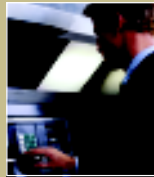


A World Class Sri Lankan Bank



teamwork service care passion integrity



Annual Report & Accounts 2004

A World Class



service



integrity

>> our values
teamwork
service
care
passion
integrity



teamwork



passion



care

Sri Lankan Bank

Building on its firm foundations, NDB Bank has embarked on the implementation of its ambitious plans to expand and improve its range of commercial banking services, reach and customer base - confidently embracing its vision of being 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 Bank 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 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 staff 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 Bank 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 to be the commercial banking arm of a leading financial services group in Sri Lanka - the NDB Group.

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.

Financial Highlights

AA- (sri) rating

Fitch Rating Lanka Limited in September 2004 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.

Income Statement (Rs. '000)	For the year ended December 31, 2004	For the year ended December 31, 2003	% Change
Gross Income	1,438,241	1,744,644	(18%)
Net Interest Income	329,708	297,719	11%
Other Income	400,556	578,595	(31%)
Net Operating Income	730,264	876,315	(17%)
Profit Before Income Tax	298,493	225,400	32%
Profit After Income Tax*	113,197	174,633	(35%)

Balance Sheet (Rs. '000)	As at December 31 2004	As at December 31 2003	% Change
Shareholders' Funds	1,078,608	903,196	19%
Retained Profits for the year	358,377	281,746	27%
Deposits from customers	11,085,134	7,585,130	46%
Gross Advances to customers	10,208,250	7,683,915	33%

Ordinary Share Information (Rs. per share of Rs.10/-)	2004	2003	% Change
Earnings	1.83	2.83	(35%)
Dividends proposed/paid**	1.00	0.5	100%
Net Asset Value	17.45	14.61	19%
Market Price			
At year end	26.00	20.00	30%
Highest during financial year	31.00	27.00	15%
Lowest during financial year	16.50	12.25	35%

Performance Indicators	2,004	2003	% Change
Capital Adequacy			
Tier I (%)	7.21%	9.87%	(27%)
Tier I & II (%)***	10.00%	11.23%	(11%)
Liquid Assets	23.51%	22.99%	2%
Return on Average Shareholders' Funds	11.42%	21.40%	(47%)
Return on Average Assets	0.73%	1.19%	39%
Operating Expenses / Net Operating Income****	59.13%	74.28%	(20%)

* The tax charge for 2004 includes a charge of Rs. 62 Mn, as a retrospective tax on capital gains on debt trading realised during the year 2003.

** The Bank proposed a first and final dividend of Rs. 1.00 per share of Rs. 10.00 each for the year.

*** The Bank has obtained the approval of the Central Bank of Sri Lanka, to use the capital of NDB in fulfilling its capital adequacy requirements.

**** The outstanding goodwill of Rs. 163.8 Mn was fully written off in 2003, and has been included under operating expenses.



"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



Sarath Kusum Wickremesinghe
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 has 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.



Eran Wickramaratne
Director / Chief Executive Officer

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.



Gamini Wijeyesinghe
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 Common Wealth 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, a Fellow of the Association of Authorised Public Accountants - UK, and a Fellow of the Society of Chartered Management Accountants.



Nagarajan Srinivasan
Director

Mr. Srinivasan is presently an Investment Principal with Actis Advisers (Pvt) Ltd India, actively managing a large portfolio of assets in India and Sri Lanka and embarking on a distressed asset initiative in India. Prior to this, he was attached to the CDC Group Plc, London for seven years, and has also worked for Standard Chartered Bank. He holds a Masters Degree in Economics from the University of Madras, and a Postgraduate in Business Administration from the Warwick School of Business, UK.



Lal de Mel
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 Sri Lanka Insurance Corporation and a Director of 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 Chamber of Industries, President of the Federation of Chamber of Commerce & Industry and 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).



Nihal Welikala

Director

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 NDB as the Deputy General Manager in January 1999. He assumed duties as the General Manager of NDB on 1 January 2002. He is also a Director of several of the NDB Group companies.



Hemaka Amarasuriya

Director

Mr Amarasuriya brings to NDB Bank 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.



Ranjit Gunasekara

Director

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 Minets' 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.



Sriyan de Silva

Director

Mr. de Silva is a lawyer, holding an LLB (Hons.) degree. He was the Chief Executive of the Employers' Federation of Ceylon which he served for 25 years until 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 on the Boards of NDB, Lanka Walltile Ltd., Lanka Tiles Ltd., Ceradec (Pvt) Ltd. and Lanka Tiles Trading (Pvt.) Ltd.

RESIGNED

Deva Manoharan Swaminathan

(Resigned on 28.05.2004)

John Robert Cooney

(Resigned on 18.06.2004)

Sohli Edulji Captain

(Resigned on 31.10.2004)

Chairman's Review

It is with pleasure that I present to you the annual report of the NDB Bank together with the audited accounts for the year 2004.

In accordance with the Bank's medium term plan, which was drawn up in anticipation of a prospective merger with the National Development Bank (NDB), we have embarked on an ambitious expansion programme, which will increase our expenditure, but lead to improved results in future years. As I have stated in earlier reports, the merger will have a favourable impact on the Bank, since it will be able to enjoy the benefit of NDB's vast capital base and its strengths in project lending to the corporate and SME Sectors. During the intervening period until the merger, the staff of NDB Bank and NDB will be working together to facilitate a smooth transition.

The Sri Lankan economy performed satisfactorily in 2004 though its growth of around 5.5% lagged behind the rate of 5.9% achieved in 2003. The impact of the Tsunami will pose problems for the country as well as the Bank, but the aid given by foreign governments and NGOs and the freezing of debt repayments by donor countries will help, in some measure, to overcome these difficulties. The international price of oil has still shown no sign of weakening and the prices of our other essential imports also continue to remain at a high level.

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grew by 33% and 46% respectively. The Bank also achieved outstanding results in the area of non-performing loans which are now at an extremely low level of 0.86% of the total loan portfolio. Profits, however, were affected by a tax imposed by the Government in the 2004 budget on profits earned in 2003 from trading in Government securities, and by the higher costs incurred in expanding the branch network more rapidly. The profit before tax in 2004 increased substantially to Rs. 298 Mn, as compared to Rs. 225 Mn in the previous year. The profit after tax, however, declined to Rs. 113 Mn from Rs. 175 Mn in 2003, mainly due to the additional tax of Rs. 62 Mn paid in 2004 on profits from trading in securities in 2003.

I am pleased to announce that your Board of Directors have recommended the payment of a first and final dividend of 10% which will amount to a total payment of Rs. 61.8 Mn on the issued capital of the Bank.

I would like to take this opportunity to thank the Monetary Board and the officials of the Central Bank and the Ministry of Finance for their advice and support, which have helped us in making progress towards the unification of the two banks.

Mr. S E Captain, who served on the Board from the inception of the Bank, and Mr. J R Cooney and Mr. D M Swaminathan who joined the Board in September 2002 resigned from their respective positions during 2004. I wish to express our grateful thanks to them for the invaluable services they rendered to the Bank. I also wish to extend a welcome to Mr. S R de Silva who joined the Board in June 2004.

Finally, I wish to express my sincere appreciation to my colleagues on the Board for their advice and assistance and to the Chief Executive and all members of the staff for their hard work and the commitment they have shown in carrying out their duties.



S K Wickremesinghe
Chairman

March 9, 2005

Chief Executive's Review

2004 was a year of strong growth for NDB Bank, as we began to reap the rewards of the strategies developed and implemented over the past two years. Our core business performed extremely well, with substantial growth in the Bank's loans, advances and deposits.

During the year NDB increased its holding in NDB Bank to 92.5%, consequent to the approval granted by the Monetary Board. This was followed by approvals to convert NDB into a Public Company under the Company's Act, which is the first phase of the process to merge NDB with NDB Bank.

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 teambuilding.

In another important and symbolic step towards working together as a united group, the employees of the two banks jointly adopted a new Vision and Mission, and committed themselves to a common set of corporate values in 2004. These values have been used as the central theme of this annual report.

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 single borrower limit, from the last quarter of 2003. This eased the capital constraints that were faced by the Bank, and enabled us to substantially grow our 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 in 2003 to Rs. 330 Mn in 2004. Profit before tax (PBT) 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. 175 Mn in 2003 to Rs. 113 Mn in 2004 due to increased tax charges.

As reported in the Bank's previous annual report, the falling interest rate scenario in 2003 provided an opportunity for the Bank to realise an exceptional level of income in the form of capital gains from debt trading activities. Conversely, in 2004, the level of debt trading activity was low. Further, the Government imposed a retrospective tax on capital gains from sale of Government securities in 2003, which amounted to Rs. 62 Mn.

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. 113 Mn, and the PAT for 2004, Rs. 175 Mn. This analysis clearly reflects the upward trend in the Bank's performance.

