popularly known as 'DASUNA' loan scheme, for the development of small and micro enterprises in the southern province. JBIC funded Small & Micro Industries Leader and Entrepreneur Project II (SMILE II) and the revolving fund of the Small & Micro Industries Leader and Entrepreneur Project I (SMILE I revolving fund), which are intended to support Micro and Small enterprises in the manufacturing and services sectors. There was a special allocation of funds under SMILE II to provide outright grants and soft loans for technological advancements of eligible projects, also known as the Technology Transfer Fund (TTF). Two loan schemes supported by KfW that is KfW II and KfW III, were in operation to help micro enterprises in all the economic subsectors. The KfW II loan scheme was completed during 2004.

The total amount of re-finance approved under these credit lines within the year amounted to Rs 504 mn for 1,616 projects. These projects have been instrumental in generating approximately 5,900 new employment opportunities, mainly in rural areas. The capital formation as a result of these loans can be estimated to be in the region of Rs 1,000 mn. The total funds disbursed were Rs 298 mn in respect of 1,067 projects. Details of the re-finance approvals and disbursements under the five on-going schemes are given in the table above.

Japanese Social Development Fund (JSDF)

During the year 2003, the World Bank arranged a grant of Rs 100 mn from the Japanese Social Development Fund (JSDF), to assist impoverished women from the



The Japanese Social Development Fund (JSDF) project, Vavuniya



The Japanese Social Development Fund (JSDF) project, Jaffna

Hambantota District and the North and East of the country. NDB manages this project for the Government, in association with the Women's Development Federation (WDF) and the Seva Lanka Foundation (SLF).

Under this JSDF grant, allocations have been made for social mobilisation, training, development of local infra-structure and micro-loans for under privileged women, to commence income generating activities.

Up to the end of 2004, a total sum of Rs 12.4 mn has been approved for the Hambantota District, and Rs 10.8 mn for the North & East Provinces, amounting to Rs 23.2 mn.

During the year, a large number of women have benefited from these schemes, with a

sum of Rs 10.1 mn being disbursed for the Hambantota District and Rs 6.9 mn for the North and East Provinces.

Overseas Training on Micro Finance for Participating Credit Institutions (PCI) Staff

The Bank organised a training programme in India in association with the National Institute of Bank Management (NIBM) - Pune, during August/September 2004, for officers of PCI's involved in lending to the micro sector. Sixteen officers from Rural Development Banks (RDBs), Sarvodaya Economic Enterprises Development Services (SEEDS), Women Development Federation (WDF) & Lak Jaya Ltd. participated in this one week programme. The cost of the programme was met through the KfW Complementary Measures Component.

Diriyapuath

The Bank publishes a quarterly magazine named "Diriyapuath" which conveys news, useful advice and information for the small and medium entrepreneur. Its also features the Bank's successful SME clients. This magazine is distributed free of charge through the Bank's branches.

Seminars for Provincial Entrepreneurs

The Bank conducted several seminars to educate provincial entrepreneurs about available facilities, including various aspects of business management such as marketing, book keeping, management etc. During the year, three such programmes were conducted in association with Provincial Chambers in Matara, Moneragala and Ampara. As a result of these seminars the Badulla branch has received several business proposals from the districts of Moneragala and Ampara and arrangements have been made to maintain a closer rapport with the respective chambers, to canvas more business from these areas in the future.

Participation under SAHANYA and other Credit Lines

The Bank continued to participate under SAHANYA, Tea Development Project (TDP) and Perennial Crop Development Project (PCDP) credit lines during the year. Approvals under these credit lines are given in the table below.

	Approvals During Year		Cumulative up to 31.12.2004	
	No.	Amount (Rs mn)	No	Amount (Rs mn)
SAHANYA	44	197.80	127	436.5
TDP	9	12.67	132	224.53
PCDP	7	23.1	272	276.00
Total	60	233.57	531	937.03

Financial Review

Overview

Tsunami related provisions and expenses, increased tax rates and retrospective capital gains tax affected the financial performance of the National Development Bank of Sri Lanka and the Group. The profit before tax of the Bank decreased by 20% from Rs 1,146 mn in 2003 to Rs 921 mn in 2004. The profit after tax declined by 25% from Rs 904 mn in 2003 to Rs 679 mn in 2004.

Group profit before tax of Rs 1,287 mn declined by 16% over last year and profit after tax of Rs 805 mn was down on the previous year by 34%. Group profits were impacted by an increased tax charge, the write off of goodwill on acquisitions of Rs 45 mn, Tsunami induced expenses and loan loss provisions which affected the insurance and the banking industries. NDB Bank Ltd had a profit after tax of Rs 113 mn compared to Rs 175 mn for 2003. The consolidated results include profits of NDB Bank Ltd for the period of eight months that elapsed since the acquisition of 92.52% of its issued shares by the Bank. Eagle Insurance Company Ltd was successful in recording a growth of 11% in consolidated revenue amounting to Rs 3,723 mn in 2004, compared to Rs 3,339 mn in 2003. The 15% growth in Life gross written premium in 2004 is considered a significant achievement in highly competitive market conditions. Eagle Insurance Company Ltd recorded a consolidated net profit after tax of Rs 254 mn for the year, a reduction of 20% in comparison with the previous year. However, adjusted for estimated Tsunami related special relief expenses, the consolidated net profits would have been an increase of 8% above last year.

The results of NDB Housing Bank Ltd, NDB Investment Bank Ltd and NDBS Stock Brokers Ltd, representing the spectrum of Group businesses have also been consolidated.

Net Interest Income (NII)

Net Interest Income of Rs 1,177 mn for the year compares with Rs 1,717 mn for the last year. This was primarily due to liquid funds of

Rs 2.7 bn being utilized for additional investment in Eagle Insurance Company and NDB Bank in 2004, which has resulted in profits shifting from the NII line in the Bank accounts to Group Profit on Consolidation. The decrease also partly reflects the evening-out of the timing differences in revising both lending and borrowing costs downwards throughout 2003.

At the Group level, NII increased by 2% mainly due to the inclusion of the NII of NDB Bank Ltd which became a subsidiary with effect from 1 April 2004.

Net Other Income

The Bank's net other income excluding provisions for security losses decreased by 12% during the year. This was mainly due to the Bank being able to use the declining interest rate scenario in 2003 to realise capital gains from its trading in Government securities which amounted to Rs 203 mn as compared with Rs 94 mn during 2004. Excluding these capital gains and equity income, the Bank's other income continues to be a minor portion of its total income. This is in stark contrast to the high proportion of income earned by the commercial banks from trade finance and forex activities, as they cross-sell their wide range of products to their customers. The merger provides us with the opportunity to close this gap.

The Bank's equity income increased by 8% over the previous year. This was mainly due to increased dividends from both quoted and non-quoted investments.

At Group level, net other income excluding provisions for security losses increased by 6% mainly due to the inclusion of the full year's income of Eagle Insurance Company Ltd and the consolidation of NDB Bank Ltd from 1 April 2004.

Operating Expenses excluding Provisioning

The Operating Expenses excluding Provisioning increased by 6% over the

previous year. This however, includes Tsunami donations of Rs 25 mn. If the Tsunami donations were excluded there would have been only a marginal 2% increase over the previous year. Focussed controls resulted in the overhead cost of the Bank being managed satisfactorily. Overheads have now been kept relatively flat for around four years.

However, at Group level, operating expenses excluding provisioning increased by 59% when compared with the previous year. This was primarily due to the consolidation of Eagle Insurance Company Ltd and NDB Bank Ltd from 1 July 2003 and 1 April 2004 respectively.

If these timing differences were eliminated, Group expenses would have increased by only 6% over the previous year.

Provision for Credit Losses and Non Performing Loans (NPLs)

The Bank made further progress in reducing the level of its non-performing loans, leases and advances which amounted to Rs 2,431 mn at the year end compared with Rs 2,700 mn at the end of 2003, Rs 3,683 mn at the end 2002 and Rs 4,064 mn at the end of 2001. The ratio of NPLs to the total lending portfolio was also down to 9.9% at the end of the year as compared with 10.9% at the end of 2003, 14.0% at the end of 2002 and 13.6% at the end of 2001.

The percentage of specific provisions to NPLs increased from 56% to 64% during the year. Total specific provisions at the year-end amounted to Rs 1,917 mn compared with Rs 2,083 mn as at the previous year-end, while specific and general provisions together amounted to Rs 2,088 mn at the year-end compared with Rs 2,331 mn at the previous year-end. The Bank also makes a general provision against its performing portfolio, as in previous years, based on the risk rating of each project/client. However, there was a release during the year of Rs 78 mn due to the improvement in the quality of the

portfolio. The cumulative general provision amounted to Rs 171 mn at the year-end and the effective rate of general provisioning worked out to 1.02% compared to 1.42% at the end of 2003. General provisions are made on a voluntary basis and are not mandated by the Central Bank of Sri Lanka.

The Bank's open loan exposure, being net of NPLs as a percentage of shareholders' funds, reduced to a healthy 11.3% as compared with 16.0% at the end of 2003.

The charge for the year amounted to Rs 365 mn as compared with Rs 649 mn for the previous year. The charge this year includes Tsunami related provisioning of Rs 125 mn.

The Group is exceptionally well provisioned in accordance with the Bank's commitment to maintaining a high quality of earnings. Thus non-performing loans (NPLs) continued to decline, whereas provisioning cover increased. NPLs at the Bank and NDB Bank Ltd together reduced from Rs 3,119 mn at 1 January 2004 to Rs 2,518 mn at 31 December 2004. The combined NPL ratio was 7.1% at 31 December 2004 compared with 9.8% at 1 January 2004. Total provisions as a percentage of NPLs for the combined banks increased from 83.2% to 84.9% during the year, while specific provisions coverage increased from 75.3% to 78.2%.

Taxation

Corporate taxation for the year was maintained at a similar level as the previous year, and the overall tax charge decreased by 1% even though the Bank's profit before tax declined by 20%. The effective overall tax rates inclusive of the VAT on Financial Services charge was 26% for the year and 21% for the previous year. The increased tax charge was primarily due to the capital gains tax on the sale of government securities reintroduced with retrospective effect including gains made in 2003, a drop in the release of deferred taxation due to a decline in the lease portfolio and an increase in the rate of VAT on Financial

Services from 10% to 15%.

The overall tax rate of the group inclusive of the VAT charge was 37% for the year and 20% for last year. This was mainly due to the increase in the Bank's tax as explained above and the consolidation of NDB Bank Ltd for the current year (which also included capital gains taxes of Rs 68 mn) with an effective tax rate of 63%, of which the VAT on Financial Services forms a substantial portion.

Capital Adequacy

The tier 1 Capital Adequacy ratio of the Bank improved slightly during the year from 28.00% to 28.44%. However, due to the increased investments in NDB Finance Lanka Ltd (the holding company of Eagle Insurance Company Ltd) and NDB Bank Ltd, the tier 1 and tier 2 ratio declined from 21.93% to close at 13.63% as at 31 December 2004. The ratio for the Group declined from 28.45% to 17.11% for tier 1 and from 25.05% to 16.91% for tier 1 and tier 2 due to the consolidation of NDB Bank Ltd during the year. The minimum levels mandated by the Central Bank are 5% for tier 1 and 10% for tier 1 and tier 2.

Regulatory Developments

The Central Bank of Sri Lanka has issued 19 directions to Licensed Specialised Banks, which includes the NDB. The Bank is substantially in compliance with all the directions.

The Bank also complies with the monthly and quarterly reporting requirements of the Central Bank.

Group Returns

The Group earnings per share for the year, decreased to Rs 13.08 as compared with Rs 20.90 for the previous year, a decrease of 37.4%. The Group's return on equity for the year declined to 8.65% compared with 15.26% in 2003 while its return on average assets decreased to 1.57% for the year compared with 3.17% for the previous year.

The Group performance was mainly affected by the "one-off" cost of the Tsunami and the retrospective 2003 taxes.

Share Price

The Bank's share price closed at Rs 160 as compared with Rs 143 at the end of 2003. The All Share Price Index increased during the year from 1,062 to 1,507 (an increase of 42%). The price/book value (PBV) at the year-end was 1.10 as compared with 1.04 at the previous year-end. There was considerable activity on the CSE this year and the Bank's share was one of the most liquid. The proportion of the Bank's shares owned by non-resident shareholders increased slightly from 23% to 24% during the year.

2004 was a year of expansion for NDB Bank Limited, as it continued to implement the growth strategies developed over the past two years. NDB Bank's business performed extremely well, with substantial growth in the Bank's loans, advances and deposits.

As NDB Bank continued to strengthen its ties with NDB, the synergies created between the two banks became more apparent. In the process of rationalising the operations of the banks, the functional departments were re-structured and began working together as integrated units. Sharing of resources and expertise opened the doors to cross-fertilisation of ideas, cross-selling opportunities for business and team building.

The Bank proceeded with its expansion plans for 2004, doubling the number of branches from seven to fourteen, introducing a range of new products and services, and investing in its distribution channels, personnel and supporting infrastructure.

As with all small banks, NDB Bank's expansion was constrained during the first two years by its limited capital base. However, with the Bank's merger with NDB moving towards fruition, the Monetary Board permitted NDB Bank to take into account the capital of NDB in the computation of the capital adequacy ratios and the single borrower limit, from the last quarter of 2003. This eased the capital constraints that were faced by the Bank, and enabled the Bank to substantially grow its credit portfolio.

The healthy performance of NDB Bank's core banking operations enabled the Bank to improve its net interest income from Rs 298 mn to Rs 330 mn in 2004. Profit before tax also grew from Rs 225 mn to Rs 298 mn, despite increased expenses for investment in personnel, premises and equipment, and the anticipated decrease in the income generated from debt trading, compared with 2003. However, profit after tax (PAT) reduced

from Rs 174.6 mn to Rs 113.2 mn in 2004 due to a retrospective tax amounting to Rs 62 mn, being imposed by the Government in 2004, on capital gains from the sale of Government securities in 2003.

It should be noted that when the Bank's profitability is analysed by matching the tax charges against the revenue earned for the respective periods, the PAT of the Bank for 2003 would have been Rs 112 mn and the PAT for 2004, Rs 176 mn. This analysis clearly reflects the upward trend in the Bank's performance.

With the easing of capital constraints, the Bank's corporate banking team leveraged its relationship-focussed approach to grow its portfolio of loans and advances by a healthy 31% during the year. In addition to cultivating its high quality portfolio of top-end corporates, the Bank also significantly increased its penetration into the middle-market corporate sector, concentrating on clients identified as having strong potential for future growth.

While fostering growth, the Bank remained committed to maintaining the high quality of its asset portfolio, with its ratio of non-performing loans as a percentage of the loan portfolio dropping further in 2004 to only 0.86%.

NBL also introduced a range of new consumer banking products, services and new electronic delivery channels.

The Bank's state-of-the-art retail Internet Banking solution 'NDB Bank Online' was launched in February of 2004, offering NDB Bank's customers the convenience and flexibility of being able to bank from anywhere in the world, at any time of day, through the Internet. This service has already proved to be a popular option for many of the Bank's personal banking customers.



NDB Bank also introduced its VISA Electron ATM cum debit card, branded 'NDB Bank Link', to give customer the option of using VISA's worldwide network of over 924,000 ATMs with acceptance at over 22 million locations.

'Dream maker' consumer loans were launched during the last quarter of the year, offering loans within 24 hours to employees of identified companies. The product was driven by a dedicated sales team who, within just three months of its launch, successfully entered into the consumer loan market and got the product off to a very promising start.

NDB Bank's exclusive Privilege Banking service performed very well during 2004, in terms of increasing both its customer base and the deposits under management. As the requirements of our Privilege Banking customers moved towards the concept of wealth management, the unit has now successfully taken on the challenge of providing a true private banking service.

The expanding branch network, together with a focussed drive to increase the Bank's consumer deposit base resulted in a 46% increase in its customer deposit portfolio during the year, and helped to improve the profile of the Bank's deposit mix.

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A world-class Sri Lankan

During the year, NDB Bank applied for a credit rating from Fitch Ratings Lanka Limited and in September 2004 was assigned AA- (sri) national long term rating for the Implied Long Term Unsecured Senior Debt of NDB Bank. AA- (sri) rating indicates that there is a very low expectation of credit risk and a very strong capacity for the timely payment of financial commitments.

As NDB Bank continues to integrate with NDB at a strategic and operational level, its management structure is increasingly congruent with the needs of the future merged entity. Both institutions are working towards a smooth transition, and preparing for what will be a landmark merger of two public quoted banks in Sri Lanka.

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Business Review

Eagle Insurance has once again completed another successful year despite having faced extraordinary challenges in the macro economic environment, competitor pressure and unfavourable outcomes of the natural disaster, which the country went through close to the year end.

It was a difficult operating environment in 2004, particularly with Eagle's non-life business negatively affecting the overall growth. The consolidated revenue increased by 11% to Rs 3,728 mn, whilst total Gross Written Premium income registered a 10% growth to Rs 3,558 mn. The operating profit of the group was Rs.267 mn, a decline of 22% from the previous year. The overall net profit of the group for the financial year was Rs 254 mn translating to an Earnings Per Share of 12.68 with an overall decline of 20% over the previous year. However, excluding special Tsunami relief expenses, the net profit would have registered a growth of 8% over the previous year. Despite lower profitability recorded for the year, Eagle Insurance maintained an attractive Return on Equity of 24%.

Life Insurance Performance

Life insurance business registered a commendable performance. Overall Gross Written Premium recorded a 15% growth year on year to Rs 2,500 mn, whilst Net Written Premium registered a similar growth to Rs 2,368 mn. The Annualized New Business Premium was Rs 783 mn as against Rs 736 mn in the previous year. The Long Term Insurance Funds increased by Rs 1,373 mn during the year. The average policy size increased above targeted levels in line with focused strategies adopted by the business.

Total operating profit of the Life business increased to Rs 261 mn from Rs 254 mn in 2003. The Life surplus transferred to shareholders increased to Rs 250 mn from Rs 215 mn in the previous year, largely due to expense savings and favorable mortality and morbidity experiences.

During the course of the year the Company embarked on a major business initiative to implement a business process re-engineering system for Life insurance, with a view to enhancing the efficiency and effectiveness of its operations, in order to increase the value for its customers, which will continue in implementation throughout the year 2005. Reflecting a continued commitment to expand the customer reach, a new branch office was opened in Trincomalee, increasing the total branch network to 25.

Non - Life Insurance Business

The non-life business faced a year of multiple challenges which took a toll on overall operating results. Gross Written Premium declined marginally from the previous year to Rs 1,058 mn. Net Earned Premium declined by 10% from the previous year to Rs 404 mn. Revenue growth was contained due to an ongoing rationalization of the overall business portfolio and the strategic exit from non-core markets that have yielded losses or unfavorable claims experiences.

Net claims soared by 20% over those incurred in the previous year with large claims being incurred particularly in the Maldivian market and in the aftermath of the Tsunami. In spite of the special Tsunami related expenses of Rs 74 mn, the non-life business recorded an operating profit of Rs 1.97 mn for the year.

With the recent catastrophic events creating a need and awareness in the market place to obtain cover against natural disasters, Eagle Insurance will endeavor to capitalize on this market opportunity to enhance business growth by bringing out the required product offerings.

Asset Management Business

The total fund base of Eagle NDB Fund management grew from Rs 12,733 mn to Rs 14,275 mn in the year under review. An operating profit of Rs 14 mn was recorded as against Rs 16 mn during the previous year.

Eagle Insurance has continued its

commitment to maintain high standards of Corporate Governance not only by meeting the code of best practice, but also going beyond compliance in certain areas by adoption of voluntary compliance measures, keeping in line with its usual way of delivering more than what is promised. With effect from the 2nd quarter 2004, the Company initiated submission of a voluntary compliance certificate to the Insurance Board of Sri Lanka, confirming the status of compliance with the applicable regulations. Also early adoption of the formats as recommended in the Statement of Recommended Practice (SORP) for insurance contracts issued by the Institute of Chartered Accountants of Sri Lanka, in preparation of the financial statements, recorded a further step towards self regulation. Further, Eagle Insurance maintained sound solvency margins both for Life and Non-life businesses well above the minimum levels required by the Regulation of Insurance Industry (RII) Act No 43 of 2000.

Demonstrating Eagle's continued commitment to its policyholders and capability to deliver beyond its contractual obligations, the Company had taken steps to support clients who have been affected by the Tsunami disaster, with special schemes where damages caused were not covered under their policies. These special packages were possible owing to the financial strength of the Company. These schemes were



'Eagle Guru Pubuduwa Workshops' -developing the competencies and capabilities of pre-school teachers



Lifeguards for the Eagle Insurance Safety Programme

developed to minimize the impact on the national economy, to support national economic development through the re-establishment of the affected sources of economic value and to strengthen public confidence in the insurance industry in general. Eagle has and will always function within the core values of Accepting Risk with Responsibility, Being Ethical and Dedication to Customers, when developing mechanisms to support clients affected by this type of natural catastrophes.

As a responsible corporate citizen, the Company continued its efforts in 2004 by introducing 'Eagle Guru Pubuduwa Workshops' designed to develop competencies and capabilities of pre-school teachers to ensure that best education / early childhood development is provided to children. All other regular safety awareness programmes were implemented with high impact; creating enhanced awareness of using firecrackers safely during festive seasons and of the danger of bathing in unsafe tanks in Anuradapura during Poson. This resulted in minimizing related accidents to near zero level. Eagle also continued to recognize excellence in education by providing the annual Higher Education Scholarships to the nation's most promising children who excel at Year 5.



Eagle Insurance Safety Programme to create awareness about the dangers of bathing in unsafe tanks in Anuradhapura during Poson

Excellence Rewarded

Eagle was selected among the 10 best companies practicing corporate social responsibility in the first ever, Best Corporate Citizen award, initiated by the Ceylon Chamber of Commerce.

Eagle also had the distinction of being ranked Sri Lanka's 10th most valuable brand (and 7th in the Brand Power Index), in the Brand Finance / Sting Consultants brand value table.

This first ever "Annual Brand League Table" was

carried out by Brand Finance Plc. the world's leading independent brand valuation company, in collaboration with Sting Consultants, Sri Lanka's leading strategic marketing consulting firm.

In addition Eagle became the unprecedented winner of the best Annual Report and Accounts in the Insurance Sector for the 11th consecutive year and was also runner-up in the SAFA competition for the best presented accounts of the non-banking financial services sector.



"Eagle Guru Pubuduwa Workshops"



"The capacity to care is what makes us exceptional."

CARE

We will never lose the human touch. We will care for our colleagues, our customers, our community and our environment.

Risk Management

Risk Management in the banking industry today demands higher attention than ever before, due to increasing competition, complexity of products, geographical diversity, volatile political and economic environment, stringent external regulations etc.

Banking, by its nature, involves exposure to a multitude of risks which can broadly be classified into credit, market, liquidity, operational, legal and reputation. The current challenge of risk management is to measure all these risks in terms of their probability of occurrence, their correlation and of possible consequences and to put into practice appropriate tools to mitigate them. A systematic and well balanced risk management system in place will enable exploitation of business opportunities in a volatile market whilst preventing potential losses.