NDB Bank's tax contributions for 2003 and 2004 (reclassified) have been 44% and 46% of the Bank's PBT respectively. The effective tax rate has steadily increased over the years with the introduction of VAT on financial services and the subsequent increase in the corporate tax rates thereafter.

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 loan portfolio reducing further in 2004 to a mere 0.86%.

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.

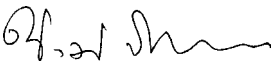
It is impossible to report on the year 2004 without mention of the devastating natural disaster that destroyed so many Sri Lankan lives, homes and livelihoods. While the direct impact of the disaster on the

Bank's portfolio was minimal, no institution or individual could remain untouched by the tragedy that unfolded before us. In response, NDB and NDB Bank initiated a joint project to help provide long-term solutions to the victims of the Tsunami. The banks set up the NDB Fishermen's Relief Trust Fund in January 2005, to provide assistance to fishermen who had lost their livelihoods because of the damage caused to their boats and fishing equipment. The trust has been raising funds and working with affected fishing communities in several targeted coastal areas around the island, to help bring hope to these fishing families.

The principle Corporate Social Responsibility (CSR) project that the Bank has been involved with, since its inception is the Prevention of Child Abuse Trust. More information on the activities during the year of the Trust is given in the CSR report on pages 40 and 41 of this report.

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. In this regard, I would like to take this opportunity to thank the Central Bank, Monetary Board and Ministry of Finance for their support during this transitional period.

I am grateful to the Chairman and Board of Directors for their valuable contribution. I would also like to thank our employees, for living up to our vision of being a 'World-Class Sri Lankan Bank', our customers, who are the reason for our being, and our shareholders, for their confidence in our Bank.



Eran Wickramaratne

Director/Chief Executive Officer

March 9, 2005

The Directors of NDB Bank Limited take pleasure in presenting to the shareholders, their report and the audited financial statements for the year ended December 31, 2004.

Principal Activities

The principal activity of the Bank is commercial banking, which includes personal, retail and corporate banking, treasury and capital market services, trade and cash management services.

Historical Background

The Bank was incorporated under the Companies Act No 17 of 1982, by the National Development Bank of Sri Lanka (NDB), with the concurrence of the Central Bank of Sri Lanka, to take over the business of ABN Amro Bank N.V. Colombo Branch. The Bank was incorporated on May 11, 2001 and the said acquisition took place on October 1, 2001, on which date the Bank also commenced its commercial operations.

Branch Expansion

In keeping with the Bank's Branch expansion scheme seven branches were opened during the year thereby bringing the total number of branches to fourteen.

Review of the Business

The Chief Executive's review,

Financial Review and Management Review which form an integral part of this report, contain a fair review of the affairs of the Bank, during the year ended December 31, 2004.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the financial statements of the Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that these financial statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 17 of 1982 and the Banking Act No. 30 of 1988 (as amended).

<u>Profit</u>	<u>Rs.</u>
Profit before tax for the year ended December 31, 2004 after payment of all expenses of management and providing for depreciation and contingencies	298,492,989
Provision for Taxation	185,296,110
Net profit for the year after tax	113,196,879

Provision for Taxation

The provision for income tax has been computed at 30% on the taxable income arising from the Domestic Banking Unit and the on shore operations of the Foreign Currency Banking Unit (FCBU). The taxable income of the off shore operations of the FCBU has been taxed at the rate of 20%. In addition a tax on capital gains earned on debt trading activities was levied with retrospective effect, whilst the tax rate on VAT on financial services was increased from 10% to 15% for the year.

Deferred taxation amounting to Rs. 19 Mn was reversed for the year under review, which is reflected in the taxation charge for the year.

Dividends

The Directors have recommended the payment, of a first and final dividend of Rs. 1.00 per share of Rs. 10.00 each, being a total sum of rupees sixty one million and eight hundred and twelve thousand five hundred and seven (Rs. 61,812,507) payable thereon, for the year ended December 31, 2004.

Post Balance Sheet Events

There have been no material events occurring after the Balance Sheet date that require adjustments to or disclosures in the financial statements.

Regulatory Developments

As an interim measure to the merger, the Monetary Board on February 24, 2004 granted permission to the NDB to increase its shareholding in NDB Bank up to an upper limit of 51% and on May 21, 2004 informed NDB that any shares acquired in excess of 51% by NDB as a result of the operation of the Takeovers and Mergers Code should be disposed of within a period to be decided in consultation with the Director of Bank Supervision. Consequently NDB's shareholding in NDB Bank increased to 79.45%

The National Development Bank of Sri Lanka (Consequential Provisions) Act No 1 of 2005 was passed in Parliament on February 7, 2005 for the purpose of converting NDB to a public limited liability company under the Companies Act No 17 of 1982. This is the first step in the process of the merger of NDB with NDB Bank Limited. Consequent to the provisions of the said Act No 1, the Minister of Finance would forward the Memorandum and Articles of Association of the new company to which NDB would be converted, to the Registrar of Companies for registration. Upon the registration of the new company and on a date decided

by the Minister of Finance (Specified Date) the Operations of NDB would be vested in the newly formed company. Thereafter, subject to the approval of the shareholders of the two banks, the assets and liabilities of NDB Bank Limited will be acquired by the new company and the shareholders of the NDB Bank Limited (Other than NDB) will be issued with shares of NDB.

At present NDB is in the process of obtaining regulatory approvals required for the implementation of the proposed merger and the issuance of a commercial banking license to NDB (new Company),

Going Concern

The Directors are confident that the Bank has adequate resources to continue its operations in the foreseeable future. The financial statements of the Bank have been prepared on this basis.

Corporate Governance

The Directors are responsible for the good governance of the Bank, and as such have established internal control systems designed to carry on the business of banking in an orderly manner, to safeguard its assets and secure as far as possible the accuracy and reliability of the records. A detailed

description on the Bank's Corporate Governance is given on pages 31 to 33 of the annual report.

Corporate Social Responsibility

The report on the corporate social responsibility of the Bank is given on pages 40-41 of the annual report.

Statutory Payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the Government and the employees have been made up to date.

Related Party

NDB which was instrumental in the formation of the Bank, is a related party of the Bank. As at January 1, 2004 NDB held 22.81% of the total issued share capital of the Bank. Consequent to the approvals granted by the Monetary Board of the Central Bank of Sri Lanka, on February 24 and May 21 2004, NDB purchased upto 79.45% of NDB Bank. Thereafter in terms of the Takeovers and Mergers Code NDB made a takeover bid to purchase the rest of the shareholding of NDB Bank which resulted in NDB increasing its stake to 92.5%.

Shareholding

The 20 largest shareholders of the Bank as at December 31, 2004 are given on page 77 of the annual report for 2004. As at December 31 2004, the Bank had a total of 5665 shareholders.

Listing

The 61,812,507 ordinary shares of the Bank were listed on the Colombo Stock Exchange on July 4, 2002.

Directorate

In terms of Article 73 of the Articles of Association, the minimum number of Directors is 5 whilst the maximum number is 10.

At the third Annual General Meeting held on April 27, 2004 Messrs. S E Captain, G C B Wijeyesinghe, H D S Amarasuriya, J R Cooney and D M Swaminathan were re-elected as Directors.

During the year 2004, Messrs D M Swaminathan, J R Cooney and S E Captain resigned from the Board with effect from May 28, June 18, and October 31, 2004 respectively, whilst Mr S R de Silva was appointed to the Board to fill a casual vacancy on June 18, 2004. Mr de Silva's appointment will be taken up at the Fourth Annual General Meeting for formal

approval by the shareholders.

Mr Eran Wickramaratne, Chief Executive Officer is an ex-officio Director in terms of Article 79A of the Articles of Association.

Directors' Shareholding

The Directors held shares of the Bank in the following manner as at December 31, 2004.

(i) S K Wickremesinghe	1
(ii) H D S Amarasuriya	-
(iii) L de Mel	345
(iv) S R de Silva	-
(v) A R Gunasekara	500
(vi) N Srinivasan	-
(vii) E Wickramaratne	1
(viii) G C B Wijeyesinghe	-
(ix) N S Welikala	1
Total	848

Directors' Interests in Contracts


Directors' interests in contracts, both direct and indirect, as at December 31, 2004, are given in Note 31 to the Financial Statements.

Auditors

The financial statements for the year ended December 31, 2004 have been audited by M/s Ernst & Young, Chartered Accountants. The said auditors have indicated their willingness to offer themselves for reappointment. A

resolution appointing M/s Ernst & Young as auditors and authorizing the Directors to fix their remuneration will be proposed at the Fourth Annual General Meeting.

By Order of the Board



Melody Wickramanayake

Board Secretary

March 14, 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.

Overview

NDB Bank recorded an impressive increase of 32% in its profit before tax, which increased from Rs. 225 Mn in 2003 to Rs. 298 Mn in 2004. The increase is explained by three factors, firstly the decision of the Bank to write off all its outstanding goodwill in 2003 (Rs. 164 Mn), secondly the anticipated reduction in the gains from debt trading in 2004, when compared with 2003 and thirdly, the reversal of provisions for bad and doubtful debts in 2004, resulting in a net increase of Rs. 73 Mn in the Bank's profit before tax.

If one were to compare the profit before tax excluding capital gains, goodwill and the provision for doubtful debts, it would have declined by 17% in 2004 when compared with 2003, reflecting the significant investment the Bank has made in its expansion and merger programme, specifically in its distribution channels, expertise, and technology.

2004 saw the Bank consolidating its position as a "World Class Sri Lankan Bank", with a satisfactory increase in the core business (excluding capital gains), the total income grew from Rs. 661 Mn in 2003 to Rs. 712 Mn in 2004, an increase of 8%. However, the profit after tax recorded a decrease,

caused by increased tax charges on account of the retrospective tax imposed by the Government on debt trading gains. (Rs. 62 Mn).

Net Interest Income - NII

Interest rates declined during the first half of 2004, whilst the rates picked up marginally during the latter half. The NII of the Bank increased from Rs. 298 Mn in 2003 to Rs. 330 Mn in 2004, an increase of 11%.

The Bank's gross loans and advances grew by 33% to Rs.10.2 Bn, whereas customer deposits increased by 46% to Rs. 11.1 Bn. The reduction in the debt trading portfolio, and the continuous growth in the lending portfolio has sustained and increased the NII during the current year when compared with that of the previous year. Further, change in funding and the replacement of high cost funds with lower cost customer deposits, and less reliance on market borrowings, have improved the Bank's cost of funds during the year, when compared with 2003.

Non Interest Income

The composition of non-interest income of the Bank to Net operating Income reduced from 66% to 55%, primarily caused by the reduction in the gains on trading in Government securities,

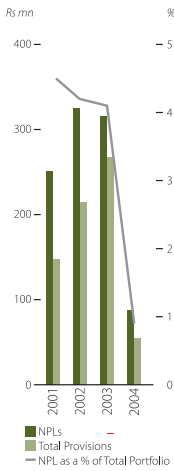
due to the, limited opportunity in the market, whereby capital gains reduced from Rs. 216 Mn in 2003 to Rs. 18 Mn in 2004. Further, the reduction in the investment in redeemable preference shares, by Rs. 150 Mn in the latter part of 2003, and redemption of shares to the value of Rs. 36 Mn during 2004, resulted in a decrease in dividend income by Rs. 25 Mn. This resulted in an overall reduction in other income from Rs. 579 Mn in 2003 to Rs. 401 Mn in 2004.

The USD/Rs parity rate which was stable during the first half of the year moved up in the second half. Depreciation accelerated during the last quarter of the year with the Rupee depreciating to a high of Rs. 105.50 per USD. The dollar ended the year at Rs. 104.50, which corresponded to an 8% point depreciation for the Rupee for 2004. Volatility in the exchange market afforded the Bank an opportunity to maximize on trading revenue, resulting in net exchange revenue of Rs. 182 Mn for the year as against Rs. 158 Mn for 2003.

Operating Expenses

The Bank's total operating expenses reduced from Rs. 651 Mn in 2003 to Rs. 432 Mn in 2004. This expected decrease is a result of the Bank's decision to write off all its goodwill (Rs. 164 Mn) on the

NPLs & Provisions



acquisition of the Colombo operations of the ABN Amro Bank, along with the reversal of provisions in 2004 amounting to Rs. 70 Mn. The operating expenses excluding goodwill and the effects of loan loss provision amounts to Rs. 501 Mn in 2004 as against Rs. 406 Mn in 2003, an increase of 24%, signifying the continued investment the Bank has made in infrastructure and expertise, pending the merger. Further, the Bank revalued its land and buildings, resulting in an increase of Rs. 93 Mn, leading to an increased depreciation charge on the revalued buildings, along with additional depreciation on the seven branches opened during 2004.

The Bank made further progress in reducing the level of its non-performing loans, and advances,

increases in the tax rates in 2004, as detailed below.

TAX	2004	2003
Income Tax		
FCBU - Onshore	30%	Jan - June - 15% / Jul - Dec - 30%
FCBU - Offshore	20%	Exempt
VAT on Financial Institutions	15%	10%

which amounted to Rs 87 Mn at the end of 2004, whilst the ratio of NPLs to the total lending portfolio was down to 0.86% as compared with 5.5% at the end of 2003, which is amongst the lowest in the industry.

There was a write back of provision during the year of Rs. 70 Mn due to the improvement in the quality of the portfolio, and the effective monitoring process existent within the Bank. The Bank's open loan exposure, being net NPLs as a percentage of shareholders' funds, reduced to a healthy 3% as compared with 5.4% at the end of 2003.

Taxation

Taxation for the year increased by 265% primarily due to capital gains tax of Rs. 62 Mn being imposed retrospectively (2003) on the sale of Government securities, and

Further, the Bank utilised tax losses amounting to Rs. 112 Mn in 2003, arising from the investment in the core banking system, which was not available for set off in 2004.

The effective overall tax rates inclusive of the VAT on Financial Services charge, after reclassifying the tax charges to the respective periods, was 46% for the year and 44% for the previous year.

Capital Adequacy

The Bank obtained the approval of the Central Bank of Sri Lanka in the latter part of 2003, to use the capital of NDB in fulfilling its capital adequacy requirements. The tier 1 capital adequacy ratio of the Bank was 7.21% in 2004 as against 9.87% in 2003, whilst the tier 1 and tier 2 capital adequacy ratio reduced from 11.23% in 2003 to 10% in 2004, which was in compliance with the minimum

levels mandated by the Central Bank, which are 5% for tier 1 and 10% for tier 1 and tier 2.

Regulatory Developments

The Bank is substantially in compliance with all the directions, and complies with the monthly and quarterly reporting requirements of the Central Bank.

Share Price

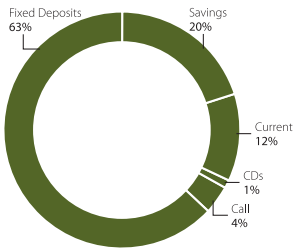
The Bank's share price closed at Rs. 26 as compared with Rs. 20 at the end of 2003. During the period under review, the National Development Bank made a mandatory offer to the shareholder of the NDB Bank, at a price of Rs. 31 per ordinary share and consequently increased their holdings from 22.81% in 2003 to 92.54% in 2004, with the balance 7.46% being held by the public.

Corporate Banking

Targeted growth in the middle market and focus on fee-based activities.

With the forging of stronger ties with NDB and the consequent easing of capital constraints, the 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

Consumer Deposit Profile



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 our personal banking customers.

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

'Dream maker' consumer loans was 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 customer 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 retail deposit base, resulted in a 46% growth in the deposit portfolio during the year and helped to improve the profile of the Bank's deposit mix.

The Bank will continue to implement its aggressive expansion plan in the coming year, which entails the opening of several new branches in identified locations, in 2005.

Treasury

Managing risks, managing liquidity and exploiting market opportunities.

The Treasury's revenue lines stem from dealing in foreign exchange, money market instruments and government debt securities, with a large number of counterpart banks as well as wholesale and retail clients. It is also responsible

for managing the Bank's liquidity and balance sheet risks within guidelines and limits set by the Asset and Liability Management Committee and the Board of Directors of the Bank.

The challenge of servicing the foreign currency needs of a large and increasingly diverse clientele was successfully met by the Bank in 2004. In a competitive market, dealing in foreign currency positions carried narrow margins, requiring dealers to have a sound understanding of exchange rate movements, in order to maintain profitability. The technical competency of the Bank's dealers has been a key attribute in achieving a high degree of customer satisfaction and loyalty, resulting in increased business turnover. The Bank recorded exchange revenue of Rs. 182 Mn for the year, up from Rs. 158 Mn in 2003.

The interest rate trends and debt market conditions in 2004 did not offer opportunities for large scale income generation through trading in Government debt. Inactivity in the debt market during the first half of the year and the unexpected increase in the repurchase rate by the Central Bank in November were detrimental to debt trading activity, and the Bank's revenue

from this line was only Rs. 77 Mn. In November 2004, the Bank took a conscious decision to downsize the debt trading portfolio and incur capital losses of Rs. 35 Mn so as to mitigate further exposure to interest rate risks.

During the year, the Bank successfully managed its liquidity needs through a combination of money market borrowings, corporate borrowings and Treasury bill/bond repurchase agreements. The Bank's daily exposure to the market through these instruments ranged from a high of Rs. 1,800 Mn to a near zero position, during the year, with an average of Rs. 450 Mn. Interest paid for market borrowings ranged from 7.75% to 9.25% during the year. Overall, the Bank's exposure to the money market declined during the year, mainly due to an increase in the consumer liability portfolio, as a result of the successful retail deposit drive of the Bank.

Operations and IT

Enhanced customer satisfaction in an efficient and risk minimised environment.