Credit Risk

Credit Risk arises as a result of the uncertainty in a counter party's ability or willingness to meet his contractual obligations.

In structuring the credit risk management system to meet these objectives, the Bank has adopted specific measures based on the types of products, concentrations, sectoral risks, branch network, regulatory requirements etc. Employees are constantly kept informed of the importance of credit risk management which ensures they take well calculated risks in their business decisions.

The Bank has a well defined Credit Policy which is reviewed periodically to capture new developments. The need to adhere to policies, procedures and processes is clearly communicated to the staff with stringent measures to monitor and control risks.

Approval of credit facilities is delegated to individuals based on their skills and experience. The Internal Credit Committee

(ICC) and the Board of Directors deal with complex and large credits. The Credit Risk Management (CRM) unit plays a vital role in this process, ensuring the quality of credits and adherence by the staff to policies and procedures.

The post approval and pre-disbursement phase of a credit is handled by the Credit Administration Unit which is independent of the lending units, to ensure that all disbursements are made in accordance with the terms and conditions of the approved proposal. The unit is also responsible for ensuring that all relevant procedures and covenants are followed by the operational staff.

The CRM process is extended to the post disbursement phase of a credit, with credit audits being carried out on a systematic basis. In order to maintain independence, the Credit Audit unit is set up as part of the Internal Audit Department, reporting to the CEO and the Board Audit Committee. The findings of the Credit Audit Team are discussed at the ICC and recommendations are implemented as appropriate.

The CRM unit also ensures that bad and doubtful accounts are adequately provided for. In deciding the provisioning, the Bank considers regulatory requirements, as well as the credit ratings of the company, judgemental assessments etc. This invariably results in a prudential level of provisions over and above the regulatory requirement, which gives additional comfort to stakeholders. The internal credit rating system maintained by the CRM unit is used to determine pricing, approving authority, monitoring process in addition to general provisioning. The ratings are reviewed on an annual basis.

The ICC, comprising senior management, is responsible for formulating credit policies and procedures for managing credit including delegation levels, and maintaining a sound

and well diversified portfolio. Review of the macro economic climate and its impact on the operations of the Bank is part of the functions of the ICC. The committee reviews large and unusual risks prior to approval, while it is also empowered to approve similar cases. Any deteriorating credits are identified and reported to the ICC on a monthly basis for necessary action.

The Board Credit Committee (BCC) is empowered to approve principles, policies, strategies, processes and control framework for the management of risk. The committee critically reviews the quality of the portfolio, unusual and large exposures, adequacy of provisioning, impact of macro economic changes, credit audit findings, decisions taken by the ICC, delegation etc. BCC comprises five non-executive directors, and meetings are scheduled on a quarterly basis.

Operational Risk

Operational Risk encompasses those risks arising as a result of processing errors, systems and procedural failures, human error, frauds, natural disasters and non-compliance with internal policies, external laws and regulations. While operational risk can never be fully eliminated, the Bank endeavours to minimise these by continuously assessing and refining the systems of internal controls. An effective compliance function is also designed to ensure adherence to both internal policies and regulations and external regulatory and statutory requirements.

The internal audit function which is an integral part of this control framework, assists in identifying, evaluating and mitigating operational risks. The Internal Audit Department reports to the Board Audit Committee, which is a Board Sub-Committee comprising entirely of non-executive Directors. The committee is independent of the Bank's operations, thereby enabling the Internal Audit Department to provide proper assurance to the committee on the quality

and effectiveness of the system of internal controls. The committee reviews internal and external audit plans and findings, and makes recommendations for appropriate action.

Legal Risk

This is the risk arising from disputes over contractual obligations, lawsuits or adverse judgments that would cause material financial loss to the Bank. Inadequate documentation legal or regulatory incapacity and other factors may result in the unenforceability of contracts including security documents with counter parties. Such risks are managed through the use of advice obtained from the Bank's Legal Department and the legal officers allocated to each business unit of the Bank. Advice of external professional legal counsel is obtained in appropriate circumstances.

The Bank has complied with and continues to update and maintain a detailed list of all the statutory and other legal requirements which the Bank has to fulfil as a bank, taxpayer employer and as a listed company, the compliance of which is also monitored at Board Level.

Treasury Risks

The Treasury Risks are threefold, namely Interest Rate Risk, Liquidity Risk and the Foreign Exchange Risk. All three risks are measured and controlled through mechanisms laid down at the Bank's Asset and Liability Management Committee (ALCO).

Interest Rate Risk

The Interest Rate risk has three components.

a) Mismatch Risk

The mismatch or the repricing risk is the risk resulting in having assets and liabilities which have interest rate resettings falling into different intervals of time. The tool utilised to monitor the mismatch risk is a Gap Report which analyses all interest rate sensitive assets

and liabilities within five time brackets. Limits for gaps between assets and liabilities have been established for each time bracket. Any exceptions are recorded at the ALCO for approval. Corrective measures based on the interest rate movement are adopted to minimise the interest rate risk arising from mismatches. A more sophisticated Asset and Liability Management package will be implemented to perform inter alia, simulations of market movements.

b) Basis Risk

The basis risk arises as a result of borrowing and lending on different benchmarks. A basis risk analysis is done periodically which highlights the volume of mismatches between assets and liabilities within each benchmark interest rate. The basis risk on the variable rate loan portfolio of the Bank has been favourable due to the selection of benchmarks on borrowings and lendings.

c) Option Risk

The Option Risk is a consequence of having assets and liabilities with either explicit or implicit options embedded in them. The only such explicit option present in the books is the option of prepayment. A formula on claiming prepayment damages is in place to ensure that any interest loss incurred is adequately recovered.

Liquidity Risk

The Liquidity Risk measures the Bank's ability to meet its maturing obligations in a timely and cost effective manner. The Gap Report reflects the mismatch between assets and liabilities. In addition to the gap limits the treasury maintains a treasury bill portfolio as part of the liquidity policy to mitigate the liquidity risk.

Reputation Risk

An organization's reputation is its greatest asset. If impacted, the consequences on financial performance and license to operate can be catastrophic.

In order to maintain the Bank's reputation and preserve the confidence of the various stakeholders, the Bank has in place an effective Compliance system where the Compliance Officer monitors adherence by the Bank of all applicable laws, regulations and statutory requirements and makes quarterly submissions to the Board and the Audit Committee. A Compliance policy and code of conduct has also been issued to all staff to ensure that the highest ethical behavior is maintained at all times.

Corporate Information

Name

National Development Bank of Sri Lanka

Legal Form

Incorporated in Sri Lanka by Act of Parliament, No. 2 of 1979 as amended by Acts Nos. 10 of 1990, 10 of 1992 and 34 of 1999.

Statutory Status

The National Development Bank of Sri Lanka was set up as a wholly state-owned institution by an Act of Parliament in January 1979. Following a change of ownership structure in 1993, 61% of the share capital of the Bank was transferred to private ownership. In 1997 the Bank was privatised further by the early conversion of its convertible debentures and the disposal of the resulting shares. This reduced the Government's direct shareholding to 12.2%. Thereafter, a further 2.56% was allocated for the Employee Share Option Scheme. In April 2000 the Bank issued a further 17,916,667 shares in the ratio of 1:2 as Bonus Shares thereby increasing its total issued share capital to 53,750,000 shares. The Bank continues to function under its original statute, as amended, whilst its shares are quoted on the Colombo Stock Exchange.

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Board of Directors

S K Wickremesinghe (*appointed wef 28.05.2004*)
H D S Amarasuriya
A G Karunasena
G C B Wijeyesinghe
L de Mel
S R de Silva
A R Gunasekara (*appointed wef 30.08.2004*)
Ms S Cooray (*appointed wef 15.10.2004*)
P M Nagahawatte (*appointed wef 15.10.2004*)
A A Pio (*appointed wef 06.12.2004*)
N S Welikala (*Director/General Manager*)
D M Swaminathan (*resigned wef 12.05.2004*)
J R Cooney (*resigned wef 23.07.2004*)
S E Captain (*resigned wef 15.10.2004*)
S Enderby (*resigned wef 16.11.2004*)

Audit Committee

G C B Wijeyesinghe (*Chairman*)
A G Karunasena

S Enderby/N Siriniwasan (*resigned wef 16.11.2004*)
D M Swaminathan (*resigned wef 12.05.2004*)
L de Mel

Human Resources Committee

H D S Amarasuriya (*Chairman*)
J R Cooney (*resigned wef 23.07.2004*)
D M Swaminathan (*resigned wef 12.05.2004*)
L de Mel
S R de Silva

Nomination Committee

S K Wickremesinghe (*Chairman*)
S E Captain (*resigned wef 15.10.2004*)
H D S Amarasuriya
G C B Wijeyesinghe

Credit Committee

A G Karunasena (*Chairman*)
S Enderby/N Siriniwasan (*resigned wef 16.11.2004*)
J R Cooney (*resigned wef 23.07.2004*)
D M Swaminathan (*resigned wef 12.05.2004*)
L de Mel

Strategic Issues Committee

S K Wickremesinghe (*Chairman*)
S E Captain (*resigned wef 15.10.2004*)
J R Cooney (*resigned wef 23.07.2004*)
H D S Amarasuriya
G C B Wijeyesinghe

Subsidiary Companies as at 31.12.2004

Capital Development & Investment Co. Ltd
Development Holdings (Pvt) Ltd
NDB Housing Bank Ltd
NDBS Stockbrokers (Pvt) Ltd
NDB Venture Investments (Pvt) Ltd
NDB Industrial Estates (Pvt) Ltd
NDB Investment Bank Limited
NDB Finance Lanka (Pvt) Ltd
NDB Bank Limited
Eagle Insurance Company Ltd

Associate Companies as at 31.12.2004

Ayojana Fund (Pvt) Ltd
Maldives Finance Leasing Co. (Pvt) Ltd.

Stock Exchange Listing

The shares of the Bank are listed with the Colombo Stock Exchange

Company Secretary

C L Jayawardena
Attorney at Law

Auditors

Auditor General
Independence Square, Colombo 7

Ernst & Young
201, De Saram Place, Colombo 10

Bankers

Sampath Bank Limited
NDB Bank Limited
Bank of Ceylon
Hatton National Bank Limited
People's Bank
Commercial Bank of Ceylon Limited
Seylan Bank Limited
Standard Chartered Bank
Hong Kong & Shanghai Banking Corporation Limited

Group Senior Management

Director/General Manager - NDB
N S Welikala

Chief Executive Officer - NDB Bank

E Wickramaratne

Head of SME, SME Development and Auto Finance

A L Somaratne

Head of Audit and Compliance

S N Jayasinghe

Head of Consumer Banking & Marketing

I A Wickramasinghe

Head of Corporate Banking

R A Bibile

Head of Operations and IT

E D K Weerasuriya

Head of Risk Management

N I R de Mel

Head of Treasury

N Ratnayake

Head of Finance, Planning & HR

A C M Fernando

Head of Legal

Mrs C L Jayawardena

The Governance Framework

A sound understanding of good governance - organisational transparency, disclosure and accountability - is essential for maximizing an organisation's performance and enhancing its reputation. Corporate Governance is concerned with holding the balance between economic and social goals. The governance framework thereto encourages the efficient use of resources and equally requires accountability for the stewardship of these resources. The aim is to align as nearly as possible the interests of individuals, corporations and society. The incentive to corporations is to achieve their corporate aims and to attract investment.

Corporate Governance emphasises the need to balance the achievement of corporate objectives against the need for a sound framework of controls, in the best interest of all stakeholders, while maintaining high standards of industrial and professional ethics.

NDB in its endeavor to maintain a high degree of commitment to Corporate Governance practices, has adopted amongst others, the following strategies and techniques :

- >> A well articulated corporate strategy against which the success of the overall enterprise and the contribution of individuals can be measured.
- >> Structure in the organization which specifies the distribution of rights and assigns responsibilities among different participants in the corporation and among other stakeholders.
- >> Structure of the Board and appointments to the Board of Directors.
- >> Strong internal controls systems including internal, external audits and risk management functions independent of the business lines.
- >> Effective internal and external information flows and ensuring appropriate financial reporting.
- >> Promoting fairness and transparency in the corporation.

- >> Appropriate financial and managerial incentives structure tied to accountability and responsibility.

In this context the Institute of Chartered Accountants of Sri Lanka (ICASL) via a Committee on Financial Aspects of Corporate Governance has published a 'Code of Best Practice' for voluntary adoption by all companies quoted on the Colombo Stock Exchange. The Securities and Exchange Commission (SEC) also recommends that all public companies disclose their corporate governance practices in their annual reports.

The NDB as a leading corporate citizen, fully supports the recommendations of the Committee on Financial Aspects of Corporate Governance and has voluntarily complied with its major recommendations, including the aspects referred to by the SEC. Accordingly, this section sets out the Bank's responses to these recommendations and the governance practices followed by the Bank in general.

The Board of Directors

Directors are representatives of shareholders and ensure that corporate management acts in the best interest of the shareholders. The Board of NDB comprises of eleven Directors of whom ten, including the Chairman are non-executive Directors. The General Manager, who is the Chief Executive Officer (CEO) of the Bank, functions as an Ex-officio Director with non-voting rights. The separation of the positions of the Chairman and CEO is embodied in the incorporating statute of the Bank namely, NDB Act No. 2 of 1979. The filling of vacancies of elected Directors are made on the recommendations of the Nominations Sub Committee of the Board. The Directors of NDB are professionals and eminent personalities from both the private and public sectors, who are able to add value to the corporate governance process. The Board has also formulated appropriate checks and balances to ensure that the corporate governance process is

upheld at all times. In addition to the basic governance issues, the Board lays strong emphasis on transparency, accountability and integrity of transactions, in line with some of the recent papers issued on sound governance practices by the Basel Committee on Banking Supervision, such as 'Enhancing Corporate Governance for Banking Organizations'. While the Board is entrusted with the responsibility of providing leadership in attaining the Bank's strategic aims, it is the responsibility of the corporate management to ensure the implementation of these strategies. To this end, the Board has delegated its authority to the corporate management in operational areas within clearly defined limits.

The Board has met 11 times for this year. Matters considered at these meetings include reviewing of corporate strategy, budgets and forecasts, operational and financial performance, including portfolio quality and reporting to shareholders.

Board Sub Committees

To facilitate focused attention on specific areas of review, the Board of NDB has appointed five sub committees that are deemed necessary for effective discharge of their duties.

There are namely – The Audit Committee, Credit Committee, Nomination Committee, Strategic Planning Issues Committee and the Human Resource Committee. Each of these committees have their own terms of reference and the minutes of these meetings are tabled at the Board Meeting for ratification.

Audit Committee

The External Audit of the Bank is carried out by the Auditor General, who in turn appoints a firm of Chartered Accountants to assist him in the audit work. The Audit Committee serves as a means of communication between the Board of Directors, the external auditors, the internal auditors and the management of the Bank. The Bank has an effective Internal Audit

Department which reports to the Audit Committee and which continuously monitors the internal controls, systems and processes of the Bank and makes recommendations to improve the process where necessary. This enables the Internal Audit Department to provide reasonable assurance to the Audit Committee on the quality and effectiveness of the system of internal controls prevalent within the organization. The Audit Committee approves the audit plans in advance and provides a forum for discussion of issues and recommendations highlighted in the audit reports.

The Audit Committee has a Chairman and four members who are non-executive Directors of the Bank. The Audit Committee Charter clearly lays down the authority, responsibilities and the specific duties of the Audit Committee. The Head of Internal Audit and Compliance acts as its Secretary and the convener. The Audit Committee assists the Board in providing an independent review of financial reporting, the effectiveness of the internal controls and the sufficiency of the internal and external audits and the Compliance with Legal/Statutory requirements. The Committee met six times during the year.

Credit Committee

The Board Credit (see also Risk Management report on pages 34 and 35) Committee is headed by a Chairman and comprises of three non-executive Directors while the Head of Risk Management functions as its Secretary. The Board Credit Committee is empowered to approve principles, policies, strategies, processes and control framework for the management of risk. The Board Credit Committee reviews the quality of the portfolio, the large exposures, adequacy of provisioning, impact of macro economic changes and credit audit findings. The Board Credit Committee met four times during the year.

Nomination Committee

The Nomination Committee is headed by the Chairman of the Bank and has 3 non-executive Directors serving on it. They evaluate the requirements of the Board of Directors and are responsible for the identification of suitable persons to be recommended by the Board of Directors to the shareholders to be appointed at the AGM and , whenever a vacancy arises.

Strategic Issues Committee

The committee is headed by the Chairman of the Bank and has 3 non-executive Directors serving on the committee. The committee is responsible for evaluating all major strategic decisions taken by the Bank. The committee reviews the strategy development and implementation process and assesses the key business drivers. The Committee met three times during the year.

Human Resources Committee

This committee is responsible for the Bank's market oriented remuneration policy for its staff and thereby attracting and retaining quality staff with proven business experience and quality. It is further responsible for reviewing recruitment and promotions of the senior management and executive officers and thereby ensuring that an effective succession plan is in place for the Bank. The Committee has a Chairman and four non executive Directors serving on it.

Transparency

Currently NDB has over 6,000 shareholders. The annual report and the quarterly financial statements published by the Bank on the

Structure & Composition of the Board Sub Committees as at 31st December 2004

Name of Directors	Audit Committee	Credit Committee	Strategic Issues Committee	Human Resources Committee	Nominations Committee
S K Wickremesinghe			*		*
H D S Amarasuriya				*	
A G Karunasena		*			
G C B Wijeyesinghe	*				
L de Mel					
S R de Silva					
P M Nagahawatte					
S Cooray					
A A Pio					
A R Gunasekera					

* Indicates Chairman of the Sub Committee

“Corporate Governance emphasises the need to balance the achievement of corporate objectives against the need for a sound framework of controls, in the best interest of all stakeholders, while maintaining high standards of industrial and professional ethics.”

appropriate dates would provide them with comprehensive information, which would enable them to make a fair appraisal of the Bank’s performance.

Compliance

The Bank has a process to ensure compliance with applicable laws and regulations and reports to the Board Audit Committee. Monthly and Quarterly Compliance Reports are submitted to the Central Bank of Sri Lanka setting out the Bank’s compliance with Central Bank guidelines and circulars. Quarterly Compliance Reports are submitted to the Board Audit Committee of the Bank on compliance with statutory requirements and the NDB’s internal Compliance Policy and Code of Conduct.

The Compliance Officer ensures compliance with regulatory requirements and with internal policies. Regulatory compliance ensures compliance with Central Bank directives, Inland Revenue statutes, CSE and SEC regulations, Labour Laws of Sri Lanka, The Banking Act, NDB Act, Civil Procedure Code, Mortgage Act, Parate and Debt Recovery Acts. Compliance is also ensured with all laws and statutes pertaining to NDB’s operations.

There is a strong culture of internal compliance, which ensures compliance with the Compliance Policy Code of Conduct, Anti Money Laundering Policy, IT Security Policy, Credit Policy and the HR Policy.

As a Bank we are conscious of our responsibility to the shareholders, customers and other stake holders and therefore ensure our commitment to the highest standards of ethical behavior in our organization.

Report of the Directors

The Directors of the National Development Bank of Sri Lanka have pleasure in presenting their report and the audited financial statements for the year ended 31 December 2004.

Principal Activities

The principal activities of the Bank and the Group are described under Note 1 to the financial statements on page 63.

Details of the Group companies indicating the Bank's own holding in key companies are shown on pages 8 and 9.

Review of Business

The Chairman's Review, the Chief Executive's Review, the Financial Review and the Operations Review which form an integral part of the Directors' Report, contain a detailed description of the operations of the Bank during the year ended 31 December 2004 and contain a fair review of the Bank's affairs.

Responsibility in respect of Accounts

The Directors are required by the rules made under section 76 of the National Development Bank of Sri Lanka Act No 2 of 1979 to prepare financial statements from time to time, maintain proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and ensure that the accounts comply with the provisions of the said Act and any other law or statute.

The Directors are satisfied that the financial statements, presented on pages 54 to 88 inclusive, give a true and fair view of the state of affairs of the Bank and the Group as at 31 December 2004 as well as the profit for the year then ended.

The Directors consider that, in preparing these financial statements, suitable accounting policies have been used which are applied consistently and supported by reasonable and prudent judgement and that all

applicable accounting standards have been followed. The financial statements are prepared on a going concern basis.

The Directors are satisfied that all statutory payments have been made up to date.

Corporate Governance

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

A description of the Bank's Corporate Governance practices is set out on pages 37 to 39.

Profits, Reserves and Dividends

The Group's Profit before Taxation including that of its subsidiaries and its share of profit from Associate Companies amounted to Rs 1,287 mn (compared to Rs 1,526 mn in 2003). After deducting Rs 481 mn (versus Rs 305 mn in 2003) for taxation, the Profit after Tax for the year amounted to Rs 805 mn (compared to Rs 1,221 mn). Details are given in the income Statement on page 54.

The figures relating to the operations of the Bank are summarised as follows:

	2004 Rs mn	2003 Rs mn
Profit before tax	920	1,146
Less tax	241	242
Profit after tax	679	904

The Directors propose that a final dividend

of Rs 6.00 per share be paid out of the profits of the Bank for the year 2004. The Bank paid a final dividend for the previous year of Rs 5.75 per share.

Details of the reserves are shown in the Statement of Changes in Equity on page 58.

Property/Equipment and Depreciation

Details of the property and equipment of the Bank, additions made during the year and the depreciation charges for the year are shown in Note 28 to the Accounts on pages 77 and 78.

Donations

No donations to external charitable organisations or political organisations were made by the Bank during the year, except for funds contributed for rehabilitation of tanks and relief funds made available for the Tsunami affected community.

Portfolio Loss Provision

The Directors have taken all reasonable steps in relation to the writing off and providing for portfolio losses. In respect of bad and doubtful loans they have satisfied themselves that all known bad loans and advances have been written off and where necessary, adequate provision has been made for doubtful loans. Apart from making specific provisions for identified bad and doubtful debts, in accordance with Central Bank rules, the Bank carries a general provision on the performing portfolio based on the risk rating model. This results in the Bank's cumulative provision exceeding the minimum provisioning levels required under the Central Bank's directions.

In terms of the Sri Lanka Accounting Standards, provision has been made for any permanent diminution in value in the case of investment securities and any fall in the value of dealing securities on an aggregate portfolio basis.

As at the date of this report, the Directors are

not aware of any circumstances, which would render inadequate the amounts written off or provided for portfolio losses in the accounts of the Group.

Post Balance Sheet Events

In the opinion of the Directors, no item, transaction or any other material event of an unusual nature has arisen in the interval between the end of the financial year and the date of this report, which would affect substantially the results of the operations of the Bank or the Group for the financial year in respect of which this report is prepared.