The Bank's IT and centralised processing departments effectively supported the infrastructure and service requirements of the expanding

branch network, and are geared to meet the challenge of rapid expansion in the years ahead. The flexibility of NDB Bank's core banking system, Flexcube, was also leveraged to support the Bank's new Internet Banking solution, and to handle the new VISA Electron ATM/debit card in collaboration with VISA International. NDB Bank's ATMs and Point of Sale (POS) switch was developed by a Sri Lankan software development company, with the close involvement of the Bank's IT division.

The IT and Processing areas of the Bank also initiated a bi-annual internal customer satisfaction survey in order to regularly monitor and improve on its service levels to the business lines and other functional areas.

During the year the Bank's Trade Finance department demonstrated its commitment to excellence by obtaining ISO 9001 2000 certification. Trade Finance services include a carefully selected correspondent banking network, coupled with a well trained and motivated team of experts. As a result, the Bank is fully geared to provide a full range of products to its valued clientele. The annual customer satisfaction survey conducted by the Bank in 2004, reflects an increase in the

satisfaction levels of customers compared to the results in 2003. This is due to the streamlined processes and enhanced customer focus in the department during the year.



"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.

Credit Risk

Credit Risk can be defined as the potential loss arising from the failure of a counterparty to perform according to the contractual arrangements with the Bank, which includes non-repayment of capital and / or interest in full within the agreed time frame, at the agreed rate of interest and in the agreed currency.

NDB Bank has a well-defined Credit Policy, which has been approved by the Board of Directors. The policy defines the credit culture of the Bank and specifies the target market that the Bank wishes to lend to and areas that it would avoid. Implementation of the Credit Policy is done through a credit process with clear guidelines and procedures. The Risk Management and Control Unit ensures the comprehensiveness of the credit process and maintenance of the quality of the Bank's credit portfolio. The effectiveness of this system is well reflected in the Non-Performing Loan ratio (NPL) of the Bank.

Credit decisions are taken by the Credit Committee under authority delegated by the Board. The Credit Committee comprises of the CEO and senior officers of the

Corporate Banking and Risk Management Department. The Bank's risk management philosophy is guided by three basic, interdependent principles namely, the principle of independence, the 4-eyes principle and the service function. Although the Bank obtains collateral as a means of mitigating risk, decisions are mainly based on detailed credit evaluation, carried out by the Relationship Managers and reviewed by the Risk Management Unit along with the designated approving authority. All credit facilities are reviewed annually whilst new credit facilities are reviewed semi-annually, in order to continuously monitor the financial performance of the borrowers and the manner in which the account has been conducted. The process enables us to determine additional funding requirements or conversely highlight relationships where exposures may need to be reduced.

The credit portfolio of the Bank is risk rated using a 7-tier risk rating system, which takes into account areas such as Management, Financial Position, Industry Performance and Operating conditions. The rating system is used to monitor the overall quality of the portfolio and to determine

the degree of supervision required for each credit. Any deteriorating credits are identified and monitored closely with periodic reports submitted to the Credit Committee and the Board. Non performing assets are identified at an early stage, to enable the management to take appropriate action. The Bank follows a conservative provisioning policy, which exceeds the minimum requirements of the Central Bank of Sri Lanka. An independent Credit Audit Unit carries out audits to determine the adequacy of controls and areas for improvement.

NDB Bank's credit risk management system ensures that risk acceptance criteria are well defined and complemented by clear guidelines and procedures to ensure a well diversified and a high quality portfolio. Quarterly review reports on the credit portfolio are submitted to the Board.

Operational Risk

Operational risk includes those risks arising as a result of processing errors, human errors, fraud, system and procedural failures, and non-compliance with internal policies, laws and regulations. The Bank endeavours to minimise such risk by continuously assessing and

improving its systems of internal control, and ensuring that an appropriate control framework is in place.

With the increasing number of transactions handled by the Bank each day, it is essential that the inevitable increase in operational risks are recognised and managed. Controls now in place to minimise these risks include compulsory dual involvement in transaction processing, careful segregation of duties, strict adherence to documented work procedures and strict internal audit policies and procedures.

The Internal Audit Department regularly reports to the Board Audit Committee on the quality and effectiveness of the systems of internal controls prevalent within the organisation.

Treasury Risk

Balance Sheet Risks

Balance sheet risks arise as a result of mismatches between related interest bearing or foreign currency assets and liabilities in the balance sheet. These mismatches occur as it is practically not possible to create matching sets of assets and liabilities with every transaction. Managing the balance sheet mismatch risk is the responsibility

of the Asset and Liability Management Committee (ALCO) of the Bank. ALCO comprises of the CEO, Heads of Business Units, Finance, Treasury and Risk Management, and meets at fixed calendar dates or more often, if required. Balance sheet risks can be categorized into Interest Rate, Liquidity and Exchange Rate risks.

Interest Rate Risk

Interest rate risks arise when matching assets and liabilities do not re-price (re-set) at the same interval and therefore either the asset or the liability has to be re-priced at prevailing market rates, which may be detrimental to the Bank. The Bank manages its interest rate risks in the following manner:

- a. Placing limits on mismatches between interest bearing assets and liabilities maturing at various time 'buckets', that correspond to the risk appetite of the Bank under a given interest rate volatility.
- b. Incorporating suitable penalty conditions on premature uplifting of time deposits and fixed tenor loans.
- c. Avoiding use of different benchmarks in pricing assets and liabilities to overcome the basis risk.

- d. Treating large business lines' interest rate risks (such as the Government Debt Trading operation) in a focussed manner by having separate ALCO approved mismatch limits placed on such business.

Due to the narrowing interest margins in business, even marginal interest movements could cause a significant impact on revenue due to re-pricing mismatches in assets and liabilities. The Bank is in the process of investing in sophisticated risk management solutions, in order to better equip itself to address these risks. These applications, planned for implementation in the first half of 2005, would enable the Bank to determine the optimum balance sheet mismatches under various interest rate scenarios.

Liquidity Risk

A liquidity risk arises when the Bank is unable to meet payment obligations for want of funds. Bank's liquidity risk is managed by categorizing the liquidity shortfalls in the Balance Sheet into suitable time buckets and placing exposure limits on each bucket. The limits placed correspond to the liquidity available to the Bank through various providers, at an agreed confidence level. The Bank

has also adopted a liquidity policy with the objective of ensuring it has sufficient liquidity to execute its financial obligations on a timely basis and at a fair market price.

Foreign Exchange Risks

The Bank exposes itself to foreign exchange risks when assets and liabilities denominated in numerous currencies it deals with do not match one to one in value. The Bank's Treasury manages the exposure of each currency separately and also in aggregate with all currencies, within a series of limits approved by the Board. These limits are structured to manage the foreign exchange risks of the Bank within its risk appetite while giving a reasonable degree of flexibility to the traders to exploit market opportunities in full.

Legal Risk

This is the risk of unexpected material financial loss resulting from legal consequences of a transaction or action. Inadequate documentation, legal or regulatory issues and a variety of other factors may result in un-enforceability of contracts and other security documents with counterparties. At present the Bank obtains the advisory services of the Legal department of the National Development Bank.

Reputation Risk

The Bank strives to safeguard its reputation at all times. As part of this process it follows a comprehensive compliance policy which monitors the strict adherence by the Bank and its staff to all applicable laws, regulations and statutory requirements, as well as internal rules and procedures of the Bank. The compliance policy of the Bank is constantly reviewed with a view to enhancing this aspect. The Compliance Officer prepares monthly compliance reports which are submitted directly to the Board of Directors at each meeting. The Bank pays particular attention to anti money-laundering (AML) practices and "Know-your-customer" policies in order to safeguard its reputation.

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. It is the balance between economic and social goals. Good governance is concerned with maintaining the highest standards of industrial and professional ethics, and covers the areas of organisational transparency, disclosure and accountability.

NDB Bank has adopted the following strategies and techniques among others, in the interest of good corporate governance:

- >> A well articulated corporate strategy against which the success of the overall enterprise and the contribution of individuals can be measured.
- >> An organization structure, which clearly defines the assignment of responsibilities and accountability, backed by appropriate financial and managerial incentive schemes.
- >> Structure of the Board and appointments to the Board of Directors.

- >> Strong internal control systems independent of the business lines (including internal and external audits and risk management)
- >> Effective internal and external information flows.
- >> Promoting fairness and transparency in the Bank.

In this context the Institute of Chartered Accountants of Sri Lanka (ICASL) has published a 'Code of Best Practice' for voluntary adoption by all companies quoted on the Colombo Stock Exchange. The Director General of the Securities and Exchange Commission (SEC) has also recommended that all public companies disclose their governance principles in the annual reports. Internationally, the Basel Committee on Banking Supervision has been active in drawing collective experiences and issuing several papers on the subject, with a view to foster safe and sound banking practices within diverse structures. NDB Bank fully supports the recommendations of the Code of Best Practice and has voluntarily complied with most of them, including the aspects referred to by the SEC.

The shareholders' role in governance is to appoint the

Directors and auditors and satisfy themselves that an appropriate governance structure is in place. The responsibilities of the Board include setting of the company's strategic aims, providing leadership in attaining them, supervising the management of the business and reporting to the shareholders on their stewardship.

Board of Directors

The Board of Directors of the Bank consists of 8 non-executive Directors, representing various fields in the corporate sector, and bringing with them a wealth of knowledge and business experience. All the Directors are liable to retire by rotation and are elected by the shareholders at a General Meeting in terms of the Articles of Association of the Bank, except for the CEO, who is an ex-officio non-voting Director.

As a core principle in corporate governance, the duties of the Chairman of the Board and those of the CEO are maintained as two independent functions, which ensures there is no concentration of power.

The Board ensures that it meets at least 10 times each year. Matters considered at these meetings include, reviewing of corporate strategy, budgets and forecasts,

internal processes, portfolio quality, operational and financial performance etc. During the year 2004, the Board had twelve meetings.

Management Information

As a part of the duties of an efficient Board, it maintains proper checks, balances and internal controls by constantly monitoring and appraising the management of the Bank. In this regard, the Board is provided with the relevant management information on a regular basis, which it evaluates to ensure strict adherence to internal and external controls and rules and regulations.

Conflict of Interests

Board members ensure that they do not get into a position of conflict of interest with the business of the Bank by consciously disclosing any material contracts/interest such Director has with the Bank, and refraining from participating in any decision on such matters.

Voluntary Code of Conduct

The Board has familiarised itself with the Voluntary Code of Conduct for Directors published by the Central Bank of Sri Lanka.

Delegation of Authority

The Board has devised an effective mechanism to systematically

delegate its functions to the management of the Bank. This is implemented via the "Delegation of Authority" manual, which is continuously reassessed by the Board. The Board receives quarterly reports on all major functions delegated by it.

Board Sub Committees

The Board has formulated several sub-committees to pay particular attention to key areas. These include an Audit Sub Committee, Strategic, Nominations and Human Resources Committee. As an element of good governance, the external auditor attends all Audit Committee Meetings of the Bank, and provides guidance to the committee.

Credit Committee

The Board has appointed a Credit Committee consisting of senior management officials to carefully evaluate each and every credit proposal of the Bank. The Credit Committee in turn is guided by a strict and comprehensive Credit Policy Manual. All approvals which exceed a specified limit are submitted to the Board for its approval.

Internal Audit

The functions of the internal auditors complement the functions of the external auditors. The Bank has a very effective

Internal Audit Department which continuously monitors the internal controls, systems and processes of the Bank, and makes recommendations to improve the process where necessary. This unit operates independently from the operations of the Bank, and regularly reports to the Board Audit Committee.

Risk Management

The Board also recognises the value of maintaining a high standard with regard to its risk management system, which is described in detail under the Risk Management section of the annual report.

Complaints System

There are numerous other internal control systems operating on an inter-departmental basis, to prevent errors, fraud and negligence in the Bank. As a part of this system, the Bank has successfully implemented an "Internal complaints system", which picks up any complaints made against an employee or department, whether internally or externally. Such complaints are systematically addressed within specified parameters.

As a member of the Financial Ombudsman scheme, set up by the banks, under the guidance of the Central Bank of Sri Lanka, a

procedure is in place that allows any customer to lodge a complaint against the Bank. The Bank has assigned complaint officers to deal with such complaints, which can be further escalated to the Office of the Financial Ombudsman, if the matter is not resolved to the satisfaction of the customer, within a specified period of time.

transparency. The Bank has, since being listed on the Colombo Stock Exchange, published its interim quarterly financials within the stipulated time frames and as per the requisite guidelines which provide the shareholders with comprehensive information to enable them to make a fair appraisal of the Bank's performance.

Compliance

As a part of ensuring good governance the Compliance officer of the Bank prepares a compliance report, which is submitted to the Board at each meeting. The report confirms the adherence to all statutory and other legal requirements including the Central Bank guidelines, Stock Exchange Listing Rules, anti money-laundering procedures, statutes etc. Each year, the Bank strengthens its anti money-laundering practices, and all staff are given training in this area. special attention is also paid to circumvent any insider trading, for which strict penalties apply.

Interim Accounts

As a fundamental principal of corporate governance, the Directors strive to present the financial reporting to the shareholders in a true and fair manner by following the highest levels of disclosure and

Corporate Information

Name

NDB Bank Limited

Legal Form

Incorporated in Sri Lanka under the Companies Act No 17 of 1982 and regulated under the Banking Act No 30 of 1988 as amended.

Statutory Status

The Bank was promoted by the National Development Bank of Sri Lanka (NDB) and was incorporated on May 1, 2001, under the Companies Act No 17 of 1982 for the purpose of purchasing the business of ABN AMRO Bank N.V. Colombo branch and to carry on the business of commercial banking. The Bank commenced its commercial operations on October 1, 2001, being the date of takeover of the ABN AMRO Bank N. V. Colombo branch.

At present the total issued share capital of the Bank comprises of sixty one million eight hundred and twelve thousand five hundred and seventy (61,812,507) ordinary shares of rupees ten (Rs. 10/-) each.

Registered Office

40 Navam Mawatha, Colombo 2
Tel: +94 11 2437701
Fax: +94 11 2341044, 2440262
Telex: 21399 NDB CE

Corporate Office

103A, Dharmapala Mawatha,
Colombo 7
Tel: +94 11 2448448
Fax: +94 11 2446986
Telex: 21590 NBL CE
E-mail: contact@ndbbank.com
Web: www.ndbbank.com

Board of Directors

S K Wickremesinghe
A R Gunasekara
G C B Wijeyesinghe
H D S Amarasuriya
L de Mel
N Srinivasan
N S Welikala
S R de Silva (*Appointed on 18.06.2004*)
E Wickramaratne
(*CEO/Ex officio Director*)
D M Swaminathan
(*Resigned on 28.05.2004*)
J R Cooney (*Resigned on 18.06.2004*)
S E Captain (*Resigned on 31.10.2004*)

Board Sub Committees

Audit Committee

G C B Wijeyesinghe - *Chairman*
N S Welikala
A R Gunasekara
E Wickramaratne

Strategic Nomination and HR Committee

S K Wickremesinghe - *Chairman*
N S Welikala
G C B Wijeyesinghe
E Wickramaratne

Credit Committee

The Credit Committee of the Bank consists of Eran Wickramaratne, the CEO or his designate, Ranjit Bibile - Head of Corporate Banking, Ms Lani Ranwala - Head of Risk Management and Control or her alternate H W P Abeywardena - Manager Risk Management and Control, Ms Nirmala Rayen - Assistant Vice President Corporate Banking, Ms Anushca Saranapala - Assistant Vice President Corporate Banking and Buwaneka Perera Assistant Vice President Corporate Banking.

Subsidiary Companies

The Bank has no subsidiary companies.

Associate/Holding Companies

As at 31 December 2003, NDB, the Promoter of the Bank, held a 22.81% stake in NDB Bank. In April 2004, NDB purchased 35 million ordinary shares in NDB Bank, and thereafter, in terms of the Takeovers and Mergers Code, made a take over bid resulting in a total shareholding of 92.5%.

Stock Exchange Listing

The entire issued share capital of the Bank consisting of 61,812,507 ordinary shares was listed on the Colombo Stock Exchange on July 4, 2002.

Company Secretary

Melody Wickramanayake
Attorney at Law

Auditors

M/s Ernst & Young
Chartered Accountants
201, De Saram Place
Colombo 10
Tel: +94 11 2463500
Fax: +94 11 2697369

Senior Management Team**Chief Executive Officer**

Eran Wickramaratne

Vice Presidents

Head Corporate Banking
Ranjit Bibile

Head Operations & IT
Kumar Weerasuriya

Head Consumer Banking &
Marketing
Indrajit Wickramasinghe

Head of Treasury
Nimal Ratnayake

Branch Network

Head Office
103A, Dharmapala Mawatha
Colombo 7
Tel: +94 11 2448448
Fax: +94 11 2446986

Chilaw

50-52, Skyline Bldg,
Colombo Road, Chilaw.
Tel: 032 2220107-8
Fax: 032 2220109

Jawatte

Sathosa Supermarket Complex
80, Jawatte Road,
Colombo 5
Tel: 2591140-1,
Fax: 2591142

Kandy

88, Kotugodella Veediya, Kandy
Tel: 081 2202776-7
Fax: 081 2202778

Kurunegala

6, Rajapihilla Mawatha,
Kurunegala
Tel: 037 2231952-3
Fax: 037 2231954

Maharagama

108A, Highlevel Road,
Maharagama
Tel: 2745091-2
Fax: 2745094

Matara

60, Uyanwatte Road, Matara
Tel: 041 2231542-3
Fax: 041 2231545

Nawam Mawatha

DHPL Building
42, Nawam Mawatha, Colombo 2
Tel: 2314640-1
Fax: 2314642

Negombo

456, Main Street, Negombo,
Tel: 031 2220246-7
Fax: 031 2220248

Nugegoda

152, Nawala Road, Nugegoda
Tel: 2820885, 2820887
Fax: 2820893

Rajagiriya

Sathosa Supermarket Complex
274, Sri Jayawardenapura
Mawatha, Rajagiriya
Tel: 2885790, 2885794,
Fax: 2885793