Share Capital

The authorised and issued share capital of the Bank at the beginning and end of the year under review was Rs 2,000 mn and Rs 537.5 mn respectively.

Directors and their Interests

In terms of the provisions of the National Development Bank of Sri Lanka Act No 2 of 1979 as amended by Act Nos 10 of 1990, 10 of 1992 and 34 of 1999 (NDB Act) the Board of Directors, as at 31 December 2004, consists of 11 directors, including the Chairman, made up as follows:

- >> Four directors elected at the Annual General Meeting of the Bank
- >> Two directors nominated by the Government / Central Bank
- >> The General Manager, who is the Chief Executive Officer, as an ex-officio non-voting director
- >> Four directors appointed as casual vacancies

In terms of the provisions of the NDB Act, one-third of the elected directors shall retire from office and new directors will be elected at each Annual General Meeting of the Bank.

Directors' Interests in contracts with the Bank, both direct and indirect, are disclosed in Notes 45 and 46 to the Financial Statements on pages 86 to 88. These interests have been

declared at and recorded in the minutes of the relevant Board meetings and such Directors have not taken part in any deliberation or decisions of the Board with respect to such contracts.

The Directors who held office during the year under review are shown on pages 10 and 11.

Major Shareholders

The 20 largest shareholders of the Bank as at 31 December 2004 are given on page 91 together with an analysis of the shareholdings. As at that date the Bank had 5,842 shareholders.

Board Sub-committees

There are five permanent sub-committees of the Board, namely the Audit Committee, the Strategic Issues Committee, the Human Resources Committee, the Credit Committee and the Nominations Committee. Members of these five committees during the year are given on page 36.

Directors' Shareholdings

Shareholdings of the Directors in the Bank as at the year-end and their corresponding holdings as at the end of the previous year are as shown below.

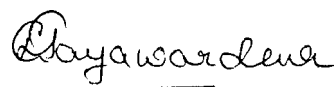
Name	As at 31.12.04	As at 31.12.03
S K Wickremesinghe	300	300
H D S Amarasuriya	3,950	3,950
S Cooray	-	-
L de Mel	10,300	10,300
S R de Silva	-	-
A R Gunasekara	500	-
A G Karunasena	-	-
P M Nagahawatte	-	-
A A Pio	-	-
G C B Wijeyesinghe	-	-
N S Welikala	-	-

Auditors

The Auditor General is the Auditor of the Bank in terms of Section 55 of the NDB Act and in terms of the provisions of the Constitution of

the Democratic Socialist Republic of Sri Lanka. The Auditor General has appointed Messrs Ernst & Young to assist him in carrying out the audit of the accounts of the Bank for the year ended 31 December 2004. The report of Messrs Ernst & Young was submitted to the Auditor General who in turn has issued the Auditors' Report produced on page 53.

By order of the Board



C L Jayawardena
Board Secretary

10 March 2005



"Nothing great has been accomplished in the world without passion."

PASSION

We will embrace challenges with passion, and aggressively pursue our goals.

Human Resources

As we celebrate the milestone of completing 25 years of service, it is our strong belief that the key driver of this journey of success has been our multi-talented team. NDB now embarks on a new chapter filled with opportunities and challenges. NDB reiterates it's commitment towards enhancing our competitive advantage through the talent, enthusiasm and contribution of every member of our valued team.

Our Multi Talented Team

NDB prides itself in bringing together individuals from diverse specializations to form one dynamic team. The Bank has displayed its commitment towards this endeavor through investment in the continuous professional development of our staff. Our management and executive cadre of 177 possess a diverse range of professional and academic qualifications. This is illustrated below:

Qualification	No. of Employees with Qualification	Percentage (%)
Accountancy	97	29%
Commerce/Management	61	18%
Law	34	10%
Information Technology	25	7%
Science	24	7%
Engineering	21	6%
Banking	16	5%
MBA	13	4%
Other Postgraduate Qualifications	12	4%
Other Qualifications	10	3%
Marketing	10	3%
Agriculture	9	3%
Arts	6	2%
Total Qualifications	338	

Number of Managers/Executives as at 31st December 2004 - 177
Ratio of Staff to Qualifications - 1 : 1.91

These multi-skilled individuals have contributed the right attitude, experience and skills throughout the 25 years to build a formidable institution which has achieved outstanding success in the financial industry.

Towards Synergy in the Face of Change

A key challenge posed by the merger is the management of change. This involved the integration of two diverse cultures, as well as changes in job structures, systems, processes

and policies. The Bank enlisted the professional services of independent HR consultants to conduct job, salary and structural evaluations.

Inter-Group transfers in the form of assignments and secondments provided an opportunity for NDB employees to orient themselves with the processes and products unique to the commercial banking environment at NDB Bank.

An open communication culture through top down and lateral communication meetings with the involvement of all employee cadres was established.

An Employee Satisfaction Survey was conducted to evaluate our employees' satisfaction with issues ranging from the merger, perception of NDB as an employer, career growth and satisfaction of the employee's job.

Towards Our New Vision: World Class Sri Lankans

The launch of a common vision, mission and values for the NDB Group in October 2004 facilitated the process of inculcating a 'One Team' mindset. A cross-functional team assisted senior management in this endeavour and contributed towards making the NDB Group's Values more intrinsically acceptable to our team and it's work ethic.

NDB has invested considerably in enriching its talent pool through training and staff development programs that were aimed at closer aligning our human resources with corporate goals, and our new vision. The training provided focused on empowering our team to be the drivers of the Bank's future.

In 2004, NDB provided training for our employees in diverse areas with focus being placed on credit risk management, customer

service excellence and enhancement of technical and behavioral skills. Furthermore, substantial investments were made towards offering foreign based training. These foreign training programs not only concentrated on augmenting the individual's competencies needed in the future to create growth in their area of specialization, but also facilitated the process of instilling out-of-the-box thinking.

The development of our support staff was also a key feature of training this year. Training provided to our support staff emphasized personal and career development. This was done with the objective of preparing our support cadre to take on more tasks, duties and responsibilities created as a result of the merger.

An interactive outdoor team building program held for all employees of both NDB and NDB Bank focused on further facilitating the process of the harmonization of two diverse organization cultures as well as in instilling the NDB Group Values.

Looking to the Future

As NDB's future unfurls before us we will strengthen our commitment towards providing the opportunity for every member of our team to continue to make productive and unique contributions to the organization by promoting continuous learning, development of professional potential and most importantly creating new vistas for exemplifying our team's creativity and innovation. As NDB aspires to be a World Class Sri Lankan Bank, we will enrich our team with the spirit and inspiration needed to embrace our values of Integrity, Care, Passion, Teamwork and Service.



Interactive outdoor team building program in action

Nihal Welikala

Mr Welikala is a Bachelor of Laws of the University of Sri Lanka, a Fellow of the Institute of Chartered Accountants of England and Wales, and an Associate Member of the Institute of Chartered Accountants of Sri Lanka. He worked for several years at the London offices of Ernst and Young, and prior to joining NDB, was CEO of Citibank NA Colombo. Mr. Welikala served on the Board of NDB as an alternate director for the ADB, since its privatisation, and joined the NDB as the Deputy General Manager in January 1999. He assumed duties as the General Manager of NDB on 1st January 2002. He is also a director of several of the NDB Group companies.

Eran Wickramaratne

Mr Wickramaratne has been CEO of NDB Bank, since its inception in October 2001. Prior to this, he functioned as Assistant General Manager responsible for Relationship Banking, Infrastructure and Privatisation at NDB. He joined NDB in 1999 from Citibank, where he was Vice President and Corporate Bank Head. Mr. Wickramaratne holds a Degree in Economics and Politics, and a Masters in Economics from the University of London.

Lionel Somaratne

Mr Somaratne has served NDB for over 23 years and is Assistant General Manager overlooking SME, SME Development and Auto Finance. His combined work experience at Central Bank and DFCC spans over 15 years. He holds a Master's Degree in Economics, a B.Sc. (Business Administration) from the University of Sri Jayawardenepura and is an Associate Member of the Chartered Institute of Management Accountants, UK.

Nilam Jayasinghe

Mr Nilam Jayasinghe joined the NDB eight years ago and is currently the Head of Audit and Compliance. He is a Fellow of the Chartered Institute of Management Accountants (CIMA), UK. Before joining NDB, he served Aitken Spence & Co. as its Group Treasurer and Director of Aitken Spence Corporate Finance Ltd., prior to which he worked as Finance and Commercial Manager, Lanka Tiles Ltd. Mr Jayasinghe is a past president of the CIMA Sri Lanka Division. He counts over 20 years experience in Treasury and Finance.

Indrajit Wickramasinghe

Mr Wickramasinghe is presently the Head of Consumer Banking & Marketing. He holds a Masters degree in Business Administration from the University of Sri Jayawardenapura. He is also a member of the Chartered Institute of Marketing, UK. Before joining the NDB Group four years ago he held the position of Head of Marketing at Reckitt & Colman of Ceylon Ltd. Mr Wickramasinghe has over 15 years experience in the FMCG and Financial Service Sectors.

Ranjit Bibile

Mr Bibile is the Head of Corporate Banking. He is an Associate of the Institute of Bankers, UK. Prior to joining the NDB Group, he served the Nations Trust Bank as its Assistant General Manager - Corporate Banking, and was Head of Corporate Banking at Deutsche Bank AG. His experience in Banking and Finance exceeds 35 years.

Kumar Weerasuriya

Mr Weerasuriya is Head of Operations & IT. Prior to joining NDB Group he was with several local and international banks. More recently with Standard Chartered Bank and Mastercard International. He counts over 29 years experience in Banking and Finance.

Russell de Mel

Mr Russel de Mel is the Head of Risk Management. His service at NDB which spans nearly 25 years, has been in the Corporate Banking field. An Associate of the Chartered Institute of Management Accountants (UK), Mr de Mel has been with several private sector organisations prior to joining NDB.

Nimal Ratnayake

Mr Nimal Ratnayake is the Head of Treasury. He is a Fellow of the Chartered Institute of Bankers, UK. Before joining NDB Bank three years ago, he held the position of Treasurer at the National Development Bank. He also served the Commercial Bank of Ceylon Ltd. in the capacity of Chief Dealer/Senior Manager, Treasury and has to his credit over 27 years banking experience.

Manilka Fernando

Mr Manilka Fernando is the Head of Finance, Planning & HR. He holds a Masters degree in Business Administration from the University of Georgia, USA and is a Fellow of the Institute of Chartered Accountants, Sri Lanka. Before joining NDB Mr Fernando worked at Mashreq Bank, Dubai, (UAE) as Assistant Vice President, Strategic Planning & Finance and at Citibank, Colombo as Financial Controller. He has been in Banking and Finance for over 17 years.

Chrisanthi Jayawardena

Mrs Jayawardena is the Head of Legal. She is an Attorney-at-Law. Before joining NDB she was at Messrs F J & G de Saram, Attorneys-at-Law. Mrs Jayawardena counts over 23 years experience at the National Development Bank.

NDB Fishermen's Relief Trust Fund

In response to the Tsunami disaster, the National Development Bank (NDB) Group set up the NDB Fishermen's Relief Trust Fund (NDB-FRTF) in January 2005 with the objective of lending a hand to the small-scale fishermen who lost their only source of income.

The NDB Group is now in the process of raising funds from well wishers both here and abroad, who share its vision of building sustainable livelihoods for fishermen.

Since its inception, the trust has established contacts with boat builders and suppliers of engines and fishing nets and screened several hundred applications for help. At the time of writing, the trust has committed a sum of Rs 6.5 mn to replace 32 boats and 2 engines and repair 40 boats and 48 engines.



A manager from the Bank talks to fishermen

The numbers escape comprehension. 40,000 dead, 1,000,000 homeless. Months after the 26th of December 2004, the sheer scale of the catastrophe is still hard to understand. But, as so often is the case, it is the individual stories that really bring the pain home to us.

Projects Enabled by Contributions



Anura

At 32, Anura had built himself a good life in Weligama, a fishing town on the South Coast of the country. He has lived in this house, which belonged to his father before him, with his wife and two children, 12-year old Thilini and 4 year old Sameen.

Being a full moon Poya day, a day for religious observances in the Buddhist calendar, most of the fishermen in Weligama did not put out to sea that day. Anura's boat was dragged up on the beach and he was relaxing at home with his family when he heard shouts from the beach, that the sea level was rising. He started to run towards his boat to move it to safety, "but when I saw the sea pulling back", he says, "I turned and ran for my family. We made it to the back wall and found the gate was jammed shut, but now the water seemed to be rising up from the ground itself, and was already waist high. I virtually threw the children over the wall, scrambled up after them, and pulled my wife over as well. Before we could get any further, the wall collapsed, we were swept up in the raging water. My daughter's leg was badly cut. I managed to grab hold of both children and somehow made it to the railway platform and relative safety. But I lost sight of my wife. As I waded back through the water, which was black with mud and debris, I saw a body floating and grabbed it to check whether it was still alive. It was my wife and she was not alive." He chokes up and struggles to gather himself together. "My kids are ok, I need to start providing for their future," he says briskly. "My crew and I are ready to go out to sea again, as soon as we can get a boat."



Ariyasena

Ariyasena is the patriarch of a typical fishing family on Sri Lanka's Southern Coastal belt. His four sons, all of whom carry his initials D.A. (Dalugoda Arachhilage), now operate four motorised catamarans.

The 45-footers known as a 'wallam' or 'corse oru' in the area, are rough fibreglass versions of the original sail-powered wooden design from a century ago, with a bulbous bottom narrowing to a neck just two feet across, on which the fishing crew perch. Standing on its keel, the boat is almost as tall as a man, with an elongated prow that extends upward and outward, to cope with rough seas. A narrow outrigger or 'kollewa' gives the boat stability and in its modern form the boat typically carries a 25 horsepower outboard engine.



NDB's Engineering Support Services Manager inspects damaged boats

The 'D.A.' family's boats carry a regular crew of 9-11 fishermen each, all from the neighbourhood. Each boat carries a collection of nets of varying dimensions to suit the different sizes of fish. Ariyasena explains that his sons' boats leave the beach together each

morning, but then split up in search of shoals of fish. When they find a shoal, they surround it by laying their nets out in a circular pattern and then gradually haul in the two ends towards the boat, using a drawstring to close off the bottom of the net. The fish are then scooped up in hand nets and tossed to the bottom of the boat. "When my sons come ashore with a catch, I auction the fish to buyers who come to the beach," says Ariyasena. "The main fishing season is from November to April. After that the South-west Monsoon sets in and the seas get too rough for our boats. Then we can only go out whenever we have a calm day". We need to get our boats fixed, so that we can make use of the rest of the season."

Only half of Ariyasena's house remains standing after the Tsunami, and two of his children's houses have been levelled to the ground. But the family considers themselves lucky because no lives were lost. As with most of the seafarers in the area, they have little time for self-pity. They only ask for a helping hand to get them back on their feet, so that they can get on with their lives.



Aftermath of the Tsunami

More information on the NDB Fishermen's Relief Trust Fund can be obtained by calling, on +94 11 777418707 or by logging on to <http://relief.ndbbank.com>



The Mamadala Wewa

'Dahasak Maha Wewa' Programme

The irrigation tank selected by the Bank for restoration under the Government sponsored 10,000 Tanks Rehabilitation and Restoration scheme is the Mamadala Wewa located close to Ambalantota in the Hambantota District. The Mamadala Wewa is the first tank in a cascade of several tanks irrigating an area of 8,800 acres of paddy in both Maha and Yala season. The command area under this tank is around 2,500 acres. The tank water spread area is around 100 acres, which classifies this tank as a major irrigation tank. There are around 600 families who benefit from the water supplied by this tank. The tank is currently silted up and as such does not store or provide enough water to irrigate the entire command area coming under its purview. The proposal to restore this tank is based on a well-researched and analysed study to restore this irrigation system. This tank's primary source of water is from the Walawe Ganga right bank diversion canal. Other sources of water are from rainfall and from irrigation projects runoff up stream of the tank. The detailed cost estimates for de-siltation of the irrigation tank, are currently being prepared by the Irrigation Department under whose supervision the project will be implemented. The project will be implemented by a committee comprising a representative of the beneficiaries, the village priest and the Bank's Engineering Support Services Manager.

Training for Unemployed Youth

The Bank has partnered the Competency based Economies for Formation of Enterprise (CEFE) to conduct several programmes designed to enhance entrepreneurial competency. Three programmes were conducted during 2004, in Kalutara, Moneragala and Hambantota, involving around 65 participants, of which the majority were women.

Construction Technicians Programme

This programme was conducted together with the Construction Equipment Training Centre, which is the training arm of the Institute for Construction Training & Development. It was completed in December 2004, and 22 young participants are now undergoing further training in several construction related companies.

HVAC Training Programme

Another programme was launched in November 2004 to train 20 youths in heating, ventilation and air-conditioning (HVAC). Conducted with the assistance of CETRAC, the programme will run for one year and the youth, once trained, are expected to be employed by established companies or start their own enterprises.

These training programmes have been funded under the KfW Grant Complementary Measures Component.



"The essential ingredient of successful business is absolute integrity."

INTEGRITY

We believe in truth, justice and fair play, above all else.

Financial Information

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Financial Calendar 2004

Interim Quarterly and Audited Reports for 2004

March	22 May 2004*
June	20 August 2004*
September	25 November 2004*

Annual Reports and Accounts

2002	19 March 2003
2003	29 March 2004
2004	12 April 2005

Meetings

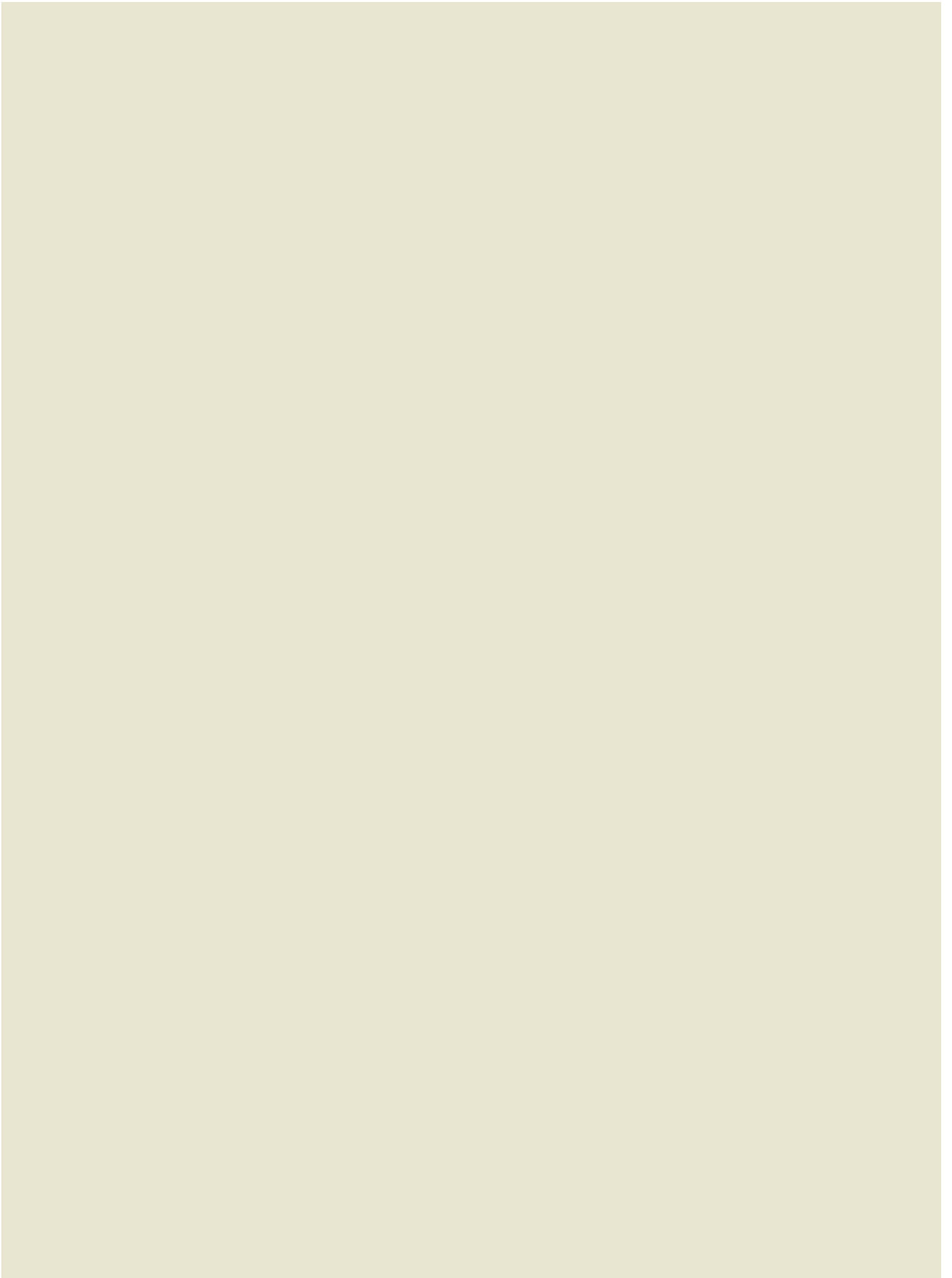
Eleventh Annual General Meeting	10 April 2003
Twelfth Annual General Meeting	20 April 2004
Thirteenth Annual General Meeting	6 May 2005

Dividends

Final Dividend 2002	22 April 2003
Final Dividend 2003	27 April 2004
Final Dividend 2004	13 May 2005**

** Published In the newspapers*

*** Subject to approval by the Shareholders*



Statement of Responsibilities of the Directors

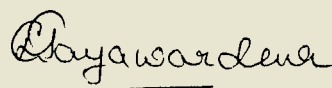
The Directors of the National Development Bank of Sri Lanka (NDB) are required by relevant statutory provisions to prepare and table at a General Meeting of the Bank, such financial statements as may be necessary, which give a true and fair view of the state of the Bank and Group. The applicable statutory provisions are embodied in the National Development Bank of Sri Lanka Act No 2 of 1979 (NDB Act) and the Banking Act No 30 of 1988 (as amended).

It is also the responsibility of the Directors to ensure that the company maintains proper accounting records and to take reasonable steps as far as practical to ensure the accuracy and reliability of accounting records and to prepare financial statements using appropriate accounting policies applied consistently and supported by reasonable and prudent judgment and estimates in compliance with the, Sri Lanka Accounting Standards, the Banking Act No 30 of 1988 (as amended) and the Listing Rules of the Colombo Stock Exchange. Changes in the accounting policies where applicable and the rationale for the changes have been disclosed in the "Notes to the accounts".

The Directors have been responsible for taking reasonable measures and care to safeguard the assets of the company and group and to prevent and detect frauds and other irregularities. The Directors have instituted an effective and comprehensive system of internal controls and an effective system of monitoring its effectiveness. The Board has been provided additional assurance on the reliability of the financial statements through a process of independent and objective review performed by the Audit Committee. Please refer the Audit Committee Report on page 52 of this Report.