Ratnapura

32A, Zavia Road, Ratnapura
Tel: 045 2230910-1
Fax: 045 2226042

Wattala

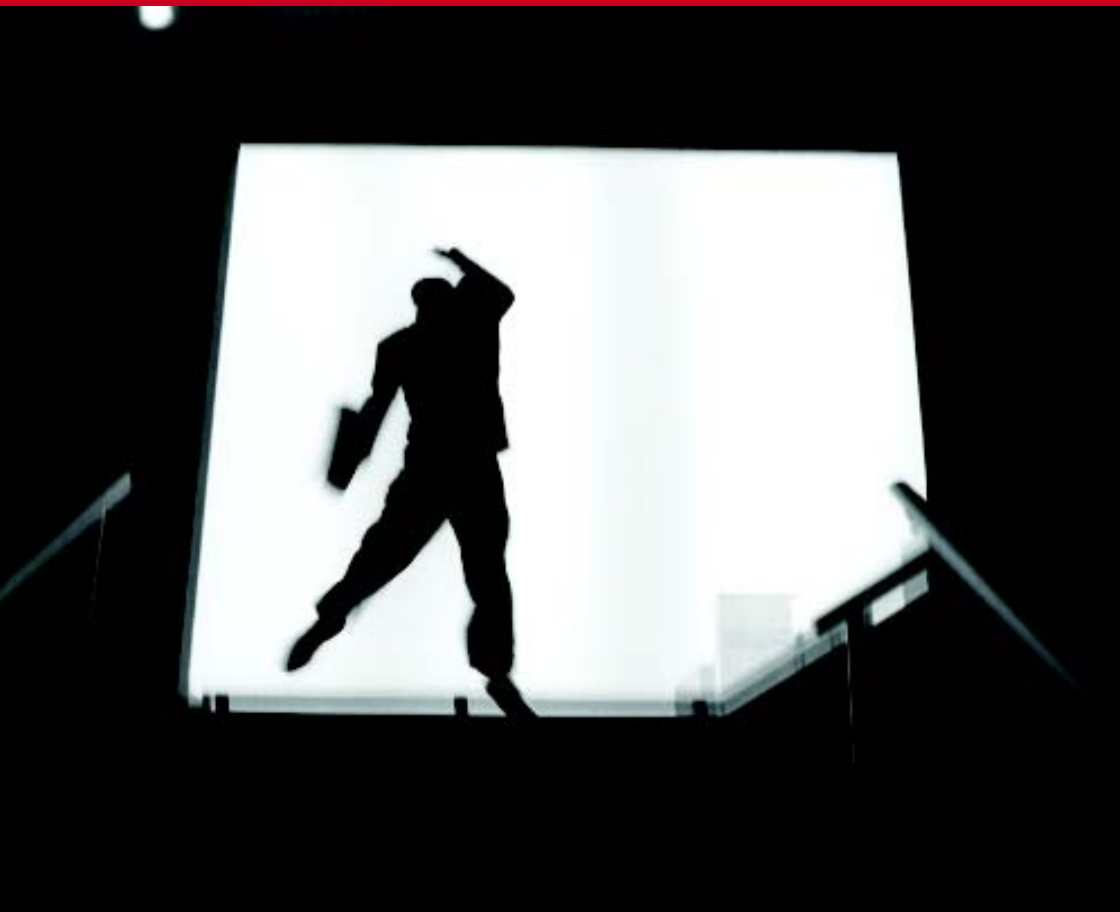
378A, Negombo Road, Wattala.
Tel: 2981519-20
Fax: 2981521.

Wellawatte

302, Galle Road, Colombo 6.
Tel: 2361903-4
Fax: 2361905

Principal Correspondent Banks



ABN AMRO Bank
Citibank
Deutsche Bank Trust Company
HSBC Bank
HypoVereinsbank Group
Standard Chartered Bank



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

PASSION

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



Further, to quickly fill new vacancies created by the expanding operations.

Our employees were trained in diverse areas with focus being placed on Credit Risk Management, enhancement of operational skills,

and safety. Furthermore, substantial investments were made

individual's competencies, but also facilitated the process of encouraging an international mindset.

the spirit and inspiration needed to live our values of Integrity, Care, Passion, Teamwork and Service.

The launch of a common vision, mission and values for the NDB Group in October 2004, re-enforced by an interactive outdoor team building program held for all employees of both NDB and NDB Bank, focused on instilling a 'One-team' mindset as well as inculcating the NDB Group Values.

Looking to the Future

As NDB Group confidently faces its future, we will strengthen our commitment towards providing the opportunity for everyone of our team to continue to make productive and unique contributions to the organization by promoting continuous learning, development of professional potential, and fostering creativity and innovation. As NDB aspires to be a World Class Sri Lankan Bank, we will strive to enrich our Human Resources with



The outward - bound programme

The Prevention of Child Abuse Trust



The Prevention of Child Abuse Trust (PCAT) was set up in December 1997 by the former ABN Amro Bank (Sri Lanka), to channel funds towards the detection, prevention and rehabilitation of victims of child abuse.

When NDB Bank acquired the business of ABN Amro Sri Lanka in October 2001, it was decided to support this worthy initiative by taking over the Trust. The Trust is committed to building awareness, providing aid and inspiring hope in those involved in the effort to

prevent the abuse and neglect of our nation's children.

The objectives of the Trust are:

- >> To foster the protection of the rights of children as enunciated in the United Nations Convention on the Rights of the Child
- >> To prevent the abuse of children
- >> To rehabilitate the victims of child abuse

Four independent trustees including the Commissioner of the Probation and Child Care Services Department, are involved with PCAT, in addition to the two ex-officio trustees from the Bank, including the CEO.

During the year 2004, the Trust funded several projects including:

- >> A year-long project implemented by the Sri Lanka Anti-narcotics Association (SLANA) for children in two orphanages (Vajira Sri home Pita Kotte, and the Salvation Army home in Rajagiriya), to develop basic life skills and functional literacy, and provide vocational training and career guidance. The objective of the project was to give the children a sense of self worth, confidence and empowerment.

- >> Providing vocational training equipment for two boys' homes housing victims of abuse as well as 'street' children who had been put under probation for committing minor offences.
- >> Providing cots and bedding for a state run home for infants.

During the first quarter of 2005, the Trust will also launch an initiative to promote awareness of the risks of abuse of young school children who use public transport or 'school vans' to get to and from their schools. This initiative is being supported by the Probation and Child Care Services Department, and is co-ordinated by the Bank.

NDB Fishermen's Relief Trust Fund



Inspection of damaged boats

Sri Lankan fishermen were among the worst affected by the Tsunami that devastated our island's coastline. Of the 12,500 'day' fishing boats in use prior to the Tsunami, an estimated 9,500 were



A scene of devastation

damaged or destroyed and most of the fishermen, who were using these small boats are not in a position to obtain credit facilities from financial institutions to repair or replace their boats and fishing equipment.

In response to the 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 fishermen who lost their only source of income.

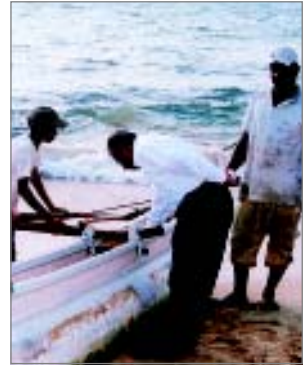
The NDB Group is now in the process of raising funds from well wishers both here and abroad, who share its vision of building sustainable livelihoods for fishermen.

The Trust Fund will be managed by staff members of NDB and NDB

Bank, who will supervise the purchase and repair of boats and equipment, and their distribution to the neediest fishermen, via the Bank's branch network along the coast and with the assistance of selected partner agencies, such as Sarvodaya and Seva Lanka.

All administrative costs will be borne by NDB, so that 100% of funds raised will reach the fishermen. All disbursements are in the form of outright grants. The fund will be audited by Ernst & Young Chartered Accountants, and donors will be kept apprised of progress via the Trust's website.

Since its inception, the Trust has established contacts with boat builders and suppliers of engines and fishing nets and has reviewed several hundred applications for help. At the time of writing, the trust has committed a sum of Rs.



The Matarara Branch Manager talking to fishermen

6.5 Mn to replace 32 boats and 2 engines and to repair 40 boats and 48 engines.

Another aspect of the problem faced by the fishing industry stems from the fact that the boat builders in the country are simply not geared to meet the sudden and unprecedented escalation in the demand for boats. To help overcome this constraint, NDB is working on a project to assist boat builders to increase their production capacity and to acquire modern boat building technologies that will speed up the manufacturing process.