The Auditor General's Department and Ms Ernst & Young (Chartered Accountants) have been made available with all records of the company including the Financial Statements by the Board of Directors which they have examined and have expressed their opinion which appears as reported by them on page 53 of this Report.

By Order of the Board



C L Jayawardena

Secretary to the Board

10 March 2005

Audit Committee Report

The Audit Committee is empowered to review and monitor the financial reporting process of the Bank, so as to provide additional assurance on the reliability of the financial statements through a process of independent and objective review. As such, the Audit Committee acts as an effective forum in assisting the Board of Directors in discharging their responsibilities of ensuring the quality of financial reporting and related communications to the shareholders and the public.

As at year-end, the Audit Committee comprised of four non-executive members of the Board. The General Manager, Head of Internal Audit, Compliance Officer, representatives from the External Auditors and relevant Operational Managers attend these meetings by invitation. The Head of Internal Audit functions as the Secretary to the Committee.

The Board Audit Committee's authority, responsibilities and the specific duties have been formalised through an Audit Committee Charter. By this, the Audit Committee is empowered among other things to examine any matters relating to the financial affairs of the Bank and to review the adequacy of the internal control procedures, coverage of internal and external audit programmes, disclosure of accounting policies, compliance with statutory and corporate governance requirements etc. The Committee also provides a forum for the impartial review of the reports of internal and external audits, and to take into consideration findings and recommendations stated therein relating to significant business risks and control issues.

The Audit Committee reviews significant business risks and internal control issues and suggests appropriate remedial measures. The Committee along with the Board reviewed the quarterly financial results to ensure compliance with mandatory banking and statutory requirements.

The Compliance Officer monitors the Bank's compliance with the applicable laws and regulations and ensures adherence to the Bank's Compliance Policy/Code of Ethics by all employees. The Compliance Officer reports to the Audit Committee and the Board of Directors, and submits a quarterly statement on the status of the Bank's compliance with Central Bank Directions/ Regulations, Local Statutory Requirements and appropriate International Regulations.

During the year, six Audit Committee meetings were held and reports of internal and external audits were discussed at these meetings. The minutes of the committee were made available to the Board of Directors.

Based on the reports submitted by the external auditors, internal auditors and the risk reviews performed by the Bank, the Audit Committee is of the view that the control environment prevalent within the Bank is satisfactory and provides reasonable assurance that the financial position of the Bank is well monitored and the assets are safeguarded.



G C B Wijeyesinghe

Chairman - Board Audit Committee

11 February 2005

1. The audit of the Balance Sheet of the National Development Bank of Sri Lanka as at 31 December 2004, Consolidated Balance Sheet of the Bank and its Subsidiaries as at that date and the related statements of Income, Cash Flow and Changes in Equity for the year then ended and the related Accounting Policies and Notes was carried out under my direction in pursuance of provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 55(1) of the National Development Bank of Sri Lanka Act No 2 of 1979 as amended by Acts No 10 of 1990, No 10 of 1992 and No 34 of 1999. In carrying out this audit, I was assisted by a firm of accountants in public practice appointed by me in terms of Article 154(4) of the Constitution.
2. The Directors are responsible for preparing and presenting the Financial Statements in accordance with Sri Lanka Accounting Standards.
3. The audit was performed in accordance with Sri Lanka Auditing Standards. It was carried out to obtain reasonable assurance as to whether the Financial Statements are free of material misstatements. The audit included examination on a test basis, evidence supporting the amounts and disclosures in Financial Statements, evaluation of their overall presentation and assessment of accounting principles and significant estimates and judgements made by the Directors in the preparation of Financial Statements and determining whether the said Financial Statements are prepared and presented in accordance with the Sri Lanka Accounting Standards.
4. I have obtained all the information and explanations required by me. I am of opinion that the Bank maintained proper books of accounts for the year ended 31 December 2004, and the Balance Sheet as at 31 December 2004 and related statements of Income and Cash Flow and Changes in Equity for the year then ended together with the Accounting Policies and Notes drawn up in conformity with Sri Lanka Accounting Standards, provide the information required by the National Development Bank of Sri Lanka Act No 2 of 1979 and amendments thereto, the Banking Acts No: 30 of 1988 and 33 of 1995 and Generally Accepted Accounting Principles applied on a basis consistent with that of the preceding year and the stated Accounting Policies as set out in Notes 1 to 6 to the Financial Statements, which are in agreement with the books of the Bank, give true and fair view of the Bank's state of affairs as at 31 December 2004 and of its Profit, Cash Flow and Changes in Equity for the year then ended.
5. The accounts of the Subsidiaries and Associate Companies have been audited by firms of accountants in public practice appointed by the members of the respective companies.
6. In my opinion, the Consolidated Balance Sheet as at 31 December 2004, related Statements of Income, Cash Flow and Changes in Equity for the year then ended together with the Accounting Policies and Notes thereto have been properly drawn up in accordance with the National Development Bank of Sri Lanka Act No 2 of 1979 and amendments thereto, the Banking Acts No: 30 of 1988 and 33 of 1995, the Sri Lanka Accounting Standards and give a true and fair view of the state of affairs as at 31 December 2004 and the Profit, Cash Flow and Changes in Equity for the year then ended of the Bank and its Subsidiaries dealt with thereby, so far as concerns the Bank.
7. According to the information made available to me, the Directors of the Bank were not directly or indirectly interested in contracts with the Bank during the year ended 31 December 2004, except as stated in Notes 45 and 46 to the Financial Statements.
8. The Bank has been exempted from the provisions of Part II of the Finance Act No 38 of 1971 by an Order of the Minister of Finance published in the Government Gazette No 787 of 1 October 1993 by virtue of powers vested in him by Section 5(1) of the said Finance Act.
9. My report to be submitted to Parliament on these Financial Statements in pursuance of provisions in Article 154(6) of the Constitution will be issued in due course.



S C Mayadunne
Auditor General,
 Auditor General's Department
 Colombo 7.

23 March 2005

Income Statement

<i>for the year ended 31 December</i>		BANK		GROUP	
		2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000
	Note				
INCOME	2	3,538,694	4,896,585	5,918,518	6,070,951
Interest Income	3	2,833,109	4,084,419	4,447,509	4,666,492
Interest Expenses	4	1,656,333	2,367,908	2,201,423	2,465,393
NET INTEREST INCOME		1,176,776	1,716,511	2,246,086	2,201,099
Other income	5	663,984	759,263	1,429,408	1,334,029
Income from operating leases		41,601	52,903	41,601	70,430
Depreciation - operating leases		(29,473)	(39,470)	(29,473)	(48,256)
NET OTHER INCOME		676,112	772,696	1,441,536	1,356,203
NET INCOME		1,852,888	2,489,207	3,687,622	3,557,302
OPERATING EXPENSES	6				
Personnel costs		340,666	313,998	879,319	569,182
Staff retirement benefits	7	17,141	13,443	36,966	18,775
Other administrative and general expenses	8	238,713	233,470	1,161,495	737,810
Amortization of goodwill		-	-	75,917	31,523
Total operating expenses		596,520	560,911	2,153,697	1,357,290
OPERATING PROFIT BEFORE PROVISIONS		1,256,368	1,928,296	1,533,925	2,200,012
Provision for bad and doubtful debts and for fall in value of securities	9	335,858	782,046	278,584	786,962
OPERATING PROFIT		920,510	1,146,250	1,255,341	1,413,050
Share of associate companies' profit before taxation	10	-	-	31,261	113,222
PROFIT BEFORE TAXATION		920,510	1,146,250	1,286,602	1,526,272
Taxation	11	(241,058)	(242,537)	(481,146)	(305,159)
PROFIT AFTER TAXATION		679,452	903,713	805,456	1,221,113
Minority interests		-	-	(102,434)	(97,975)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		679,452	903,713	703,022	1,123,138
Retained profit brought forward		412,563	79,336	924,761	319,066
PROFIT AVAILABLE FOR APPROPRIATION		1,092,015	983,049	1,627,783	1,442,204
APPROPRIATIONS/MOVEMENTS					
Exchange gain/(loss) from valuation of foreign associate		-	-	(740)	3,239
Adjustment on acquisition/disposal		-	-	(8,985)	49,804
(Provision)/release for fall in value of unit trusts		-	29,514	-	29,514
General reserve	12	-	(600,000)	-	(600,000)
Dividend paid	13	(309,062)	-	(309,062)	-
RETAINED PROFIT CARRIED FORWARD		782,953	412,563	1,308,996	924,761
Earnings per share (in Rs)	14	12.64	16.81	13.08	20.90

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 59 to 88 are an integral part of these Financial Statements.


11 February 2005

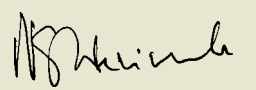
Balance Sheet

<i>as at 31 December</i>		BANK		GROUP	
		2004	2003	2004	2003
	Note	Rs '000	Rs '000	Rs '000	Rs '000
ASSETS					
Cash and short-term funds	15	462,831	442,359	3,407,005	979,577
Government securities	16	25,775	4,624,104	10,694,457	10,909,384
Dealing securities	17	248,505	327,569	790,178	636,427
Loans and advances	18	21,839,305	21,427,135	31,814,528	20,726,699
Lease rentals receivable	19	535,676	573,282	535,676	573,282
Bills of exchange	20	-	-	943,407	-
Commercial papers		-	-	109,887	-
Interest receivable	21	34,549	56,488	92,537	56,488
Investment securities	24	4,491,493	4,794,658	4,733,519	5,641,327
Investments in subsidiary companies	25	3,606,219	1,239,655	-	-
Investments in associate companies	26	165,562	363,710	225,128	413,101
Group balances receivable	27	78,201	104,822	38,750	65,295
Other assets	28	667,468	442,581	2,406,803	1,800,079
Property & equipment	29	243,779	325,848	1,658,018	1,166,491
Goodwill	30	-	-	1,535,071	904,941
Total Assets		32,399,363	34,722,211	58,984,964	43,873,091
LIABILITIES					
Deposits	31	-	-	11,085,134	-
Borrowings	32	23,612,171	25,810,136	26,881,173	25,847,628
Non life insurance reserve		-	-	485,828	420,767
Long term insurance fund		-	-	7,985,381	6,612,836
Other liabilities	33	853,516	1,200,156	2,770,130	1,997,457
Group balances payable	34	6,399	3,440	-	-
Deferred taxation	35	90,119	145,190	121,572	145,190
Taxation		74,377	173,773	178,540	205,593
Dividends payable		7,454	4,579	7,454	4,579
Total Liabilities		24,644,036	27,337,274	49,515,212	35,234,050
FUNDS EMPLOYED					
Share capital	36	537,500	537,500	537,500	537,500
Share premium reserve	37	91,667	91,667	91,667	91,667
Statutory reserve fund	38	537,500	537,500	546,485	537,500
Revaluation reserve		-	-	86,156	-
Revenue reserves	39	6,588,660	6,218,270	7,114,703	6,730,468
Shareholders' Funds		7,755,327	7,384,937	8,376,511	7,897,135
Minority interests		-	-	1,093,241	741,906
Total funds employed		7,755,327	7,384,937	9,469,752	8,639,041
Total Liabilities and Funds Employed		32,399,363	34,722,211	58,984,964	43,873,091
Commitments and contingencies	41	3,734,862	3,352,712	10,003,641	3,378,787

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 59 to 88 are an integral part of these Financial Statements.

Approved for and on behalf of the Board of Directors on 11 February 2005.


S K Wickremesinghe
Chairman


N S Welikala
Director/General Manager

Cash Flow Statement

for the year ended 31 December	Notes	BANK		GROUP	
		2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		2,698,630	4,046,132	4,511,200	4,192,035
Fee based income received		67,126	93,810	73,052	209,234
Dividend income received		386,794	285,857	213,458	419,526
Other income received		145,918	266,172	3,201,819	1,341,609
Lease rentals received		322,808	757,759	322,808	754,609
Lease disbursements		(346,843)	(108,693)	(346,843)	(108,693)
Factoring disbursements		-	-	-	(915,386)
Factoring repayments		-	-	-	918,536
Interest paid		(1,719,756)	(2,594,256)	(2,333,047)	(2,702,957)
Personnel costs paid		(311,757)	(291,980)	(490,325)	(331,176)
General expenses paid		(171,098)	(196,691)	(1,907,337)	(481,617)
VAT paid		(139,770)	(109,308)	(186,635)	(115,176)
Income taxes paid		(271,537)	(279,464)	(394,948)	(295,149)
Net (increase)/decrease in other receivables		(208,845)	(116,889)	(216,503)	(94,254)
Net increase/(decrease) in other liabilities		(310,385)	323,289	(308,961)	312,987
Net cash provided by operating activities		<u>141,285</u>	<u>2,075,738</u>	<u>2,137,738</u>	<u>3,104,128</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Net increase in investments					
Acquisition of subsidiaries	b	(1,344,104)	(12,040)	3,112,523	(761,039)
Disposal of subsidiaries		-	147,993	-	193,104
Disposal of associates		-	5,592	-	5,592
Purchases		(330,141)	(2,373,520)	(4,262,399)	(1,121,768)
Proceeds from sale		910,012	1,071,357	10,785,550	5,812,393
Net increase in loans and advances		(1,472,361)	1,182,484	(3,785,634)	2,052,840
Deposits from customers		-	-	2,470,945	-
Net due to /(from) related companies		29,580	33,917	20,281	108,460
Expenditure on property & equipment		(22,328)	(57,407)	17,526	(153,987)
Proceeds from sale of property & equipment		14,355	7,497	(122,146)	9,838
Net cash provided by investing activities		<u>(2,214,987)</u>	<u>5,873</u>	<u>8,236,646</u>	<u>6,145,433</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from new borrowings		141,598,187	284,369,994	141,959,428	283,868,381
Repayments of borrowings		(143,509,506)	(286,611,601)	(143,864,889)	(287,062,200)
Dividend paid		(306,187)	(295,656)	(431,726)	(309,745)
Net cash used in financing activities		<u>(2,217,506)</u>	<u>(2,537,263)</u>	<u>(2,337,187)</u>	<u>(3,503,564)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<u>(4,291,208)</u>	<u>(455,652)</u>	<u>8,037,197</u>	<u>5,745,997</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>4,758,291</u>	<u>5,213,943</u>	<u>5,975,461</u>	<u>5,826,928</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	a	<u>467,083</u>	<u>4,758,291</u>	<u>14,012,658</u>	<u>11,572,925</u>
Note a					
RECONCILIATION OF CASH AND CASH EQUIVALENTS					
Cash and short-term funds		462,831	442,359	2,020,016	979,577
Balances at Central Bank		-	-	543,214	-
Government securities		25,775	4,624,104	11,538,233	10,909,384
Less : Bank overdraft		(21,523)	(308,172)	(88,805)	(316,036)
		<u>467,083</u>	<u>4,758,291</u>	<u>14,012,658</u>	<u>11,572,925</u>

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 59 to 88 are an integral part of these Financial Statements.

Note b	NDB Bank Ltd
ACQUISITION OF SUBSIDIARY - 2004 - NDB Bank Ltd	Rs '000
Cash and bank balances	4,456,629
Loans and advances	9,201,937
Investment securities	289,294
Other assets	90,942
Property and equipment	450,121
Total assets	<u>14,488,923</u>
Deposits	8,762,490
Borrowings	1,517,244
Securities sold under repurchase agreements	2,558,233
Other liabilities	737,021
Total liabilities	<u>13,574,988</u>
Net assets	913,935
Minority shareholders' interests	<u>(68,820)</u>
	845,115
Goodwill on acquisition	706,058
	<u>1,551,173</u>
Discharged by	
Cost of earlier acquisition	207,067
Cash	1,344,106
	<u>1,551,173</u>
Analysis of outflow of cash and cash equivalents in respect of purchase of subsidiary	
Cash consideration	(1,344,106)
Cash and cash equivalents on acquisition	<u>4,456,629</u>
	<u>3,112,523</u>

Statement of Changes in Equity

for the year ended 31 December

	Share Capital	Share Premium	Statutory Reserve	Revaluation Reserve Fund	General Reserve	Retained Profit	Total
	Rs`000	Rs`000	Rs`000	Rs`000	Rs`000	Rs`000	Rs`000
BANK							
Balance as at 1 January 2003	537,500	91,667	537,500	-	5,205,707	79,336	6,451,710
(Provision)/release for fall in value of unit trusts	-	-	-	-	-	29,514	29,514
Net profit for the year	-	-	-	-	-	903,713	903,713
Transfer to reserves	-	-	-	-	600,000	(600,000)	-
Balance as at 31 December 2003	<u>537,500</u>	<u>91,667</u>	<u>537,500</u>	<u>-</u>	<u>5,805,707</u>	<u>412,563</u>	<u>7,384,937</u>
Balance as at 1 January 2004	537,500	91,667	537,500	-	5,805,707	412,563	7,355,423
Net profit for the year	-	-	-	-	-	679,452	679,452
Dividend paid	-	-	-	-	-	(309,062)	(309,062)
Balance as at 31 December 2004	<u>537,500</u>	<u>91,667</u>	<u>537,500</u>	<u>-</u>	<u>5,805,707</u>	<u>782,953</u>	<u>7,755,327</u>
GROUP							
Balance as at 1 January 2003	537,500	91,667	537,500	131,725	5,205,707	319,066	6,823,165
Adjustment on disposal	-	-	-	(131,725)	-	49,804	(81,921)
(Provision)/release for fall in value of unit trusts	-	-	-	-	-	29,514	29,514
Net profit for the year	-	-	-	-	-	1,123,138	1,123,138
Exchange gain from valuation of foreign associate	-	-	-	-	-	3,239	3,239
Transfer to reserves	-	-	-	-	600,000	(600,000)	-
Balance as at 31 December 2003	<u>537,500</u>	<u>91,667</u>	<u>537,500</u>	<u>-</u>	<u>5,805,707</u>	<u>924,761</u>	<u>7,897,135</u>
Balance as at 1 January 2004	537,500	91,667	537,500	-	5,805,707	924,761	7,897,135
Brought forward from new subsidiary	-	-	8,985	86,156	-	(8,985)	86,156
Net profit for the year	-	-	-	-	-	703,022	703,022
Exchange (loss)/gain from valuation of foreign associate	-	-	-	-	-	(740)	(740)
Dividend paid	-	-	-	-	-	(309,062)	(309,062)
Balance as at 31 December 2004	<u>537,500</u>	<u>91,667</u>	<u>546,485</u>	<u>86,156</u>	<u>5,805,707</u>	<u>1,308,996</u>	<u>8,376,511</u>

1. GENERAL

1.1 Accounting Convention

The Financial Statements of the Bank and the Group, comprising the Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity, Accounting Policies and Notes to the Financial Statements are prepared on the basis of the historical cost convention and in conformity with generally accepted accounting principles and Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka. These principles and standards have been applied consistently with that of the previous year.

No adjustments are made for inflationary factors affecting these Financial Statements.

1.2 Format of Accounts, Prior Year Figures and Phrases

The Financial Statements are presented in accordance with the format of accounts prescribed by the Central Bank of Sri Lanka.

Certain prior year figures and phrases are rearranged wherever necessary to conform to the current year's presentation.

1.2.1 Date of Authorisation for Issue

The Financial Statements of National Development Bank of Sri Lanka for the year ended 31 December 2004 were authorised for issue in accordance with a resolution of the Board of Directors on 11 February 2005.

1.3 Basis of Consolidation

1.3.1 The Group Financial Statements include the consolidated results, assets and liabilities of the Bank and its subsidiaries made up to the financial year-end. The results of subsidiaries are included from the date on which the Bank effectively acquires control of each subsidiary. The interests of outside shareholders of the subsidiaries in the net assets and their proportion of the results are grouped separately in the Consolidated Balance Sheet and Income Statement respectively under the heading of minority interests.

1.3.2 In the Group Financial Statements, investments in associate companies described in note 25 to the Financial Statements, are accounted for under the equity method of accounting. Under the equity method of accounting, the Group's share of profits and losses of the associate companies made up to their respective year-ends is accounted for in the Consolidated Income Statement for the year. The carrying value of the investment in the Consolidated Balance Sheet is thereby increased or decreased to recognise the Group's share of retained profits and losses of the associate companies since the date of acquisition. An associate company which becomes a subsidiary during the year is accounted for under the equity method of accounting up to the date on which it becomes a subsidiary, after which date it is accounted for as a subsidiary.

1.3.3 In the normal course of business the Bank sometimes takes a significant stake in the equity of companies which seek financial assistance from the Bank. Investments of this nature in companies which are not considered to be part of the Group, are accounted for in the manner described under 2.3 Investments/Securities.

1.3.4 In the Bank's Financial Statements, investments in subsidiaries and associate companies are accounted for at cost. Income is recognised only to the extent that dividends are declared from the accumulated profit. Provision is made for any permanent diminution in value of such investments determined on an individual basis.

1.3.5 Goodwill arising on consolidation is amortized to revenue over a period of 5 years commencing from the year in which the company is first consolidated or control is acquired. However, goodwill arising on the acquisition of NDB Finance Lanka (Pvt) Ltd (through Capital Development and Investment Company Ltd) and NDB Bank

Limited is amortised over a period of 20 years.

1.4 Foreign Currency Translation

1.4.1 All foreign exchange transactions are translated to Sri Lanka Rupees at the rates of exchange prevailing at the time the transactions are effected. Assets and liabilities in foreign currencies, other than the liabilities referred to under 1.4.2 below, are translated at the rates of exchange prevailing at the Balance Sheet date. The resulting gains and losses are accounted for in the Income Statement.

1.4.2 Liabilities in respect of foreign currency borrowings guaranteed by the Government of Sri Lanka under Section 30(1) of the National Development Bank of Sri Lanka Act, No 2 of 1979 are not translated at rates of exchange prevailing at the Balance Sheet date, since in terms of Section 30(6) of the said Act the Government of Sri Lanka is required to bear any exchange risk that may arise at the time debt service payments are being made. The Bank pays a premium to the Government of Sri Lanka for bearing such risk.

1.5 Post Balance Sheet Events

All material events occurring after the Balance Sheet date are considered and where necessary, adjusted for or disclosed in the Financial Statements.

1.6 Taxation

Provision for taxation is based on the elements of income and expenditure as reported in the Financial Statements and computed in terms of the provisions of the Inland Revenue Act.

1.7 Deferred Taxation

Deferred tax provisions are made to provide for the tax incidence arising from the timing difference between income for income tax purposes and income for financial accounting purposes. Such tax incidence arises due to the difference between the periods over which an item is included for financial accounting

purposes on the one hand and tax accounting purposes on the other. The benefit arising from the timing difference is carried forward as a provision and reversed in line with the reducing timing difference.

Deferred tax has been provided for on a full liability basis.

Deferred tax assets are recognised only if, in the opinion of the management, the asset is likely to reverse in the foreseeable future.

2. ASSETS AND BASES OF THEIR VALUATION

2.1 Loans and Advances to Customers

2.1.1 Loans and advances to customers are stated in the Balance Sheet net of provisions for bad and doubtful loans.

2.1.2 Provision for bad and doubtful loans

Provision for bad and doubtful loans is made on the basis of a continuous review of all advances, in accordance with the directions issued by the Central Bank of Sri Lanka to the banking sector, which mandates minimum specific provisions on a sliding scale linked to the age of the debt, net of any realisable security value. In addition, a general provision is also made by the Bank to cover unforeseen losses on all loans and advances excluding those for which a specific provision is being made, refinance loans and staff loans.

2.2 Leases

Assets leased to customers under agreements that transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Lease rentals receivable in the Balance Sheet include total lease payments due net of unearned interest income not accrued to revenue, interest in suspense and provisions for bad and doubtful recoveries.

Assets leased to customers under agreements in which the Bank retains substantially all the

risks and rewards associated with ownership and legal title are classified as operating leases. The lease rentals receivable in the Balance Sheet include rental installments receivable, net of provisions for bad and doubtful recoveries.

Provision for bad and doubtful recoveries is made in the same manner as for loans and advances as described under 2.1.2.

2.3 Investments/Securities

Government Securities held for trading purposes are accounted for at the lower of cost and market value as at the balance sheet date, determined on a portfolio basis and interest is accrued upto the end of the year. However, in the case of Eagle Insurance Company Ltd, these are stated at cost and interest is accrued upto the end of the year.

Dealing Securities comprise of shares and debentures quoted on the Colombo Stock Exchange and are accounted for at the lower of cost and market value as at the balance sheet date, determined on a portfolio basis. However, in the case of Eagle Insurance Company Ltd, these are stated at market value.

Investment Securities are regarded as long-term investments and comprise of investments in Treasury Bonds, investments in unit trusts quoted on the Colombo Stock Exchange, non-quoted equity investments and sinking fund investments. Sinking fund investments consist of treasury bonds. During the year the Bank changed its accounting policy whereby part of the Treasury Bonds held for trading purposes were reclassified as held for investment purposes. Accordingly the said portfolio was treated as investment securities and are now shown at cost net of provisions for any permanent diminution in value on an individual basis. Comparative figures have been restated to conform to current year's presentation. Non-quoted

equity investments are accounted for at cost, net of provisions for any permanent diminution in value on an individual basis. Investments in unit trusts and sinking fund investments are each carried at the lower of cost and market value as at the balance sheet date, determined on a portfolio basis. Temporary declines in value are charged to equity. In the case of Eagle Insurance Company Ltd unit trusts are stated at market value. All other investment securities are stated at cost and provisions are made for permanent diminutions in value on a case by case basis.

2.4 Property & Equipment

2.4.1 The cost of property and equipment is the cost of purchase or construction together with any incidental expenses thereon. Property and equipment are accounted for at cost less accumulated depreciation which is provided for on the bases specified below.

2.4.2 Depreciation

The provision for depreciation is calculated on the cost of property and equipment so as to write off such costs over the estimated useful lives of the assets by equal annual instalments as follows:

Buildings	2% -5%
Motor vehicles	25%
Furniture and office equipment	10%-50%

Depreciation is provided proportionately for the completed number of months the asset is in the books of the Bank, if it is purchased or sold during the financial year.

Leasehold assets are amortised over the lease period of the respective assets.

2.5 Other Assets

All other assets are valued net of specific provisions, where necessary, so as to reduce the carrying value of such assets to their estimated realisable values.

3. LIABILITIES AND PROVISIONS

3.1 All discernible risks are taken into account in quantifying the liabilities of the Bank.

3.2 Pensions and Retirement Benefits

3.2.1 The Bank operates an approved non-contributory Pension Plan for the payment of pensions to members of its permanent staff who qualify for such payments when retiring. Up to 31 December 2002, annual contributions to the Pension Plan were payable by the Bank based on a percentage of gross salaries, as stipulated in the pension deed. However, following the formulation of a revised pension deed, which has been approved by the Department of Inland Revenue, the contributions in subsequent years are determined on the basis of an actuarial valuation each year.

3.2.2 Provision is made for the payment of retirement gratuities payable under the Payment of Gratuity Act, No 12 of 1983, in respect of employees who do not qualify for a pension, on the basis of an actuarial valuation each year.

3.2.3 Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in accordance with the respective statutes and regulations. The company contributes 15% and 3% of gross salaries of employees to the Bank's Employees' Provident Fund and the Employees' Trust Fund respectively.

4. INCOME STATEMENT

4.1 Revenue Recognition

4.1.1 Interest income from loans and advances Interest income from loans and advances is recognised on an accruals basis. However, no accrued interest income is recognised where any portion of capital or interest is in arrears for three months or more. Such accrued interest income is also reversed. In such cases interest income is accounted for on a cash basis.

4.1.2 Lease income

(a) **Financial leases** - The excess of aggregate rentals receivable over the cost of the leased asset constitutes the total unearned interest income. The unearned interest income is taken into revenue on an accrual basis over the term of the lease in proportion to the remaining balance of the lease. However, no accrued interest income is recognised where any portion of capital or interest is in arrears for three months or more. In such cases interest income is accounted for on a cash basis.

(b) **Operating leases** - Rental income is recognised as revenue on a straight line basis over the term of the lease. However, no accrued income is recognised where the rental is in arrears for three months or more. In such cases, rental income is accounted for on a cash basis.

4.1.3 Interest income from other sources

Interest income from Government securities is recognised on a time proportion basis as discounts on purchase, over the period to maturity or the date of sale.

Income from other interest bearing investments is recognised as revenue on an accrual basis.

4.1.4 Dividend income

Dividend income is recognised on an accrual basis in the period in which the dividend is declared.

4.1.5 Profit or loss on sale of marketable securities

Profit or loss arising from the sale of equity shares, units, commercial paper and other marketable securities is accounted for on a cash basis.

4.1.6 Income from fee - based activities

Fees for underwriting, advisory work, loan syndication, management of funds and all

other fees and commissions are recognised on a cash basis.

4.1.7 Recovery of loans and advances written off

Recovery of amounts written off as bad and doubtful loans is recognised as income on a cash basis.

4.2 Non - Life Insurance Business

4.2.1 Gross written premium (Revenue)

Gross written premium relates to business which commenced during the year and includes an estimate for business written up to the year end but not yet booked, less an allowance for cancellations.

4.2.2 Reinsurance premium

Reinsurance premium expense is accounted for in the same accounting period as the gross written premium to which it relates.

4.2.3 Unearned premiums

Unearned premiums are the portion of gross written premiums and reinsurance premiums written in the current year in respect of risk related to subsequent periods. Unearned premiums are calculated on the 24ths basis in accordance with the Control of Insurance (Miscellaneous Provisions) Regulations 1987.

4.2.4 Unexpired risks

Provision is made where appropriate for the estimated amount required over and above unearned premiums to meet future claims and related expenses on the business in force as at 31 December.

4.2.5 Deferred Acquisition Expenses

Deferred acquisition expenses represent commission related to unearned premiums and calculated on the 24ths basis in accordance with the Control of Insurance (Miscellaneous Provisions) Regulations 1987.

4.2.6 Claims

Claims incurred include provisions for the estimated cost of claims and related handling expenses in respect of incidents up to 31 December, including those which had not been notified. Anticipated reinsurance and other recoveries have been netted off.

The provision in respect of Claims Incurred But Not Reported (IBNR) is actuarially valued to ensure a more realistic estimation of the future liability.

Whilst the Directors consider that the provision for claims net of related reinsurance recoveries are fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustments to the amounts provided. Such adjustments are reflected in the financial statements for that period. The methods used, and the estimates made, are reviewed regularly.

4.3 Life Insurance Business

The profits from life insurance business are accounted for based on an actuarial valuation of the life insurance fund as at the end of the financial year.

4.4 Interest expenses

Interest expenses are recognised on an accrual basis.

5. Cash Flow

The Cash flow has been prepared by using the "Direct Method". Cash and cash equivalents include cash balances, time deposits and treasury bills and bonds. Cash and cash equivalents are presented net of bank overdrafts for the purpose of the cash flow statement.

6. Business Segment Reporting

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services that is subject to risk and returns that are different from those of other business segments. The accounting policies adopted for segment reporting are the same accounting policies adopted for preparing the financial statements of the Group.

1. INCORPORATION AND PRINCIPAL ACTIVITIES

The National Development Bank of Sri Lanka was incorporated under the National Development Bank of Sri Lanka Act No 2 of 1979.

NDB Bank Limited was an associate of the Bank in which the Bank held 22.82%. The Bank acquired further holdings of 37.22%, 19.41%, 11.10% and 1.97% in NDB Bank Limited on 23 April 2004, 26 April 2004, 16 June 2004 and 30 July 2004 respectively which resulted in NDB Bank Limited becoming a subsidiary of the Bank. The present holding in NDB Bank Limited by the Bank is 92.52%.

The principal activities of the Bank, its subsidiaries and associate companies included in consolidation, consist of the business of development financing, commercial banking, merchant banking, investment banking, leasing, housing finance, venture capital, stock broking, fund management, property development and insurance.

The number of staff employed by the Bank as at 31 December 2004 was 342. (2003 - 353)

	BANK		GROUP	
	2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000
2. INCOME				
Gross income	3,538,694	4,896,585	5,918,518	6,070,951
Interest income (Note 3)	2,833,109	4,084,419	4,447,509	4,666,492
Other income (Note 5)	663,984	759,263	1,429,408	1,334,029
Income from operating leases	41,601	52,903	41,601	70,430
	<u>3,538,694</u>	<u>4,896,585</u>	<u>5,918,518</u>	<u>6,070,951</u>
3. INTEREST INCOME				
Loans and advances	2,274,977	3,141,177	2,494,599	3,280,188
Treasury bills and bonds and placements with other banks	558,132	943,242	1,952,910	1,386,304
	<u>2,833,109</u>	<u>4,084,419</u>	<u>4,447,509</u>	<u>4,666,492</u>
4. INTEREST EXPENSES				
Long-term borrowings	1,179,600	1,981,092	1,179,188	2,078,577
Other term borrowings	432,384	324,316	710,381	315,080
Quoted debentures	44,349	62,500	93,950	71,736
Deposits	-	-	217,904	-
	<u>1,656,333</u>	<u>2,367,908</u>	<u>2,201,423</u>	<u>2,465,393</u>
5. OTHER INCOME				
Dividend income from securities				
- Quoted investments	36,574	10,970	48,896	10,970
- Non-quoted investments	150,410	159,431	160,810	187,091
Dividend income from subsidiaries/associates				
- Quoted investments	81,846	46,306	-	-
- Non-quoted investments	117,964	69,150	-	-
Gain/(loss) from dealing securities	63,161	138,272	63,161	138,272
Gain/(loss) from investment securities	32,442	(5,076)	40,542	1,632
Gain/(loss) from group companies	-	28,035	-	52,986
	<u>482,397</u>	<u>447,088</u>	<u>313,409</u>	<u>390,951</u>

	BANK		GROUP	
	2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000
5. OTHER INCOME CONTD.				
Net gain from government securities	93,757	202,900	112,017	208,884
Income from fee-based activities	52,698	77,030	514,220	132,829
Net insurance income	-	-	251,926	336,718
Exchange gain/(loss)	-	2,562	98,641	2,562
Income from other activities	35,132	29,683	139,195	262,085
	<u>663,984</u>	<u>759,263</u>	<u>1,429,408</u>	<u>1,334,029</u>

Provisions made / released for the change in value of quoted and non-quoted securities are disclosed in note 9 to the Financial Statements.

6. OPERATING EXPENSES

Operating expenses include the following -

Employees' Provident Fund	20,082	20,239	55,198	33,285
Employees' Trust Fund	4,038	4,024	11,245	6,860
Gratuity	4,984	4,928	33,803	10,153
Pension Contribution	12,156	-	12,156	-
Auditors' remuneration	636	600	3,636	1,501
Depreciation - Own assets	70,562	67,536	251,596	136,697
Chairman's emoluments	665	665	665	665
Emoluments of nine Directors paid over Rs 50,000 each per annum (2003 - 9 Directors)	2,302	2,408	2,302	2,408
Emoluments of other Directors paid less than Rs 50,000 each per annum	20	31	20	31
Legal charges	3,271	3,410	6,910	6,268

7. STAFF RETIREMENT BENEFITS

The Bank operates an approved non-contributory Pension Plan for the payment of pensions to members of its permanent staff who qualify for such payments when retiring. Please see accounting policy 3.2.

The amount funded since the inception of the Plan is the amount recognised as expense over the respective periods. The adequacy of the contributions was reviewed by an actuary as at 31 December 2004. Accordingly, the pension fund benefit expense for the year was Rs 12 mn.

Provisions for retirement gratuities have been made based on the actuarial valuation carried out as at 31 December 2004. Accordingly, gratuity benefit expense for the year was Rs 5 mn.

The actuarial method used is the Projected Unit Credit method. The principal assumptions, which have the most significant effect on the valuation, are the investment return net of taxes, and the rate of increase in salaries, which have been estimated at 7.5% and 10% respectively.

With respect to Eagle Insurance Company Limited, provision for retirement gratuity is made by way of two insurance policies. An actuarial valuation is carried out annually and the last valuation was carried out as at 31 December 2004 using the projected unit credit method

In the case of other subsidiaries, provisions are made for gratuity in accordance with Gratuity Act No 12 of 1983, based on half months salary for each completed year of service.

	BANK		GROUP	
	2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000
8. OTHER ADMINISTRATIVE & GENERAL EXPENSES				
Premises, equipment and establishment expenses	77,501	72,553	444,525	257,338
Depreciation - own assets	70,562	67,536	251,596	136,697
Other overhead expenses	90,650	93,381	465,374	343,775
	<u>238,713</u>	<u>233,470</u>	<u>1,161,495</u>	<u>737,810</u>
9. PROVISIONS FOR BAD AND DOUBTFUL DEBTS AND FOR FALL IN VALUE OF SECURITIES				
Bad and doubtful debts	365,001	649,219	305,212	655,491
Fall in value of non-quoted securities	(29,143)	132,827	(26,628)	130,619
Fall in value of quoted securities	-	-	-	852
	<u>335,858</u>	<u>782,046</u>	<u>278,584</u>	<u>786,962</u>

	Percentage Holding	GROUP	
		2004 Rs '000	2003 Rs '000
10. SHARE OF ASSOCIATE COMPANIES' PROFIT BEFORE TAXATION			
Ayojana Fund (Pvt) Ltd	50.00%	2,547	28,317
Ayojana Fund Management (Pvt) Ltd (Upto 22 October 2003)	50.00%	-	(2,554)
Maldives Finance Leasing Co (Pvt) Ltd	35.00%	11,343	8,321
NDB Bank Ltd (Upto 30 April 2004)	22.80%	17,371	50,621
NDB Finance Lanka (Pvt) Ltd (Upto 03 July 2003)	31.42%	-	31,995
NDB Investment Bank Ltd (Upto 31 March 2003)	50.00%	-	(3,478)
		<u>31,261</u>	<u>113,222</u>

Ayojana Fund Management (Pvt) Ltd, ceased to be an associate company of the Bank with effect from 22 October 2003.

Capital Development and Investment Co. Ltd, a subsidiary company of the Bank acquired a 100% holding in NDB Finance Lanka (Pvt) Ltd (formerly known as Zurich NDB Finance Lanka (Pvt) Ltd) with effect from 03 July 2003.

The results of NDB Finance Lanka (Pvt) Ltd include its share of profits of Eagle Insurance Co Ltd.

NDB Investment Bank Ltd (formerly known as Citi National Investment Bank Ltd), an associate company of the Bank became a subsidiary with effect from 31 March 2003.

The share of profit/(loss) in respect of the above associate companies are based on the draft financial statements of those companies for the year ended 31 December 2004.

	BANK		GROUP		
	2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000	
11. TAXATION					
Provision for Taxation					
On profit for the year	a	114,035	290,074	235,522	323,343
Tax on capital gains- 2004	a	33,000	-	38,478	-
Tax on capital gains- 2003		60,870	-	123,301	-
Transfer from deferred taxation		(55,071)	(113,465)	(71,736)	(113,465)
Over provision in prior years		(35,730)	(43,108)	(35,730)	(43,108)
VAT on financial services		123,954	109,036	186,935	123,357
On associate companies' share of profit		-	-	4,376	15,032
		<u>241,058</u>	<u>242,537</u>	<u>481,146</u>	<u>305,159</u>

	2004 Rs '000	2003 Rs '000
a. Reconciliation of effective tax rate - Bank		
Profit before tax	920,510	1,146,250
Income tax using domestic corporate tax rate of 30%	276,153	343,875
Add : Effect of tax on non-deductible expenses	256,587	473,814
Less : Effect of tax on claimable expenses	385,705	527,615
Effect of tax rate on taxable profit	147,035	290,074
Effective tax rate	16%	25%

The Bank is liable to taxation at 30% for the current year. (2003 - 30%) The Bank is also liable to VAT on financial services at 15%. (2003 - 10%)

NDB Investment Bank Ltd is liable to taxation at 35%. (2003 - 35%)

Ayojana Fund (Pvt) Ltd is liable to taxation at 20%. (2003 - 20%)

NDBS Stock Brokers (Pvt) Ltd is liable to taxation at 32.5% (2003 - 32.5%). The company was also liable to VAT on financial services at 15% (2003 - Nil).

In terms of Section 40 (A) of the Inland Revenue Act No. 38 of 2000 as amended by Act No. 18 of 2002, profits earned by NDB Housing Bank Ltd is liable to taxation at 20% (2003 - 20%).

The profits earned by Capital Development and Investment Co Ltd is liable to taxation at 35%. (2003 - 35%). However, the company was not liable for income tax for the year 2004 due to adjusted tax losses brought forward.

Profits earned by Development Holdings (Pvt) Ltd, through the business of construction and operation of an office complex was exempt from tax for a period of seven years commencing from 1997 under an agreement with the Board of Investment of Sri Lanka. With effect from 2004, the company is liable to tax at 2% of its turnover of such business for a period of fifteen years. The company is liable to tax on other income at 32.5% (2003 - 32.5%)

NDB Bank Ltd is liable to taxation at 30% (2003 - 30%). NDB Bank Limited is also liable to VAT on financial services at 15% (2003 - 10%).

NDB Finance Lanka (Pvt) Ltd is liable to income tax at 32.5% (2003 - 32.5%). The tax charge for the year consists wholly of dividend tax paid at source. However, no tax provision has been made for the current year due to the tax losses incurred by the company.

Profits earned through the business of venture capital by NDB Venture Investments (Pvt) Ltd is taxed at 20% (2003 - 20%)

Maldives Finance Leasing Co (Pvt) Ltd is a company based in the Republic of Maldives and is not subject to taxation.

12. APPROPRIATIONS

Profit available for appropriation has been appropriated in terms of Section 33 of the National Development Bank of Sri Lanka Act No 2 of 1979.

13. DIVIDENDS PAID AND PROPOSED

A first and final dividend of Rs 6.00 per share has been proposed for the year 2004. However no provision is made in the accounts in accordance with SLAS - 36, Provisions, Contingent Liabilities and Contingent Assets. During 2004 the Bank paid a first and final dividend of Rs 5.75 per share in respect of the year 2003.

14. EARNINGS PER SHARE

The basic and diluted earnings per share is the same for both 2004 and 2003 because the number of ordinary shares in issue during both years were the same and there were no dilutive potential ordinary shares.

The basic and diluted earnings per share for 2004 and 2003 have been calculated by dividing the profit after taxation and minority interests for each year by 53,750,000 which is the number of shares in issue throughout both years.

	BANK		GROUP	
	2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000
15. CASH AND SHORT-TERM FUNDS				
Cash in hand and with banks	462,831	300,474	1,948,325	801,193
Money at call and short notice	-	141,885	1,458,680	178,384
	<u>462,831</u>	<u>442,359</u>	<u>3,407,005</u>	<u>979,577</u>
16. GOVERNMENT SECURITIES				
Treasury bills	25,775	120,490	4,216,235	1,855,139
Treasury bonds	-	4,503,614	6,478,222	9,054,245
	<u>25,775</u>	<u>4,624,104</u>	<u>10,694,457</u>	<u>10,909,384</u>

The group figures include Treasury bonds which form a part of Eagle Insurance Company Ltd's investments.

17. DEALING SECURITIES

Quoted shares (note 17.1)	124,865	221,429	388,683	232,432
Quoted debentures (note 17.2)	123,640	106,140	401,495	403,995
	<u>248,505</u>	<u>327,569</u>	<u>790,178</u>	<u>636,427</u>

	2004			2003		
	Number of Ordinary Shares	Cost Rs '000	Market Value Rs '000	Number of Ordinary Shares	Cost Rs '000	Market Value Rs '000
17.1 Quoted Ordinary Shares						
Banks and Finance						
DFCC Bank Ltd	133,333	15,141	28,000	100,000	15,141	27,000
Mercantile Leasing Ltd	-	-	-	2,039,300	36,484	47,924
		<u>15,141</u>	<u>28,000</u>		<u>51,625</u>	<u>74,924</u>
<i>Sector exposure as a percentage of total cost</i>		13.18%			24.42%	
Diversified Holdings						
Hayleys Ltd	44	4	6	222,222	19,995	26,667
John Keells Holdings Ltd	44	2	6	453,740	18,825	44,920
		<u>6</u>	<u>12</u>		<u>38,820</u>	<u>71,587</u>
<i>Sector exposure as a percentage of total cost</i>		0.00%			18.36%	

	2004			2003		
	Number of Ordinary Shares	Cost Rs '000	Market Value Rs '000	Number of Ordinary Shares	Cost Rs '000	Market Value Rs '000
17.1 Quoted Ordinary Shares contd.						
Footwear and Textiles						
Hayleys MGT Knitting Mills Ltd	6,572,200	78,809	558,637	6,606,500	79,221	214,711
		<u>78,809</u>	<u>558,637</u>		<u>79,221</u>	<u>214,711</u>
<i>Sector exposure as a percentage of total cost</i>		68.61%			37.47%	
Hotels and Travel						
Aitken Spence Hotel Holdings Ltd (Ahungalla)	-	-	-	69	4	4
		<u>-</u>	<u>-</u>		<u>4</u>	<u>4</u>
<i>Sector exposure as a percentage of total cost</i>		0.00%			0.00%	
Health Care						
Ceylon Hospitals Ltd	369,400	8,759	8,021	369,400	8,759	6,522
		<u>8,759</u>	<u>8,021</u>		<u>8,759</u>	<u>6,522</u>
<i>Sector exposure as a percentage of total cost</i>		7.63%			4.14%	
Manufacturing						
Ceylon Leather Products Ltd	-	-	-	2,200,000	33,000	16,500
		<u>-</u>	<u>-</u>		<u>33,000</u>	<u>16,500</u>
<i>Sector exposure as a percentage of total cost</i>		0.00%			15.61%	
Power & Energy						
Lanka IOC Ltd	450,000	12,150	20,588	-	-	-
		<u>12,150</u>	<u>20,588</u>		<u>-</u>	<u>-</u>
<i>Sector exposure as a percentage of total cost</i>		10.58%			0.00%	
17.1 Quoted Preference Shares						
Banks and Finance						
Commercial Bank of Ceylon Ltd	1,000,000	10,000	10,000	1,000,000	10,000	10,000
		<u>10,000</u>	<u>10,000</u>		<u>10,000</u>	<u>10,000</u>
Total		124,865	625,258		221,429	394,248
Less : Provision for Losses		-	-		-	-
Total as at 31 December - Bank		<u>124,865</u>	<u>625,258</u>		<u>221,429</u>	<u>394,248</u>
Investments in quoted shares by subsidiaries net of provisions		-	-		-	-
Investments in quoted shares by subsidiaries at market value		263,818	-		11,003	-
Total as at 31 December - Group		<u>388,683</u>			<u>232,432</u>	

	2004			2003		
	Number of Debentures	Cost Rs '000	Market Value Rs '000	Number of Debentures	Cost Rs '000	Market Value Rs '000
17.2 Quoted Debentures						
Commercial Bank of Ceylon Ltd	50,000	50,000	50,000	50,000	50,000	50,000
Hatton National Bank Ltd	60,000	6,000	6,000	60,000	6,000	6,000
Suntel Ltd	50,140	50,140	60,168	50,140	50,140	55,323
Sampath Bank Ltd	175,000	17,500	17,500	-	-	-
Total		<u>123,640</u>	<u>133,668</u>		<u>106,140</u>	<u>111,323</u>
Less : Provision for losses		-	-		-	-
Total as at 31 December - Bank		<u>123,640</u>	<u>133,668</u>		<u>106,140</u>	<u>111,323</u>
Investments in quoted debentures by subsidiary net of provisions		-	-		-	-
Investments in quoted debentures by subsidiaries at market value		277,855			297,855	
Total as at 31 December - Group		<u>401,495</u>			<u>403,995</u>	

Dealing securities of the group consist of investments of Rs 248.5 mn valued at the lower of cost and market value and investments of Rs 541.6 mn valued at the market value.