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



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

INTEGRITY

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

Financial Information

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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 three non-executive members of the Board. The CEO, Head of Internal Audit, representatives from the External Auditors, relevant Operational Managers and the Compliance Officer 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 reviews 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 safeguarded.

The Audit Committee has recommended to the Board of Directors that M/s Ernst & Young (Chartered Accountants) be reappointed as Auditors for the financial year ending December 31, 2005 subject to the approval of the shareholders at the Annual General Meeting.

(Sgd)

G C B Wijeyesinghe
Chairman

Board Audit Committee
February 14, 2005

**AUDITORS' REPORT TO THE
MEMBERS OF NDB BANK
LIMITED**

We have audited the balance sheet of NDB Bank Limited as at December 31, 2004 and the related statements of income, cash flows and changes in equity for the year then ended, together with the accounting policies and notes as set out on pages 46 to 75.

**Respective Responsibilities of
Directors and Auditors**

The Directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

Basis of Opinion

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall

presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Bank maintained proper books of account for the year ended December 31, 2004, and to the best of our information and according to the explanations given to us, the said balance sheet and related statements of income, cash flows and changes in equity and the accounting policies and notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act. No. 17 of 1982 and the Banking Act. No. 30 of 1988 as amended by Act. No. 33 of 1995, give a true and fair view of the state of affairs as at December 31, 2004 and the profit

and cash flows for the year then ended of the Bank.

**Directors' Interest in Contracts
with the Company**

According to the information made available to us, the Directors of the Bank were not directly or indirectly interested in contracts with the Bank during the year then ended December 31, 2004, except as stated in Note 31 to these financial statements.

(Sgd)

Ernst & Young

Chartered Accountants

Colombo

February 14, 2005

Income Statement

<i>Year Ended 31 December 2004</i>	Note	2004 Rs.	2003 Rs.
INCOME	3	1,438,240,615	1,744,644,171
Interest Income	4	1,037,684,573	1,166,048,576
Interest Expenses	5	707,977,071	868,329,309
NET INTEREST INCOME		329,707,502	297,719,267
Other Income	6	400,556,042	578,595,595
NET OPERATING INCOME		730,263,544	876,314,862
OPERATING EXPENSES			
Personnel Costs		213,013,098	166,016,076
Premises, Equipment & Establishment Expenses		143,911,054	126,829,434
Other Operating Expenses		144,561,155	112,885,799
Goodwill		-	163,832,653
Provision / (Write back) of Loan Losses		(69,714,752)	81,350,834
		431,770,555	650,914,796
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAX	7	298,492,989	225,400,066
Tax on profit from ordinary activities	8	185,296,110	50,766,933
NET PROFIT FOR THE PERIOD AFTER TAX		113,196,879	174,633,133
Earnings Per Share	9	1.83	2.83

The accounting policies and notes on pages 51 through 75 form an integral part of the financial statements.

Colombo
February 14, 2005

As at 31 December 2004

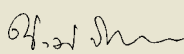
	Note	2004 Rs.	2003 Rs.
ASSETS			
Cash and Short Term Funds	10	401,826,209	234,668,905
Balances with Central Bank	11	543,214,278	782,413,221
Government Securities		3,127,024,753	4,482,483,740
Placements with Other Banks		1,620,286,900	-
Bills of Exchange	12	943,407,006	727,557,011
Commercial Paper		109,887,100	525,847,917
Loans & Advances	13	9,209,711,538	6,586,468,826
Investment Securities	14	363,649,206	373,553,796
Other Assets	15	79,585,871	76,624,280
Property, Plant and Equipment	16	543,984,703	479,560,350
Total Assets		16,942,577,564	14,269,178,046
LIABILITIES			
Deposits	18	11,085,134,284	7,585,130,151
Borrowings	19	3,454,740,987	4,285,835,669
Balances Payable to Related Party	20	40,567,227	52,933,849
Taxation Payable		86,169,946	2,282,744
Other Liabilities	21	506,134,330	733,774,140
Debentures	22	631,875,000	631,875,000
Deferred Taxation	23	31,453,094	50,488,554
Other Deferred Liabilities	24	27,895,059	23,661,728
Total Liabilities		15,863,969,927	13,365,981,835
SHAREHOLDERS' FUNDS			
Share Capital	25	618,125,070	618,125,070
Revenue Reserves		358,376,603	281,745,822
Revaluation Reserve		93,120,801	-
Statutory Reserve Fund		8,985,163	3,325,319
		<u>1,078,607,637</u>	<u>903,196,211</u>
Total Liabilities & Shareholders' Funds		<u>16,942,577,564</u>	<u>14,269,178,046</u>
Commitments & Contingencies	26	6,500,016,140	5,288,815,365

The Directors are responsible for the preparation and presentation of these financial statements.

Signed for and on behalf of the Bank


S K Wickremesinghe
Chairman


N S Welikala
Director


E Wickramaratne
Director/CEO


M Wickramanayake
Board Secretary

The accounting policies and notes on pages 51 through 75 form an integral part of the financial statements.

Colombo
February 14, 2005

Statement of Changes in Equity

<i>Year Ended 31 December 2004</i>	Share Capital Rs.	Reserve Fund Rs.	Revenue Reserve Rs.	Revaluation Reserve Rs.	Total Rs.
Balance as at					
31st December 2002	618,125,070	-	110,438,008	-	728,563,078
Net Profit for the Year	-	-	174,633,133	-	174,633,133
Transfer to Reserve Fund	-	3,325,319	(3,325,319)	-	-
Balance as at					
31st December 2003	618,125,070	3,325,319	281,745,822	-	903,196,211
Net Profit for the Year	-	-	113,196,879	-	113,196,879
Revaluation of					
Land & Buildings	-	-	-	93,120,801	93,120,801
Dividend Declared / Paid	-	-	(30,906,254)	-	(30,906,254)
Transfer to Reserve Fund	-	5,659,844	(5,659,844)	-	-
Balance as at					
31st December 2004	<u>618,125,070</u>	<u>8,985,163</u>	<u>358,376,603</u>	<u>93,120,801</u>	<u>1,078,607,637</u>

The accounting policies and notes on pages 51 through 75 form an integral part of the financial statements.

Colombo
February 14, 2005

Cash Flow Statement

<i>Year Ended 31 December 2004</i>	2004	2003
	Rs.	Rs.
Cash From Operating Activities		
Interest & Commission Receipts	1,247,978,012	1,546,881,464
Interest Payments	(707,977,071)	(868,329,309)
Foreign Exchange and Other Income	181,999,556	158,182,765
Cash Payments to Employees & Suppliers	(398,156,059)	(307,881,989)
Operating Profit before changes in Operating Assets	<u>323,844,438</u>	<u>528,852,931</u>
(Increase)/Decrease in Operating Assets		
Short Term Funds	(1,622,088,778)	585,622,038
Funds Advanced to Customers	(2,553,527,960)	267,282,304
Other Short Term Negotiable Securities	200,110,822	(424,566,617)
	<u>(3,975,505,916)</u>	<u>428,337,725</u>
Increase/(Decrease) in Operating Liabilities		
Deposits from Customers	3,537,831,932	111,227,925
Negotiable Certificates of Deposit	(37,827,799)	(65,668,497)
Securities sold under Repurchase Agreement	(298,278,523)	(1,162,305,345)
Other Short Term Liabilities	(230,291,400)	405,301,098
Balances Payable to Related Party	(12,366,622)	(17,116,567)
	<u>2,959,067,588</u>	<u>(728,561,386)</u>
Net Cash From Operating Activities Before Income Tax	<u>(692,593,890)</u>	<u>228,629,270</u>
Income Tax Paid	(120,444,369)	(56,085,440)
Net Cash Flow from Operating Activities	<u>(813,038,259)</u>	<u>172,543,830</u>
Cash Flow from Investing Activities		
Investment in Securities	-	(10,000,000)
Dividends Received	6,093,055	29,657,335
Proceeds from Non Dealing Securities	36,100,000	268,600,000
Proceeds/ (Purchase) of Dealing Securities	(26,195,410)	291,801,595
Proceeds from sale of Property, Plant & Equipment	1,269,576	1,967,689
Purchase of Property, Plant & Equipment	(68,007,175)	(38,571,892)
Net Cash Flow from Investing Activities	<u>(50,739,954)</u>	<u>543,454,727</u>

Year Ended 31 December 2004	2004 Rs.	2003 Rs.
Cash Flows From Financing Activities		
Net (Decrease)/Increase in Other Borrowings	(532,816,159)	(206,830,992)
Dividends paid	(30,906,254)	-
Net Cash Flow from Financing Activities	<u>(563,722,413)</u>	<u>(206,830,992)</u>
Net Increase/(Decrease) in Cash & Cash Equivalents	(1,427,500,626)	509,167,565
Cash & Cash Equivalents at the Beginning of the period	5,499,565,866	4,990,398,301
Cash & Cash Equivalents at the End of the Period (Note A)	<u>4,072,065,240</u>	<u>5,499,565,866</u>
Note A		
Reconciliation of Cash and Cash Equivalents		
Cash & Short Term Funds	401,826,209	234,668,905
Balances with Central Bank of Sri Lanka	543,214,278	782,413,221
Government Securities	3,127,024,753	4,482,483,740
	<u>4,072,065,240</u>	<u>5,499,565,866</u>

The accounting policies and notes on pages 51 through 75 form an integral part of the financial statements.