	2004 Rs '000	2003 Rs '000
18. LOANS AND ADVANCES		
(a) BANK		
Direct loans and advances	20,372,407	19,273,958
Refinance loans	3,278,664	4,140,683
Staff loans	202,240	218,282
	<u>23,853,311</u>	<u>23,632,923</u>
Less : Provision for bad and doubtful loans (note 18.1)	2,014,006	2,205,788
Net loans and advances	<u>21,839,305</u>	<u>21,427,135</u>

	Specific Rs '000	General Rs '000	2004 Total Rs '000	2003 Total Rs '000
18.1 Provision for Bad and Doubtful Loans				
At the beginning of the year	1,962,685	243,103	2,205,788	1,649,693
Amounts recovered / provisions written back	(202,532)	(78,099)	(280,631)	(226,452)
Amounts written off	(540,410)	-	(540,410)	(116,267)
Provision made during the year	629,259	-	629,259	898,814
At the end of the year	<u>1,849,002</u>	<u>165,004</u>	<u>2,014,006</u>	<u>2,205,788</u>

	2004 Rs '000	2003 Rs '000
(b) Group		
Direct loans and advances	24,237,966	18,602,023
Refinance loans	3,278,664	4,140,683
Overdraft	2,659,647	-
Packing credit loans	3,374,811	-
Staff loans	364,947	222,514
	<u>33,916,035</u>	<u>22,965,220</u>
Less : Provision for bad and doubtful loans (note 18.2)	2,101,507	2,238,521
Net loans and advances	<u>31,814,528</u>	<u>20,726,699</u>

	Specific Rs '000	General Rs '000	2004 Total Rs '000	2003 Total Rs '000
18.2 Provision for Bad and Doubtful Loans				
At the beginning of the year	1,988,151	250,370	2,238,521	1,881,214
Amounts recovered / provisions written back	(204,032)	(136,664)	(340,696)	(226,452)
Amounts written off	(540,410)	(153,269)	(693,679)	(116,267)
Provision made during the year	629,259	-	629,259	905,613
Brought forward from new subsidiaries	-	268,102	268,102	-
Provision reversed on disposal of subsidiary	-	-	-	(205,587)
At the end of the year	<u>1,872,968</u>	<u>228,539</u>	<u>2,101,507</u>	<u>2,238,521</u>

	BANK		GROUP	
	2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000
19. LEASE RENTALS RECEIVABLE				
Total rentals receivable	784,373	910,582	784,373	910,582
Less : Provision for doubtful recoveries (note 19.1)	73,675	125,573	73,675	125,573
Interest in suspense (note 19.2)	19,641	70,692	19,641	70,692
Unearned income	155,381	141,035	155,381	141,035
Net rentals receivable	<u>535,676</u>	<u>573,282</u>	<u>535,676</u>	<u>573,282</u>

19.1 Provision for Bad and Doubtful Recoveries

At the beginning of the year	125,573	149,635	125,573	269,167
Amounts recovered / provisions written back	(3,087)	(23,143)	(3,087)	(23,143)
Amounts written off	(68,272)	(919)	(68,272)	(919)
Provision made during the year	19,461	-	19,461	-
Provision reversed on disposal of subsidiary	-	-	-	(119,532)
At the end of the year	<u>73,675</u>	<u>125,573</u>	<u>73,675</u>	<u>125,573</u>

	BANK		GROUP	
	2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000
19.2 Interest in Suspense				
At the beginning of the year	70,692	71,801	70,692	84,133
Amounts written back to profit	(36,023)	(14,139)	(36,023)	(14,139)
Amounts written off	(397)	(3,458)	(397)	(3,458)
Transfer to interest in suspense	162	16,488	162	16,488
Transfer to Loans	(14,793)	-	(14,793)	-
Reversal on disposal of subsidiary	-	-	-	(12,332)
At the end of the year	<u>19,641</u>	<u>70,692</u>	<u>19,641</u>	<u>70,692</u>
		Upto 1 year Rs '000	1 to 5 years Rs '000	Total Rs '000

19.3 Maturity of Lease Rentals Receivable of the Bank

Total rentals receivable	352,617	438,000	790,617
Amounts collected in advance	(5,840)	(404)	(6,244)
	<u>346,777</u>	<u>437,596</u>	<u>784,373</u>
Provision for doubtful recoveries	(73,675)	-	(73,675)
Interest in suspense	(19,641)	-	(19,641)
Unearned income	(69,838)	(85,543)	(155,381)
Net rentals receivable	<u>183,623</u>	<u>352,053</u>	<u>535,676</u>

	GROUP	
	2004 Rs '000	2003 Rs '000
20. BILLS OF EXCHANGE		
Export Bills	922,959	-
Import Bills	24,062	-
Provision for doubtful recoveries	(3,614)	-
	<u>943,407</u>	<u>-</u>

	BANK		GROUP	
	2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000
21. INTEREST RECEIVABLE				
Interest receivable	1,624,277	1,541,292	1,681,957	1,541,292
Less : Interest in suspense (note 21.1)	1,589,728	1,484,804	1,589,420	1,484,804
	<u>34,549</u>	<u>56,488</u>	<u>92,537</u>	<u>56,488</u>
21.1 Interest in Suspense				
At the beginning of the year	1,484,804	2,221,396	1,484,804	2,511,314
Amounts written back to profit	(171,800)	(455,281)	(171,800)	(455,281)
Amounts written off	(509,156)	(1,201,739)	(509,439)	(1,201,739)
Transfer to interest in suspense	785,880	920,428	785,880	920,428
Brought forward from new subsidiary	-	-	(25)	-
Reversal on disposal of subsidiary	-	-	-	(289,918)
At the end of the year	<u>1,589,728</u>	<u>1,484,804</u>	<u>1,589,420</u>	<u>1,484,804</u>

	BANK		GROUP	
	Loan Loss Provision	Interest in Suspense	Loan Loss Provision	Interest in Suspense
	Rs '000	Rs '000	Rs '000	Rs '000
22. ANALYSIS OF PROVISION FOR LOAN LOSSES AND INTEREST IN SUSPENSE				
Loans and advances	2,014,006	1,589,728	2,101,507	1,589,420
Lease rentals receivable	73,675	19,641	73,675	19,641
	<u>2,087,681</u>	<u>1,609,369</u>	<u>2,175,182</u>	<u>1,609,061</u>

23. ASSET QUALITY INFORMATION

23.1 Concentration of credit risk

In granting credit facilities the Bank exposes itself to a credit risk. This concerns the Balance Sheet items, Loans and Advances and Lease Rentals Receivable. Concentration of the credit risk could result in a material loss for the Bank if a change in economic circumstances were to impinge upon a whole industry or the country. However, in order to maintain such risk at a manageable level the Bank has established prudent credit controls, such as predetermined sector and group exposure limits and Board and Management Credit Committees. Security is also invariably obtained when granting credit.

The Bank's exposure to credit risk is concentrated in companies domiciled in Sri Lanka. The Bank's lending portfolio is diversified covering all sectors of the economy. The total lending exposure of the Bank as at the Balance Sheet date, shows the following analysis.

	2004 %	2003 %
Food, beverages and tobacco	8.7	7.6
Agriculture, agro-business and fisheries	11.7	15.1
Textiles and wearing apparel	5.0	6.8
Wood and paper products	0.9	0.8
Rubber and leather products	7.0	5.2
Metals, chemicals and engineering	16.7	13.9
Hotels & Tourism	2.6	2.4
Utilities	10.9	9.9
Financial Services	17.2	16.5
Commercial Services	6.4	7.6
Other Services	6.7	6.9
Other	6.2	7.3
	<u>100.0</u>	<u>100.0</u>

These concentrated exposures, direct and indirect, have been considered in setting the level of specific and general provisions for bad and doubtful loans, advances and lease receivables.

23.2 Non-performing loans, advances and leases

Non-performing loans, advances and leases are those balances where capital or interest is in arrears for 3 months or more. Interest is not accrued to revenue on these accounts. Non-performing loans, advances and leases that are rescheduled need to perform for 6 consecutive months before they can be reclassified. The capital balance outstanding on the non-performing accounts are as follows -

	Loans and Advances Rs '000	Lease capital Rs '000	2004 Total Rs '000	2003 Total Rs '000
Bank				
Gross	2,339,299	91,516	2,430,815	2,699,954
Net of tangible securities and specific provisions	348,874	5,379	354,253	61,129

	BANK		GROUP	
	2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000
24. INVESTMENT SECURITIES				
Non-quoted shares (note 24.1)	561,414	821,359	1,155,591	987,396
Non quoted debentures (note 24.2)	656,930	715,956	183,985	1,279,180
Unit trusts (note 24.3)	-	-	120,794	117,408
Sinking Fund - Treasury Bonds (note 24.4)	1,993,605	1,587,343	1,993,605	1,587,343
Investment in Treasury Bonds	1,279,544	1,670,000	1,279,544	1,670,000
	<u>4,491,493</u>	<u>4,794,658</u>	<u>4,733,519</u>	<u>5,641,327</u>

	2004			2003		
	Number of Shares	Cost Rs '000	Net Rea- lisable Value Rs '000	Number of Shares	Cost Rs '000	Net Rea- lisable Value Rs '000
24.1 Non-quoted Shares						
<i>A. Ordinary Shares</i>						
Anuradha Ceramics (Pvt) Ltd	1,827	18	44	1,827	18	64
Arpitalian Compact Soles (Pvt) Ltd	2,500,000	25,000	11,525	2,500,000	25,000	12,650
Associated Ceat (Pvt) Ltd	500,000	5,000	5,680	500,000	5,000	18,075
Beico Link Carbons (Pvt) Ltd	328,500	2,190	4,911	219,000	2,190	4,914
Ceylinco Developers (Pvt) Ltd	250,000	2,500	8,078	250,000	2,500	5,000
Coats Thread Exports (Pvt) Ltd	13,564	273	69,784	13,564	273	239,364
Coats Thread Lanka (Pvt) Ltd	374,574	9,785	89,456	374,574	9,785	86,103
Credit Information Bureau of Sri Lanka	14,195	1,420	5,864	14,195	1,420	3,801
Fitch Ratings Lanka Ltd	62,500	625	692	62,500	625	624
Hethersett Hotels Ltd	1,500,000	15,000	9,120	1,500,000	15,000	12,150
Industrial & Commercial Development (Pvt) Ltd	64,000	641	1,600	134,080	1,341	3,352
Kuruwita Manchester Textile Mills Ltd	-	-	-	5,000,000	50,000	82,500
Lak Jaya Thrift & Credit Foundation Ltd	50,000	500	338	50,000	500	500
Link Development (Pvt) Ltd	150,000	750	5,105	75,000	750	2,584
Mahaweli Livestock Enterprises Ltd	600,000	6,000	25,542	600,000	6,000	25,806
MPS Hotels Ltd	180,000	900	7,349	180,000	900	4,189
Prime Carbons (Pvt) Ltd	-	-	-	210,720	2,107	3,045
Sampath Centre (Pvt) Ltd	1,000,000	10,000	10,960	1,000,000	10,000	10,300
South Asia Regional Fund	500	41	-	500	41	-
Suntel Ltd	11,729,794	117,296	111,785	11,729,794	117,296	85,276
Wayamba Plantations (Pvt) Ltd	2,750,000	25,000	34,760	2,750,000	25,000	34,018
Sub-total		<u>222,939</u>	<u>552,521</u>		<u>275,746</u>	<u>634,315</u>

Non-quoted ordinary shares which are fully provided for are not included in the above list. The total cost of such investments is Rs 61.8 mn. (2003 - Rs 104.6 mn)

	2004			2003		
	Number of Shares	Cost Rs '000	Net Realisable Value Rs '000	Number of Shares	Cost Rs '000	Net Realisable Value Rs '000
<i>B. Redeemable Cumulative Preference Shares</i>						
Aqua Packaging Ltd	6,000,000	60,000	60,000	6,000,000	60,000	60,000
Aqua Gardens (Pvt) Ltd	500,000	5,000	5,000	750,000	7,500	7,500
Ceylinco Developers (Pvt) Ltd	-	-	-	950,000	9,500	9,500
Champion Apparel Exports (Pvt) Ltd	500,000	5,000	5,000	500,000	5,000	5,000
Deer Park Hotel (Pvt) Ltd	-	-	-	2,250,000	22,500	22,500
Holcim (Lanka) Ltd	750	78,750	75,000	1,500	157,500	157,500
Jinasena New Technology Holdings (Pvt) Ltd	3,000,000	30,000	30,000	6,000,000	60,000	60,000
Koggala Garments (Pvt) Ltd	46,875	4,688	4,688	124,375	12,438	12,438
Lanka Fastners (Pvt) Ltd	-	-	-	2,000,000	20,000	20,000
Royal Palm Beach Hotels Ltd	-	-	-	2,000,000	20,000	20,000
Sampath Centre (Pvt) Ltd	22,000,000	220,000	220,000	22,000,000	220,000	220,000
South Asia Regional Fund	212	17,322	17,322	486	39,710	39,710
Techno Optics Lanka Ltd	100,000	1,000	1,000	100,000	1,000	1,000
Texpro Industries Ltd	5,546,427	55,464	55,464	5,546,427	55,464	55,464
Union Resorts (Pvt) Ltd	-	-	-	2,000,000	20,000	20,000
Sub-total		<u>477,224</u>	<u>473,474</u>		<u>710,612</u>	<u>710,612</u>
Total		700,163	886,760		986,358	1,344,927
Less : Provision for losses		(138,749)	-		(164,999)	-
Total as at 31 December - Bank		<u>561,414</u>	<u>886,760</u>		<u>821,359</u>	<u>1,344,927</u>
Investments in non-quoted shares by subsidiaries net of provision		473,384			48,629	
Investments in non-quoted shares by subsidiaries at market value		120,793			117,408	
Total as at 31 December - Group		<u>1,155,591</u>			<u>987,396</u>	

Investment securities of the group consist of investments of Rs 1,173.6 mn valued at the lower of cost and market value and investments of Rs 120.8 mn valued at the market value.

The redemption of the cumulative preference shares are due between 2005 and 2008.

	2004			2003		
	Number of Units	Cost Rs '000	Market Value Rs '000	Number of Units	Cost Rs '000	Market Value Rs '000
24.2 Non-quoted Debentures						
Lanka Transformers Ltd (28.7.2005 to 28.7.2008)	-	-	-	5,897	58,970	58,970
NDB Bank Ltd (1.10.2006)	631,875	631,875	631,875	631,875	631,875	631,875
Riverina Hotels Ltd (31.12.2006)	5,540	55	55	11,080	111	111
Singer Sri Lanka Ltd (18.11.2008)	250,000	25,000	25,000	250,000	25,000	25,000
Total as at 31 December - Bank		<u>656,930</u>	<u>656,930</u>		<u>715,956</u>	<u>715,956</u>
Investments in non-quoted debentures by subsidiaries		158,930			563,224	
Total as at 31 December - Group		<u>183,985</u>			<u>1,279,180</u>	

The redemption dates are shown within brackets. The debentureholding of Rs 631.875 mn in NDB Bank Ltd was eliminated on consolidation.

24.3 Unit Trusts

The market value of the investments in Unit Trusts was based on the manager's buying price at the Balance Sheet date. Unit Trusts were carried at the lower of cost and market value determined on a portfolio basis.

24.4 Sinking Fund - Treasury Bonds

In terms of the provisions of an agreement entered into between the Bank and the Government of Sri Lanka for the latter to guarantee a US\$ 55 mn loan obtained by the Bank from the Industrial Bank of Japan, Nippon Life Insurance Company and the Asian Development Bank in 1997, the Bank has established a Sinking Fund to provide funds for the repayment of the loan.

	Percentage Holding	2004 Cost Rs' 000	2004 Directors' Valuation/ market value Rs' 000	Percentage Holding	2003 Cost Rs' 000
25. INVESTMENTS IN SUBSIDIARY COMPANIES					
Capital Development & Investment Co. Ltd	75.60%	1,169,336	1,329,674	75.60%	345,025
Development Holdings (Pvt) Ltd - ordinary shares	58.60%	228,150	265,899	58.60%	228,150
Development Holdings (Pvt) Ltd - preference shares	-	290,000	290,000	-	290,000
NDB Bank Ltd (from 1 May 2004)	92.52%	1,542,253	1,487,028	-	-
NDB Housing Bank Ltd	41.34%	180,000	189,772	41.34%	180,000
NDB Investment Bank Ltd (from 31 March 2003)	80.10%	32,040	46,830	80.10%	32,040
NDBS Stock Brokers (Pvt) Ltd	100.00%	26,940	82,652	100.00%	26,940
NDB Venture Investments (Pvt) Ltd	61.11%	137,500	138,621	61.11%	137,500
		<u>3,606,219</u>	<u>3,830,476</u>		<u>1,239,655</u>

The Bank has a 100% holding in NDB Industrial Estates (Pvt) Ltd, in which company, Rs 30 has been invested as share capital.

NDB Investment Bank (formerly known as Citi National Investment Bank Ltd), an associate company of the Bank became a subsidiary with effect from 31 March 2003.

NDB Bank Ltd, an associate of the Bank, became a subsidiary of the Bank with effect from 30 April 2004.

Capital Development and Investment Co. Ltd, a subsidiary company of the Bank acquired a 100% holding in NDB Finance Lanka (Pvt) Ltd (formerly known as Zurich NDB Finance Lanka (Pvt) Ltd) with effect from 3 July 2003.

All subsidiary companies are audited by Ernst & Young, except for NDB Finance Lanka (Pvt) Ltd and Eagle Insurance Company Limited which are audited by PricewaterhouseCoopers.

	Percentage Holding	2004 Cost Rs' 000	2004 Directors' Valuation Rs' 000	Percentage Holding	2003 Cost Rs' 000
26. INVESTMENTS IN ASSOCIATE COMPANIES					
(a) Bank					
Ayojana Fund (Pvt) Ltd	50.00%	100	31,513	50.00%	100
Maldives Finance Leasing Co (Pvt) Ltd	35.00%	165,462	193,606	35.00%	165,462
NDB Bank Ltd	-	-	-	22.80%	198,148
		<u>165,562</u>	<u>225,119</u>		<u>363,710</u>

NDB Investment Bank (formerly known as Citi National Investment Bank Ltd), an associate company of the Bank became a subsidiary with effect from 31 March 2003.

NDB Bank Ltd, an associate company of the Bank became a subsidiary with effect from 30 April 2004.

	As at 1.1.04 Rs '000	Re- classification Rs '000	Exchange gain on valuation Rs '000	Share of Profit net of Dividend Received Rs '000	As at 31.12.04 Rs '000
(b) Group					
Ayojana Fund (Pvt) Ltd	28,316	-	-	3,197	31,513
Maldives Finance Leasing Co (Pvt) Ltd	183,012	-	(740)	11,343	193,615
NDB Bank Ltd (upto 1 May 2004)	201,773	(207,067)	-	5,294	-
	<u>413,101</u>	<u>(207,067)</u>	<u>(740)</u>	<u>19,834</u>	<u>225,128</u>

The Bank's investment in Development Insurance Brokers (Pvt) Ltd is Rs 10. The Company has not commenced commercial operations.

NDB Investment Bank Ltd, (formerly known as Citi National Investment Bank Ltd) an associate company of the Bank became a subsidiary with effect from 31 March 2003.

Capital Development and Investment Co. Ltd, a subsidiary company of the Bank acquired a 100% holding in NDB Finance Lanka (Pvt) Ltd (formally known as Zurich NDB Finance Lanka (Pvt) Ltd) with effect from 3 July 2003.

Ayojana Fund Management (Pvt) Ltd, ceased to be an associate company of the Bank with effect from 22 October 2003.

All associate companies are audited by Ernst & Young.

	BANK		GROUP	
	2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000
27. GROUP BALANCES RECEIVABLE				
Ayojana Fund (Pvt) Ltd	38,750	53,750	38,750	53,750
Maldives Finance Leasing Co (Pvt) Ltd	-	1,248	-	1,248
NDB Bank Ltd	-	10,297	-	10,297
NDB Housing Bank Ltd	-	26	-	-
NDB Industrial Estates Ltd	39,451	39,453	-	-
NDB Investment Bank Ltd	-	48	-	-
	<u>78,201</u>	<u>104,822</u>	<u>38,750</u>	<u>65,295</u>
28. OTHER ASSETS				
Sundry receivables	476,101	215,066	1,684,558	1,165,462
Payments in advance	19,498	44,188	118,694	47,525
Employee share ownership plan (ESOP)	171,869	183,327	171,869	183,327
Property development in progress	-	-	-	34,618
Policy loans	-	-	431,682	369,147
	<u>667,468</u>	<u>442,581</u>	<u>2,406,803</u>	<u>1,800,079</u>

The ESOP represents the written down value of the NDB shares paid for by the Bank on behalf of a trust for the benefit of the employees. The total cost of Rs 229 mn is being amortised over a period of 20 years with effect from 1 January 2000.

	Land and Buildings Rs '000	Motor Vehicles Rs '000	Furniture and Equipment Rs '000	Total Rs '000
29. PROPERTY & EQUIPMENT				
29.1 Bank				
<i>Cost</i>				
Freehold Assets				
As at 1 January 2004	198,972	264,531	280,048	743,551
Additions during the year	3,738	14,745	3,845	22,328
Disposals during the year	-	(44,663)	(7,240)	(51,903)
As at 31 December 2004	202,710	234,613	276,653	713,976
Leasehold Assets				
As at 1 January and 31 December 2004	19,881	-	-	19,881
Total as at 31 December 2004 (a)	222,591	234,613	276,653	733,857
<i>Depreciation / Amortisation</i>				
Freehold Assets				
As at 1 January 2004	111,734	167,715	154,319	433,768
Charge for the year	12,208	42,164	45,663	100,035
On disposals	-	(39,497)	(8,245)	(47,742)
As at 31 December 2004	123,942	170,382	191,737	486,061
Leasehold Assets				
As at 1 January 2004	3,816	-	-	3,816
Charge for the year	201	-	-	201
As at 31 December 2004	4,017	-	-	4,017
Total as at 31 December 2004 (b)				

	Land and Buildings Rs '000	Motor Vehicles Rs '000	Furniture and Equipment Rs '000	Work-in- Progress Rs '000	Total Rs '000
29.2 Group contd.					
<i>Depreciation / Amortisation</i>					
Freehold Assets					
As at 1 January 2004	194,538	192,154	559,679	-	946,371
Brought forward from new subsidiaries	26,295	3,156	132,267	-	161,718
Charge for the year	35,550	49,714	196,175	-	281,439
On disposals	(33,540)	(42,138)	(19,938)	-	(95,616)
As at 31 December 2004	<u>222,843</u>	<u>202,886</u>	<u>868,183</u>	-	<u>1,293,912</u>
Leasehold Assets					
As at 1 January 2004	3,816	-	-	-	3,816
Charge for the year	201	-	-	-	201
As at 31 December 2004	<u>4,017</u>	-	-	-	<u>4,017</u>
Total as at 31 December 2004 (b)	<u>226,860</u>	<u>202,886</u>	<u>868,183</u>	-	<u>1,297,929</u>
Written down value as at 31 December 2004 (a) - (b)	<u>1,066,247</u>	<u>69,146</u>	<u>423,021</u>	<u>99,604</u>	<u>1,658,018</u>
Written down value as at 31 December 2003	<u>740,711</u>	<u>102,540</u>	<u>323,240</u>	-	<u>1,166,491</u>

29.3 Assets on operating leases

Assets purchased for the purpose of granting operating leases to customers are included above. The details are as follows.

	BANK		GROUP	
	2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000
Cost as at 31 December	164,505	191,797	164,505	191,797
Less : Accumulated depreciation as at 31 December	(137,299)	(132,337)	(137,299)	(132,337)
Written down value as at 31 December	<u>27,206</u>	<u>59,460</u>	<u>27,206</u>	<u>59,460</u>

30. GOODWILL

Goodwill arises on consolidation of the Bank's subsidiaries.

At the beginning of the year

Gross amount		948,434	14,869
Accumulated amortisation		(43,493)	(11,970)
		<u>904,941</u>	<u>2,899</u>

Movement during the year

Recorded during the year		706,047	897,861
Realised on liquidation		-	35,704
Amortisation		(75,917)	(31,523)

At the end of the year

Gross amount		1,654,481	948,434
Accumulated amortisation		(119,410)	(43,493)
Net balance		<u>1,535,071</u>	<u>904,941</u>

	GROUP	
	2004 Rs '000	2003 Rs '000
31. DEPOSITS		
Interest bearing deposits		
Savings Deposits	1,846,095	-
Time deposits	6,943,179	-
Certificate of deposits	77,156	-
Deposits by foreign Banks*	85	-
	<u>8,866,515</u>	<u>-</u>
Non-interest bearing deposits		
Demand deposits - Others	1,889,125	-
- Group	218,683	-
Margins	110,811	-
	<u>11,085,134</u>	<u>-</u>

* This includes the amounts payable to ABN AMRO Bank N.V in connection with the transfer of business undertaking of the ABN AMRO Colombo Branch to NDB Bank Ltd and related settlement thereof.

	BANK	
	2004 Rs '000	2003 Rs '000
32. BORROWINGS		
(a) Bank		
Government of Sri Lanka loans under ADB, IDA, KFW and JBIC credit lines	14,988,301	16,030,670
Other Government of Sri Lanka loans	236,000	295,000
Foreign borrowings	3,685,324	4,063,906
Local borrowings	4,681,023	4,612,388
Listed debentures	-	500,000
	<u>23,590,648</u>	<u>25,501,964</u>
Dues to banks	21,523	308,172
	<u>23,612,171</u>	<u>25,810,136</u>

	As at 1.1.04 Rs '000	Drawings during the year Rs '000	Repayments during the year Rs '000	As at 31.12.04 Rs '000
Government of Sri Lanka loans under ADB, IDA, KFW and JBIC credit lines	16,030,670	846,777	1,889,146	14,988,301
Other Government of Sri Lanka loans	295,000	-	59,000	236,000
Foreign borrowings	4,063,906	-	378,582	3,685,324
Local borrowings	4,612,388	140,751,413	140,682,778	4,681,023
Listed debentures	500,000	-	500,000	-
	<u>25,501,964</u>	<u>141,598,190</u>	<u>143,509,506</u>	<u>23,590,648</u>
Dues to banks	308,172			21,523
	<u>25,810,136</u>			<u>23,612,171</u>

	Upto 1 year Rs '000	1 to 5 years Rs '000	More than 5 years Rs '000	Total Rs '000
32. BORROWINGS CONTD.				
(a.1) Maturity of Borrowings				
Government of Sri Lanka loans under ADB, IDA, KFW and JBIC credit lines	2,021,191	8,004,520	4,962,590	14,988,301
Other Government of Sri Lanka loans	59,000	177,000	-	236,000
Foreign borrowings	283,333	3,401,991	-	3,685,324
Local borrowings	2,893,149	1,781,874	6,000	4,681,023
Dues to banks	21,523	-	-	21,523
	<u>5,278,196</u>	<u>13,365,385</u>	<u>4,968,590</u>	<u>23,612,171</u>

	2004 Rs '000	2003 Rs '000
(b) Group		
Government of Sri Lanka loans under ADB, IDA, KFW and JBIC credit lines	14,988,301	16,030,670
Other Government of Sri Lanka loans	245,888	304,888
Central Bank of Sri Lanka loans	-	13,026
Foreign borrowings	3,685,324	4,063,906
Local borrowings	7,872,855	4,499,102
Listed debentures	-	620,000
	<u>26,792,368</u>	<u>25,531,592</u>
Dues to banks	88,805	316,036
	<u>26,881,173</u>	<u>25,847,628</u>

	As at 1.1.04 Rs '000	Drawings during the year Rs '000	Brought forward from new subsidiary Rs '000	Repayments during the year Rs '000	As at 31.12.04 Rs '000
Government of Sri Lanka loans under ADB, IDA, KFW and JBIC credit lines	16,030,670	846,777	-	1,889,146	14,988,301
Other Government of Sri Lanka loans	304,888	-	-	59,000	245,888
Central Bank of Sri Lanka loans	13,026	-	-	13,026	-
Foreign borrowings	4,063,906	-	-	378,582	3,685,324
Local borrowings	4,499,102	141,112,651	3,166,237	140,905,135	7,872,855
Listed debentures	620,000	-	-	620,000	-
	<u>25,531,592</u>	<u>141,959,428</u>	<u>3,166,237</u>	<u>143,864,889</u>	<u>26,792,368</u>
Dues to banks	316,036				88,805
	<u>25,847,628</u>				<u>26,881,173</u>

	Upto 1 year Rs '000	1 to 5 years Rs '000	More than 5 years Rs '000	Total Rs '000
(b.1) Maturity of Borrowings				
Government of Sri Lanka loans under ADB, IDA, KFW and JBIC credit lines	2,021,191	8,004,520	4,962,590	14,988,301
Other Government of Sri Lanka loans	59,000	177,000	-	236,000
Foreign borrowings	283,333	3,401,992	-	3,685,325
Local borrowings	6,306,906	1,575,836	-	7,882,742
Dues to banks	88,805	-	-	88,805
	<u>8,759,235</u>	<u>13,159,348</u>	<u>4,962,590</u>	<u>26,881,173</u>

33. OTHER LIABILITIES

Other liabilities consist of sundry creditors and accruals.

	BANK		GROUP	
	2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000
34. GROUP BALANCES PAYABLE				
Development Holdings (Pvt) Ltd	4,019	3,440	-	-
NDB Bank Ltd	2,350	-	-	-
NDB Housing Bank Ltd	30	-	-	-
	<u>6,399</u>	<u>3,440</u>	<u>-</u>	<u>-</u>
35. DEFERRED TAXATION				
Balance as at 1 January	145,190	258,655	145,190	261,159
Brought forward from / (Reversal) on disposal of subsidiary	-	-	52,594	(2,504)
Release for the year	(55,071)	(113,465)	(76,212)	(113,465)
Balance as at 31 December	<u>90,119</u>	<u>145,190</u>	<u>121,572</u>	<u>145,190</u>

	BANK & GROUP	
	2004 Rs '000	2003 Rs '000
36. SHARE CAPITAL		
Authorised 200,000,000 Ordinary shares of Rs 10 each	2,000,000	2,000,000
Issued and fully paid as at 31 December 53,750,000 Shares of Rs 10 each	<u>537,500</u>	<u>537,500</u>

37. SHARE PREMIUM RESERVE

The Share Premium Reserve arose in 1997 from the early conversion of the Government held convertible debentures into ordinary shares.

38. STATUTORY RESERVE FUND

A Statutory Reserve Fund was created in 1998 out of revenue reserves to comply with a direction issued to Licensed Specialised Banks by the Monetary Board of the Central Bank of Sri Lanka under Section 76J(1) of the Banking Act No 30 of 1988. A further amount of Rs 179.2 mn was transferred out of revenue reserves to the Statutory Reserve Fund during the year ended 31 December 2000 as a result of a bonus issue of shares made during the year.

	General Reserves Rs '000	Retained Profit Rs '000	Total Rs '000
39. REVENUE RESERVES			
(a) Bank			
As at 1 January 2004	5,805,707	412,563	6,218,270
Profit after taxation	-	679,452	679,452
	<u>5,805,707</u>	<u>1,092,015</u>	<u>6,897,722</u>
Dividends paid	-	(309,062)	(309,062)
As at 31 December 2004	<u>5,805,707</u>	<u>782,953</u>	<u>6,588,660</u>
(b) Group			
As at 1 January 2004	5,805,707	924,761	6,730,468
Adjustment on acquisition/disposal of subsidiary	-	(8,985)	(8,985)
Exchange gain from valuation of foreign associate	-	(740)	(740)
Profit after taxation	-	703,022	703,022
	<u>5,805,707</u>	<u>1,618,058</u>	<u>7,423,765</u>
Dividends paid	-	(309,062)	(309,062)
As at 31 December 2004	<u>5,805,707</u>	<u>1,308,996</u>	<u>7,114,703</u>

40. MATURITY ANALYSIS - BANK

An analysis of the assets and liabilities based on the remaining period at the Balance Sheet date to the respective contractual maturity dates, is as follows:

	Upto 3 months Rs '000	3 to 12 months Rs '000	1 to 3 years Rs '000	3 to 5 years Rs '000	More than 5 years Rs '000	Total Rs '000
Interest Earning Assets						
<i>Cash and short-term funds</i>						
Cash in hand and with banks	462,831	-	-	-	-	462,831
	<u>462,831</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>462,831</u>
<i>Government securities</i>						
Treasury Bills	25,000	775	-	-	-	25,775
Treasury Bonds	-	-	-	1,172,974	106,570	1,279,544
	<u>25,000</u>	<u>775</u>	<u>-</u>	<u>1,172,974</u>	<u>106,570</u>	<u>1,305,319</u>
<i>Investment securities</i>						
Sinking Fund investments (Note 24.4)	-	-	1,993,605	-	-	1,993,605
	<u>-</u>	<u>-</u>	<u>1,993,605</u>	<u>-</u>	<u>-</u>	<u>1,993,605</u>

	Upto 3 months Rs '000	3 to 12 months Rs '000	1 to 3 years Rs '000	3 to 5 years Rs '000	More than 5 years Rs '000	Total Rs '000
40. MATURITY ANALYSIS CONTD.						
<i>Loans and advances</i>						
Direct loans (Gross)	5,784,894	4,092,800	6,472,633	2,885,983	636,097	19,872,407
Refinance loans (Gross)	268,420	592,580	1,143,950	506,830	766,884	3,278,664
Staff loans	2,635	13,568	32,034	24,102	129,901	202,240
Provisions for bad and doubtful debts	(2,014,006)	-	-	-	-	(2,014,006)
	<u>4,041,943</u>	<u>4,698,948</u>	<u>7,648,617</u>	<u>3,416,915</u>	<u>1,532,882</u>	<u>21,339,305</u>
Debtentures	-	100,000	200,000	200,000	-	500,000
Interest receivable	34,549	-	-	-	-	34,549
Lease rentals receivable	52,461	131,162	188,000	164,053	-	535,676
	<u>4,616,784</u>	<u>4,930,885</u>	<u>10,030,222</u>	<u>4,953,942</u>	<u>1,639,452</u>	<u>26,171,285</u>
Non-Interest Earning Assets						
<i>Dealing securities</i>						
Quoted shares	238,505	-	10,000	-	-	248,505
	<u>238,505</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>248,505</u>
<i>Investment securities</i>						
Non-quoted shares / debtentures	4,110	108,880	854,354	65,000	186,000	1,218,344
Investments in Subsidiaries & Associates	-	-	-	-	3,771,781	3,771,781
	<u>4,110</u>	<u>108,880</u>	<u>854,354</u>	<u>65,000</u>	<u>3,957,781</u>	<u>4,990,125</u>
Group balances/Other assets	535,051	8,848	114,550	22,117	308,882	989,448
	<u>777,666</u>	<u>117,728</u>	<u>978,904</u>	<u>87,117</u>	<u>4,266,663</u>	<u>6,228,078</u>
As at 31 December 2004	<u>5,394,450</u>	<u>5,048,613</u>	<u>11,009,126</u>	<u>5,041,059</u>	<u>5,906,115</u>	<u>32,399,363</u>
As at 31 December 2003	<u>5,878,381</u>	<u>11,254,802</u>	<u>7,421,001</u>	<u>5,235,517</u>	<u>4,932,510</u>	<u>34,722,211</u>
Interest Bearing Liabilities						
<i>Borrowings</i>						
Government of Sri Lanka loans						
under ADB,IDA,KFW and JBIC credit lines	483,851	1,537,340	5,053,350	2,951,170	4,962,590	14,988,301
Other Government of Sri Lanka loans	29,500	29,500	118,000	59,000	-	236,000
Foreign borrowings	94,038	189,295	3,400,163	1,828	-	3,685,324
Local borrowings	2,073,463	819,686	1,752,644	29,230	6,000	4,681,023
	<u>2,680,852</u>	<u>2,575,821</u>	<u>10,324,157</u>	<u>3,041,228</u>	<u>4,968,590</u>	<u>23,590,648</u>
<i>Other liabilities</i>						
Dues to banks	21,523	-	-	-	-	21,523
	<u>21,523</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,523</u>
	<u>2,702,375</u>	<u>2,575,821</u>	<u>10,324,157</u>	<u>3,041,228</u>	<u>4,968,590</u>	<u>23,612,171</u>
Non-Interest Bearing Liabilities						
Accrued interest	114,244	280,028	-	-	-	394,272
Group balances/Sundry creditors	266,903	-	575	-	288,284	555,762
Taxation	40,000	34,377	-	-	-	74,377
Dividends payable	7,454	-	-	-	-	7,454
	<u>428,601</u>	<u>314,405</u>	<u>575</u>	<u>-</u>	<u>288,284</u>	<u>1,031,865</u>
As at 31 December 2004	<u>3,130,976</u>	<u>2,890,226</u>	<u>10,324,732</u>	<u>3,041,228</u>	<u>5,256,874</u>	<u>24,644,036</u>
As at 31 December 2003	<u>3,721,182</u>	<u>3,348,126</u>	<u>4,571,030</u>	<u>8,178,477</u>	<u>7,518,459</u>	<u>27,337,274</u>

41. COMMITMENTS AND CONTINGENCIES

41.1 Business Commitments

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities some of which give rise to legal recourse to its customers. No material losses are anticipated as a result of these transactions. These commitments are quantified below:

	BANK		GROUP	
	2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000
Undisbursed financing commitments	2,453,000	2,017,582	2,508,466	2,043,657
Guarantees	786,062	1,133,225	3,465,929	1,133,225
Commitments on account of letters of credit	495,800	201,905	4,029,246	201,905
	3,734,862	3,352,712	10,003,641	3,378,787

41.2 Litigation against the Bank

In the normal course of business, the Bank is a party to various types of litigation, including litigation with borrowers who are in default in terms of their loan agreements. As of the Balance Sheet date twenty two client companies have filed cases against the Bank preventing the sale of assets mortgaged to the Bank. The Bank's legal counsel is of the opinion that litigation which is currently pending will not have a material impact on the reported financial results or the future operations of the Bank.

42. SEGMENTAL ANALYSIS - GROUP

	Lending		Equity		Property Investment		Insurance		Others		Consolidated	
	2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000	2004 Rs '000	2003 Rs '000
Revenue												
External income	3,224,400	3,438,661	337,106	409,134	92,244	111,797	1,177,356	722,300	1,087,413	1,389,059	5,918,519	6,070,951
Inter-segment income	-	-	-	-	9,657	22,437	8,630	6,037	86,864	70,813	105,151	99,287
Total income	3,224,400	3,438,661	337,106	409,134	101,901	134,234	1,185,986	728,337	1,174,277	1,459,872	6,023,670	6,170,238
Segment expenses	(2,265,034)	(2,396,250)	(482,930)	(469,638)	(58,577)	(50,523)	(954,901)	(541,915)	(639,267)	(916,458)	(4,400,709)	(4,374,784)
Inter-segment expenses	-	-	-	-	(9,657)	(22,437)	(8,630)	(6,037)	(86,864)	(70,813)	(105,151)	(99,287)
Segment results	959,366	1,042,411	(145,824)	(60,504)	33,667	61,274	222,455	180,385	448,146	472,601	1,517,810	1,696,167
Unallocated expenses											(262,469)	(283,117)
Operating profit											1,255,341	1,413,050
Share of associate companies												
profit before taxation	28,714	58,942	2,547	25,763	-	-	-	31,995	-	(3,478)	31,261	113,222
6 Tw (p) Tw (e) 9.64e xpennue												361,11,261

43. CAPITAL ADEQUACY

This term is used to describe the adequacy of Bank's aggregate capital in relation to the risks which arise from its assets and its off balance sheet transactions. The minimum risk sensitive capital required to be maintained by the Bank is prescribed by Central Bank of Sri Lanka and is consistent with the international standards of Basel Committee on Banking Capital Regulations and Supervisory Practices. The aim is to ensure minimum capital, commensurate with risks assumed by the Bank, is maintained as a buffer to absorb credit losses.

Basis of computation

The risk weights assigned to the on and off balance sheet assets and composition of capital are prescribed by Central Bank of Sri Lanka. Consolidated financial statements are used for this computation.

Capital Base as at 31 December	2004 Rs'000	2003 Rs'000
Tier 1 : Core capital		
Paid-up ordinary shares	537,500	537,500
Share premium	91,667	91,667
Statutory reserve fund	546,485	537,500
Published retained profits	1,308,996	924,761
General & other reserves	5,805,707	5,805,707
Minority interest	1,093,241	741,906
	<u>9,383,596</u>	<u>8,639,041</u>
Deductions		
Goodwill	1,535,071	904,941
ESOP	171,869	-
Total Tier 1 Capital	<u>7,676,656</u>	<u>7,734,100</u>
Tier 2 : Supplementary capital		
Revaluation reserve	86,156	-
General provision	190,676	253,327
Approved sub-ordinated term debt	-	75,000
Total Tier 2 Capital	<u>276,832</u>	<u>328,327</u>
Total Tier 1 & Tier 2 Capital	<u>7,953,488</u>	<u>8,062,427</u>
Deductions		
Investments in capital of other banks and financial associates	364,578	1,252,492
Capital Base	<u>7,588,910</u>	<u>6,809,935</u>

Risk Weighted Assets and Off-Balance Sheet Exposure

	2004 Rs'000	2003 Rs'000	Risk weights %	2004 Rs'000	2003 Rs'000
Cash, treasury bills & other securities with Central Bank	13,968,063	8,847,978	-	-	-
Loans secured against Sri Lanka Government guarantee	193,119	313,280	-	-	-
Loans secured by Provident Fund	16,573	22,303	-	-	-
Placements with and loans to other banks and financial institutions	4,267,548	952,863	20	853,510	190,573
Loans secured by Primary Mortgage	150,553	169,018	50	75,276	84,509
Other loans and advances	31,929,751	20,274,361	100	31,929,751	20,274,361
Other investments (excluding items deducted against from total capital)	2,111,098	1,629,310	100	2,111,098	1,629,310
Property and equipment	1,658,018	1,166,491	100	1,658,018	1,166,491
Finance leases and other receivables	2,809,399	1,655,487	100	2,809,399	1,655,487
Total Assets	<u>57,104,122</u>	<u>35,031,091</u>		<u>39,437,052</u>	<u>25,000,731</u>

	Credit conversion factor, %	2004 Rs'000	2003 Rs'000	Risk weights %	2004 Rs'000	2003 Rs'000
Off Balance Sheet Exposure						
Direct credit substitutes						
General guarantees of indebtedness	100	3,351,816	1,083,893	100	3,351,816	1,083,893
Standby LC's serving as financial guarantees	100	-	48,250	100	-	48,250
Trade related contingencies						
Shipping guarantees	20	109,906	49,332	100	21,981	9,866
Documentary letters of credit	20	4,029,246	153,655	100	805,849	30,731
Other commitments with an original maturity upto 1 year						
Formal standby facilities and credit lines	-	-	22,477	100	-	-
Other commitments with an original maturity over 1 year						
Formal standby facilities and credit lines	50	-	3,598	100	-	1,799
Undrawn term loans	50	1,989,473	1,237,582	100	994,737	618,791
Others - Refinance loans	50	523,200	780,000	100	261,600	390,000
Total off balance sheet exposure		10,003,641	3,378,787		5,435,983	2,183,330
Total Risk Weighted Assets and Off Balance Sheet Exposure					44,873,035	27,184,061
Risk Weighted Capital Ratios						
Tier 1 (Required statutory minimum ratio is 5%)					17.11	28.45
Tier 1 & Tier 2 (Required statutory minimum ratio is 10%)					16.91	25.05

44. POST BALANCE SHEET EVENTS

No material events have taken place after the Balance Sheet date which require an adjustment to or a disclosure in the financial statements.

45. DIRECTORS' INTERESTS IN CONTRACTS WITH THE BANK

The interest of each director, direct or indirect in all financing and other arrangements have been disclosed to the Bank in accordance with Section 11 of the National Development Bank of Sri Lanka Act No 2 of 1979 and the rules made thereunder. All such interests are disclosed under Note 46, related party disclosures.

46. RELATED PARTY DISCLOSURES

46.1 S K Wickremesinghe, H D S Amarasuriya, A G Karunasena, L de Mel, S R de Silva, G C B Wijeyesinghe and N S Welikala were directors of the Bank from 1 January 2004 to 31 December 2004.

D M Swaminathan, J R Cooney, S E Captain and S Enderby resigned from the Board with effect from 12 May 2004, 23 July 2004, 15 October 2004 and 16 November 2004 respectively.

A R Gunasekara, S Cooray, M Nagahawatte and A A Pio were appointed to the Board on 30 August 2004, 15 October 2004, 15 October 2004 and 6 December 2004 respectively.

46. RELATED PARTY DISCLOSURES CONTD.

The Bank had the undermentioned financial dealings during the year with the following Associate Company of the Bank. The following directors who held office as described above were also directors of this Company as indicated below:

Company	Name of Director /Officer	Position	Details of financial dealings
Ayojana Fund (Pvt) Ltd	N S Welikala	Director	The Bank contributed a sum of Rs 200 mn in the previous financial years to Ayojana Fund (Pvt) Ltd, set up jointly with the Commonwealth Development Corporation. This was structured in the form of an interest free loan in terms of the shareholders' agreement. The balance outstanding as at 31 December 2004 was Rs 38.75 mn.
	A R Gunasekara	Director	
	G C B Wijeyesinghe	Director	

Certain officers of the Bank are also nominated directors on some client companies' Boards. However, these appointments are held purely to safeguard the interests of the Bank.

46.2 In addition to the above, certain directors of the Bank are also either a director and/or a shareholder of the following entities which have financing arrangements with the Bank in the normal course of business.

Name of Director and Relationship	Company	Accommodation Details		Nature of Transaction	Security
		Limit Rs '000	Balance as at 31.12.2004 Rs '000		
S K Wickremesinghe					
Director	CIC Fertilizers Ltd	150,000	140,000	Short Term loan	-
N S Welikala					
Director	Lakjaya Thrift and Credit Foundation Ltd	10,000	9,400 500	Project Loan Ordinary Shares	-
Director	Lanka Hospitals (Pvt) Ltd	300,000	279,375	Project Loan	Primary concurrent mortgage over moveable and immovable property/International Financial Corporation guarantee.
H D S Amarasuriya					
Chairman	Commercial Leasing Co. Ltd	100,000 240,900	100,000 165,700	Short Term Loan Securitisation	- Mortgage over the selected portfolio of the lease receivable of the company.
Chairman	Regnis (Lanka) Ltd	90,000 118,300	90,000 74,342	Short Term Loan Project Loan	- Corporate Guarantee from Singer (Sri Lanka) Ltd
Chairman	Singer (Sri Lanka) Ltd	200,000 455,000 100,000	183,850 379,170 45,185 25,000	Short Term Loan Project Loan LC facility Non-quoted Debenture	- Negative pledge over assets Negative pledge over assets -

46. RELATED PARTY DISCLOSURES CONTD.

Name of Director and Relationship	Company	Accommodation Details		Nature of Transaction	Security
		Limit Rs '000	Balance as at 31.12.2004 Rs '000		
L de Mel					
Director	Cisco Speciality Packaging (Pvt) Ltd	15,000	500	Project Loan	Primary mortgage of project assets (machinery).
		30,003	6,230	Equipment Finance	Primary mortgage of project assets (machinery).
		100,321	86,874	LC facility	Mortgage over movable and immovable assets
S R de Silva					
Director	Lanka Walltiles Ltd	100,000	3,125	Project Loan	Concurrent mortgage over the moveable and immovable project assets of the Meepe factory
		13,000	7,721	Operating Lease	Absolute ownership over the lease vehicles
Director	Lanka Tiles Ltd	25,000	25,000	Short Term Loan	-
		2,670	1,139	Project Loan	Primary mortgage of project assets
		5,000	130	Operating Lease	Absolute ownership over the lease assets
G C B Wijeyesinghe					
Director	Ceylon Petroleum Corporation	1,000,000	452,200	Project Loan	Government of Sri Lanka Treasury Guarantee
Director	Regnis (Lanka) Ltd	90,000	90,000	Short Term Loan	-
		118,300	74,342	Project Loan	Corporate Guarantee from Singer (Sri Lanka) Ltd
Director	Singer (Sri Lanka) Ltd	200,000	183,850	Short Term Loan	-
		455,000	379,170	Project Loan	Negative pledge over assets
		100,000	45,185	LC facility	Negative pledge over assets
			25,000	Non-quoted Debenture	-

46.3 A A Pio, director of the Bank, was appointed by the Asian Development Bank which has extended credit lines to the Bank.

Statement of Value Added

Bank	2004 Rs '000	%	2003
VALUE ADDED			
Gross Income	3,538,694		
Cost of Borrowings and Services	(1,824,484)		
Provision for losses	(335,858)		
	<u>1,378,352</u>		
DISTRIBUTION OF VALUE ADDED			
To Employees			
Remuneration and benefits	357		
To Government			
Income tax			
To Providers of Capital			
Dividend to shareholders			-
Retained in the Business			
Retained profit			57
Depreciation			7
			<u>64</u>
			<u>100</u>



Investor Information

1. Stock Exchange

The consolidated Income Statement for the year ended 31 December 2004 and the Balance Sheet of the Bank and the Group as at that date have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

2. Ordinary Shareholders as at 31 December 2004

No. of Shares	Resident			Non-Residents			Total			
	No.	Shares	%	No	Shares	%	No.	Shares	%	
Individuals										
0 - 500	3,963	803,849	1.50	31	6,487	0.01	3,994	810,336	1.51	
501 - 5,000	1,340	1,869,680	3.48	28	46,600	0.09	1,368	1,916,280	3.57	
5,001 - 10,000	86	643,104	1.20	3	20,800	0.04	89	663,904	1.24	
10,001 - 20,000	27	387,182	0.72	1	11,000	0.02	28	398,182	0.74	
20,001 - 30,000	11	293,211	0.55	-	-	0.00	11	293,211	0.55	
30,001 - 40,000	3	108,900	0.20	-	-	0.00	3	108,900	0.20	
40,001 - 50,000	1	48,500	0.09	-	-	0.00	1	48,500	0.09	
50,001 - 100,000	6	407,850	0.76	-	-	0.00	6	407,850	0.76	
100,001 - 1,000,000	5	1,026,250	1.91	-	-	0.00	5	1,026,250	1.91	
1,000,001 Over	-	-	0.00	-	-	0.00	-	-	0.00	
SUB TOTAL	5,442	5,588,526	10.40	63	84,887	0.16	5,505	5,673,413	10.56	
Corporate										
0 - 500	102	22,161	0.04	2	850	0.00	104	23,011	0.04	
501 - 5,000	118	218,923	0.41	3	4,100	0.01	121	223,023	0.41	
5,001 - 10,000	19	131,700	0.25	-	-	0.00	19	131,700	0.25	
10,001 - 20,000	19	299,550	0.56	1	18,000	0.03	20	317,550	0.59	
20,001 - 30,000	6	152,500	0.28	1	22,000	0.04	07	174,500	0.32	
30,001 - 40,000	3	104,050	0.19	2	65,400	0.12	5	169,450	0.32	
40,001 - 50,000	6	273,200	0.51	-	-	0.00	6	273,200	0.51	
50,001 - 100,000	10	677,800	1.26	4	312,307	0.58	14	990,107	1.84	
100,001 - 1,000,000	18	7,369,900	13.71	10	3,082,646	5.74	28	10,452,546	19.45	
1,000,001 Over	10	25,842,650	48.08	3	9,478,850	17.64	13	35,321,500	65.71	
SUB TOTAL	311	35,092,434	65.29	26	12,984,153	24.16	337	48,076,587	89.44	
TOTAL	5,753	40,680,960	75.69	89	13,069,040	24.31	5,842	53,750,000	100.00	

3. Share Valuation

The market value of the National Development Bank of Sri Lanka ordinary shares on 31 December 2004 was Rs 160.00 per share. The highest and lowest values recorded during this 12 month period were Rs 170.00 on 27.01.2004 and Rs 125.00 on 10.02.2004 respectively.

4. Directors' Interest in Shares of NDB as at 31 December 2004

Name	No of Shares
S K Wickremesinghe	300
H D S Amarasuriya	3,950
Mrs. S Cooray	-
L de Mel	10,300
S R de Silva	-
A R Gunasekara	500
Dr A G Karunasena	-
P M Nagahawatte	-
A A Pio	-
G C B Wijeyesinghe	-
N S Welikala	-

5. Twenty Largest Shareholders as at 31 December 2004

Name	No of Shares	%
Bank of Ceylon	7,841,900	14.59
Goldquest International Ltd	6,946,600	12.92
National Insurance Corporation Ltd A/C No 1	3,893,600	7.24
National Savings Bank	2,843,800	5.29
Central Bank of Sri Lanka	2,625,000	4.88
Sri Lanka Insurance Corporation Limited - General Fund	1,950,300	3.63
Janashakthi Securities and Financial Services Ltd	1,500,000	2.79
HSBC Intl Nominees Ltd-Aberdeen Far East Emerging Economies Unit Trust	1,431,600	2.66
NDB - ESOP	1,374,950	2.56
Seylan Bank Ltd/Shanker Varadananda Somasundaram	1,345,300	2.50
National Insurance Corporation Ltd A/C No 3	1,250,000	2.33
Waldock Mackenzie Ltd/Janashakthi Securities & Financial Services Ltd	1,217,800	2.27
HSBC Intl Nominees Ltd-BPSS LDN - GC BOI Asia Pacific Fund LB06	1,100,650	2.05
Employees Trust Fund Board	994,700	1.85
Renuka Hotels Ltd	950,650	1.77
HSBC Intl Nominees Ltd-SSBT-Aberdeen Global Asia Pacific Fund QM11	916,500	1.71
Renuka City Hotels Ltd	739,000	1.37
Renuka Consultants & Services Ltd	684,400	1.27
DPMC Financial Services (Pvt) Ltd A/C No 01	592,650	1.10
Freudenberg Shipping Agencies Ltd	481,700	0.90
Total	40,681,100	75.69

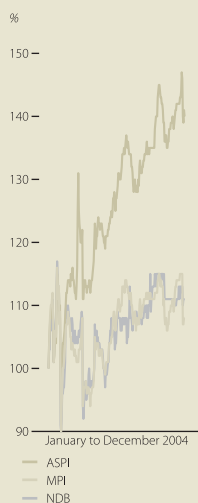
Percentage of Shares held by the Public - 69.89%

Ten Year Summary

Group Income Statement

<i>Rs mn</i>	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Income										
Total Income	2,510.2	2,861.3	3,565.5	4,053.0	4,600.2	5,512.2	6,525.5	5,971.3	6,071.0	5,918.5
Interest Income	2,312.4	2,722.9	3,234.4	3,560.6	4,183.3	4,896.4	5,810.3	5,041.3	4,666.5	4,447.5
Interest Expenses	1,423.7	1,773.3	2,128.0	2,492.0	3,219.3	3,662.2	4,369.7	3,380.6	2,465.4	2,201.4
Net Interest Income	888.7	949.6	1,106.4	1,068.6	964.0	1,234.2	1,440.6	1,660.7	2,201.1	2,246.1
Other Income	197.8	138.4	331.1	492.4	417.0	615.8	715.2	930.0	1,404.5	1,471.0
Net Income	1,086.5	1,088.0	1,437.5	1,561.0	1,380.9	1,850.0	2,155.8	2,590.7	3,605.6	3,717.1
Less Operating Expenses										
Personnel Costs	92.5	103.5	124.8	199.9	247.8	289.0	382.1	412.7	588.0	916.3
Provision for Bad & Doubtful Debts and Fall in Value of Investments	57.6	(4.6)	156.0	159.9	19.0	547.9	526.8	476.8	787.0	278.6
Other Administrative & General Expenses	56.7	89.3	116.6	187.1	243.0	300.1	534.4	520.9	817.6	1,266.9
Total Operating Expenses	206.8	188.2	397.4	546.9	509.8	1,137.1	1,443.3	1,410.5	2,192.5	2,461.8
Less: Exceptional Items	-	-	-	-	-	-	-	-	-	-
Operating Profit	879.7	899.8	1,040.1	1,014.1	871.1	712.9	712.4	1,180.2	1,413.1	1,255.3
Share of Associate Co's Profit	15.5	15.3	19.2	32.3	106.5	124.8	72.4	113.7	113.2	31.3
Profit Before Taxation	895.2	915.1	1,059.3	1,046.4	977.6	837.7	784.8	1,293.9	1,526.3	1,286.6
Taxation	(279.2)	(295.9)	(332.0)	(232.5)	(232.9)	(281.9)	(226.2)	(251.0)	(305.2)	(481.1)
Profit After Taxation	616.0	619.2	727.3	813.9	744.7	555.8	558.6	1,042.9	1,221.1	805.5
Minority Interest	-	-	(4.0)	(11.3)	(31.4)	(6.7)	40.1	(112.3)	(98.0)	(102.4)
Profit Attributable to Group	616.0	619.2	723.3	802.6	713.3	549.1	598.7	930.6	1,123.1	703.0
Earnings per share	11.5	11.5	13.5	14.9	13.3	10.2	11.1	17.3	20.9	13.1
Dividends (Rs mn) - Proposed/paid	78.8	96.3	232.9	232.9	241.9	241.9	456.9	295.6	309.1	322.5
Dividends per share - Proposed/paid	4.5	5.5	6.5	6.5	4.5	4.5	8.5	5.5	5.8	6.0
Dividend cover	7.8	6.4	3.1	3.4	2.9	2.3	1.3	3.1	3.6	2.2

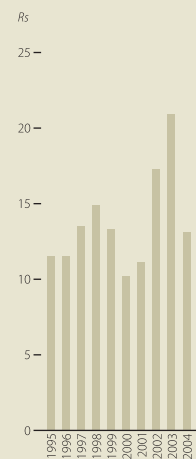
Movement of NDB's Share Price (Indexed)



Return on Equity - Group



Earnings per Share - Group



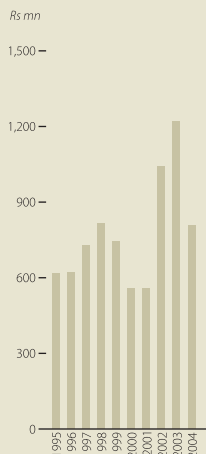
Group Balance Sheet

<i>Rs mn</i>	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Assets										
Cash & Short Term funds	1,143.7	1,550.7	4,304.5	1,379.4	745.6	1,305.8	3,037.7	5,937.7	12,440.7	14,101.5
Investments	2,085.2	2,536.0	2,889.4	3,940.7	4,154.1	4,093.3	5,016.0	3,828.6	5,726.0	5,633.6
Bills of Exchange	-	-	947.0							
Loans & Advances	12,530.3	14,735.5	17,044.0	23,749.4	28,692.0	29,514.7	27,035.4	24,364.4	20,783.2	31,833.4
Lease Rentals & Receivables	552.0	840.2	804.1	1,050.6	1,711.3	4,253.4	3,504.3	2,884.7	573.3	609.4
Investments in Associate Companies	266.3	274.9	821.8	677.3	977.3	410.2	454.0	798.6	413.1	225.1
Property & Equipment	147.8	118.9	143.2	207.3	315.0	1,646.1	1,747.1	1,667.8	1,166.5	1,658.0
Other Assets	35.7	93.8	577.6	782.3	982.8	965.6	1,815.7	889.0	1,865.4	2,445.6
Intangible Assets	-	-	(3.6)	36.4	27.9	(53.4)	(43.6)	2.9	904.9	1,535.1
Total Assets	16,761.0	20,150.0	26,581.0	31,823.4	37,606.0	42,135.8	42,566.5	40,373.7	43,873.1	58,985.0
LIABILITIES										
Borrowings	11,909.7	14,295.7	19,694.0	24,616.9	29,813.3	33,129.7	32,506.0	30,250.4	25,847.6	26,881.2
Deposits with customers	-	-	-	-	-	-	-	-	-	11,085.1
Non life insurance reserves	-	-	-	-	-	-	-	-	420.8	485.8
Longterm Insurance Fund	-	-	-	-	-	-	-	-	6,612.8	7,985.4
Taxation	320.7	379.6	456.8	336.6	333.7	480.2	401.0	550.1	350.8	300.1
Other Liabilities	873.9	1,127.3	1,439.4	1,171.9	1,258.1	1,807.1	2,259.6	1,397.2	1,997.5	2,770.1
Dividend Payable	78.9	96.6	236.1	234.2	243.5	244.1	245.8	300.2	4.6	7.5
Total Liabilities	13,183.2	15,899.2	21,826.3	26,359.6	31,648.6	35,661.1	35,412.4	32,498.0	35,234.1	49,515.2
SHAREHOLDERS' FUNDS										
Share Capital	175.0	175.0	358.3	358.3	358.3	537.5	537.5	537.5	537.5	537.5
Convertible Stock	275.0	275.0	-	-	-	-	-	-	-	-
Share Premium	-	-	91.7	91.7	91.7	91.7	91.7	91.7	91.7	91.7
Statutory Reserves	-	-	-	358.3	358.3	537.5	537.5	537.5	537.5	546.5
Revaluation Reserve	-	-	-	-	-	-	131.7	131.7	-	86.2
Revenue Reserves	3,127.8	3,650.8	4,141.2	4,352.5	4,824.0	4,654.3	4,839.7	5,524.8	6,730.5	7,114.7
Total Shareholders' Funds	3,577.8	4,100.8	4,591.2	5,160.8	5,632.3	5,821.0	6,138.1	6,823.2	7,897.1	8,376.5
Minority Interest	-	150.0	163.5	303.0	325.1	653.7	1,016.0	1,052.6	741.9	1,093.2
Total Funds Employed	3,577.8	4,250.8	4,754.7	5,463.8	5,957.4	6,474.7	7,154.0	7,875.8	8,639.0	9,469.8
Total Liabilities & Funds Employed	16,761.0	20,150.0	26,581.0	31,823.4	37,606.0	42,135.8	42,566.5	40,373.7	43,873.1	58,985.0
Return on average assets (%)	4.0	3.4	3.1	2.8	2.2	1.4	1.3	2.5	3.2	1.6
Return on equity (%)	18.3	16.1	16.6	16.5	13.3	9.7	10.0	14.4	15.3	8.6
Book value per share	66.56	76.29	85.42	96.02	103.34	108.30	114.20	126.94	146.92	155.84

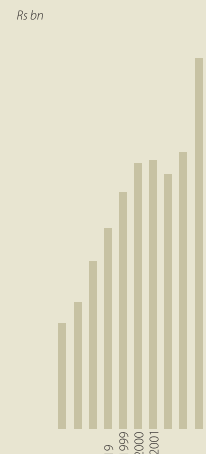
Income & Interest Expenses - Group



Profit After Tax - Group



Total Assets - Group



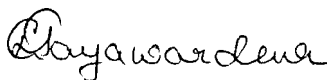
Notice of Meeting

Notice is hereby given that the Thirteenth Annual General Meeting of the National Development Bank of Sri Lanka (NDB) will be held at the "Golden Ballroom", the Colombo Plaza Hotel at 11am on the 6th of May, Two Thousand and Five (2005) and the business to be brought before the meeting will be :

1. To lay before the Shareholders to be received and adopted by them the Report of the Directors of NDB, the Balance Sheet, the Profit & Loss Account and the Auditor's Report relating to the year ended 31 December 2004 in terms of Rules 57, 129 and 130 of the National Development Bank of Sri Lanka Rules, No 1 of 1992.
2. To elect Mr S K Wickremesinghe as a Director in terms of section 8 (B)(5) of the National Development Bank of Sri Lanka Act No 2 of 1979 as amended.
3. To re-elect Mr H D S Amarasuriya who retires at the Annual General Meeting in terms of Section 8(B) (6) of the National Development Bank of Sri Lanka Act No 2 of 1979 as amended.
4. To re-elect Mr G C B Wijeyesinghe who retires at the Annual General Meeting in terms of Section 8(B) (6) of the National Development Bank of Sri Lanka Act No 2 of 1979 as amended.
5. To elect Mr A R Gunasekara as a Director in terms of section 8(B) (5) of the National Development Bank of Sri Lanka Act 2 of 1979.

6. To elect Mr A A Pio as a Director in terms of section 8(B) (5) of the National Development Bank of Sri Lanka Act 2 of 1979
7. To determine the remuneration payable to the Directors.
8. To declare a Dividend as recommended by the Directors.

By order of the Board



C L Jayawardena

Board Secretary

11 February 2005

Notes :

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her stead.
2. A proxy need not be a Shareholder of NDB. The Form of Proxy is sent herewith.
3. The instruments appointing proxies must be deposited at the Head Office of NDB, at 40 Navam Mawatha, Colombo 2 not later than 48 hours prior to the time appointed for the holding of the meeting in accordance with the provisions of Rule 78 of the National Development Bank of Sri Lanka Rules No 1 of 1992.
4. Shareholders/Proxies attending the meeting are requested to bring their National Identity Cards.

I/We
(NIC/s)
of

being a /being shareholder/shareholders of National Development Bank of Sri Lanka (the "NDB") hereby appoint

1.
Holder of NIC No
Or failing him/her

2. S K Wickremesinghe (Chairman of NDB) of Colombo or failing him one of the Directors of NDB, as my /our proxy to vote and /or speak for me /us and on my/our behalf at the Thirteenth Annual General Meeting of NDB to be held on 6 May 2005 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

As witness I /We have set my / our hand/s hereunto this day of Two Thousand and Five (2005).

.....
Signature of the Shareholder

Instructions for completion:

1. In order to appoint a proxy this form duly completed together with any Power of Attorney under which it is signed, must be deposited at the Head Office of NDB, No 40 Navam Mawatha, Colombo 2, not later than forty eight (48) hours prior to the time appointed for the holding of the meeting.
2. The proxy appointed need not be a shareholder of NDB.
3. In the case of a Corporate Shareholder, the proxy must be executed under its Common Seal or by its authorised attorney.
4. The first joint holder shall have the power to sign the proxy without the concurrence of the other joint holders.
5. The full name and the registered address of the Shareholder appointing the proxy should be legibly entered in the form of proxy.

Design Concept by:
Copyline (Pvt) Ltd

Principal Photography by:
Sarath Perera

Digital Plates by:
Imageline (Pvt) Ltd

Printed by:
Gunaratne Offset Ltd

Produced by:
Copyline (Pvt) Ltd



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