1. CORPORATE INFORMATION

1.1 General

NDB Bank Limited is a bank licensed under the Banking Act No. 30 of 1988 amended by the Banking (Amendment) Act No. 33 of 1995 and domiciled in Sri Lanka. The registered office is situated at 40, Nawam Mawatha, Colombo 2 and the principal place of business of the Bank is situated at 103 A Dharmapala Mawatha, Colombo 7.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Bank were providing banking and related services.

1.3 Parent Enterprise and Ultimate Parent Enterprise

The Bank's parent undertaking is the National Development Bank.

1.4 Date of Authorisation for Issue

The financial statements of NDB Bank Ltd. for the year ended 31 December 2004 were authorised for issue in accordance with a resolution of the Board of Directors on 14 February 2005.

1.5 Number of Employees

The number of employees at the end of the year was 252. (2003-169)

2.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 General Policies

2.1.1 Basis of Preparation

The balance sheet, statements of income, changes in equity and cash flows, together with accounting policies and notes, ("Financial Statements") of the Bank as at 31 December 2004 and for the period then ended, comply with the Sri Lanka Accounting Standards.

These financial statements are presented in Sri Lanka Rupees and have been prepared on a historical cost basis, except for the revaluation of Land & Buildings, which are stated at market values.

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

Certain prior year's figures and phrases have been restated wherever necessary to conform to the current presentation.

2.1.2 Foreign Currency Translation

a) All foreign exchange transactions are converted to Sri Lanka Rupees, which is the reporting currency, at the rates of exchange prevailing at the time the transactions were effected.

Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lanka Rupee equivalents using the middle rate of exchange ruling on the date of the Balance Sheet except as indicated in (b) below. Non-monetary assets and liabilities are translated using the exchange rates that existed when values were determined. Translation gains and losses are dealt with in the Income Statement.

b) Forward exchange contracts are valued at the forward market rates prevailing on the date of the Balance Sheet. Forward profits and losses are dealt with in the Income Statement.

2.1.3 Taxation

a) Current Taxes

Domestic Banking Unit

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act No. 38 of 2000 at the rate of 30%. (2003 - 30%)

Foreign Currency Banking Unit

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the

provisions of the Inland Revenue Act No. 38 of 2000, at the rate of 30% on On-Shore foreign currency transactions, and at 20% on Off-Shore foreign currency transactions. (2003 - On-Shore upto 30 June 2003 - 15%, and 30% thereafter. 2003 - Off-Shore - Exempt)

b) Deferred Taxation

Deferred taxation is provided on the liability method. The tax effect of all timing differences which occur where items are allowed for income tax purposes in a period different from that when they are recognized in the financial statements is included in the provision for deferred taxation at current rates of taxation.

Deferred tax assets are recognized for all deductible timing differences and carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible timing differences and carry-forward of unused tax losses can be utilized. The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced by the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

2.1.4 Post balance sheet events

All material events occurring after the Balance Sheet date are considered and where necessary adjustments or disclosures are made to the financial statements.

Over due Period	Classification	Provision required net of security
6 – 12 Months	Sub Standard	20%
12 – 18 Months	Doubtful	50%
18 Months and over	Loss	100%

2.1.5 Borrowing Cost

Costs incurred in respect of funds specifically obtained for the acquisition of the Property, Plant and Equipment have been recognized as an expense in the Income Statements, in the period in which they are incurred in terms of Sri Lanka Accounting Standard No. 20 - Borrowing Costs.

2.2 Valuation of Assets and their Measurement Bases

2.2.1 Advances to Customers

Advances to customers are stated in the Balance Sheet net of provisions for possible loan losses and net of interest, which is not accrued to revenue.

2.2.2 Provision for Loan Losses

Specific provisions for possible loan losses are based on a continuous review of the loans

and advances to customers in accordance with the applicable Sri Lanka Accounting Standards and the parameters set by the Central Bank of Sri Lanka based on an aged classification of advances, net of

any realizable security value. Accordingly, specific provisions are made as above.

Provisions are used to write off loans and advances, in part or in whole, when loans and advances are considered partly or wholly irrecoverable.

2.2.3 Investments

2.2.3.1 Dealing Securities

These are marketable securities acquired and held with the intention of resale over a short period of time. Such securities are carried at the lower of cost and market value on an individual investment basis. Adjustments for fall in market value below cost, if relevant, is accounted by charging the difference to the Income Statement as per the provisions under Sri Lanka Accounting

Standard No. 22, Accounting for Investments. Non-Marketable securities are carried at cost.

2.2.3.2 Investment Securities

These are acquired and held for yield or capital growth in the medium to long term. Such securities are carried at cost. Provision is made for the diminution in value of these investments only if they are expected to be permanent.

Interest on Development Bonds and Treasury Bonds issued by the Government of Sri Lanka is accrued.

2.2.3.3 Securities Purchased Under Resale Agreement

Securities purchased under agreements to resale are classified as part of assets and accounted for accordingly. Obligations to repurchase resulting from securities sold under Repurchase Agreements are accounted for as a liability and is classified under liabilities.

2.2.4 Property, Plant and Equipment

a) Cost and Valuation

All Property, Plant and Equipment (except for Land & Buildings) are recorded at historical cost less accumulated depreciation. The cost of Property, Plant and Equipment is the cost of purchase

or construction together with any incidental expenses thereon.

b) Restoration Costs

Expenditure incurred on repairs or maintenance of Property, Plant and Equipment in order to restore or maintain their condition so as to ensure that the future economic benefits expected from the originally assessed standard of performance, is recognized as an expense when incurred.

c) Depreciation

The provision for depreciation is calculated on a straight line method on the cost of all Property, Plant and Equipment other than freehold land, in order to write off such amounts over the following estimated useful lives by equal installments for assets purchased since the takeover date. (1st October 2001)

Buildings - Revalued	Over 12 Years
Furniture & Fittings	Over 4 Years
Office Equipment	Over 4 Years
Computer Equipment	Over 4 Years
Motor Vehicles	Over 3 Years

Those assets that existed as of the takeover date (30th September 2001), were depreciated over two years in equal installments other than for motor vehicles, which are depreciated over 3 years.

Provision is made in the year of purchase and in the year of sale on a pro-rata basis, for the period the assets were in use.

2.2.5 Cash & Cash Equivalents

Cash and Cash equivalents comprise of cash balances, short-term funds, balances with Central Bank of Sri Lanka and Government of Sri Lanka Treasury Bills readily convertible to known amounts of cash and subject to insignificant risk of changes in value. The cash flow has been prepared by using "The Direct Method", whereby gross cash receipts and gross cash payments of operating activities, and investing activities have been recognized.

2.3 Liabilities and Provisions

2.3.1 Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessments of the time value of money and, where

appropriate the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

2.3.2 Retirement Benefit Obligations

a) Defined Benefit Plan - Gratuity

Gratuity is a Defined Benefit Plan. The Bank is liable to pay gratuity in terms of the relevant statute. In order to meet this liability, a provision is carried forward in the balance sheet, equivalent to an amount calculated based on a half month's salary of the annual salary (which is 14 Months salary) for all employees for each completed year of service, as at the balance sheet date, commencing from the first year of service. The resulting difference between the brought forward provision at the beginning of a year and the carried forward provision at the end of the period is dealt with in the income statement.

The gratuity is not funded nor actuarially valued. This item is grouped under Other Deferred Liabilities in the Balance Sheet.

b) Defined Contribution Plans - Employees' Provident Fund & Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions as required by the respective statutes and regulations. The Company contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund (Which is a private fund approved by the Labour Commissioner) and Employees' Trust Fund respectively.

2.3.3 Commitments and Contingencies

All discernible risks are taken into consideration in determining the amount of other liabilities.

2.4 Income Statement

2.4.1 Revenue Recognition

Revenue is recognized to the extent that it is possible that the economic benefits will flow to the Bank and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

a) Interest Income
Interest receivable is recognized on an accrual basis. Interest ceases

to be taken into revenue when the recovery of interest or principal is in arrears for 3 months or more as per the Banking Act No. 30 of 1988 as amended by the Banking (Amendment) Act No. 33 of 1995. Thereafter interest on such loans and advances is accounted for on a cash basis. The accrual concept is re-adopted once such loans are reclassified as performing

Interest on all non-performing loans and advances is credited to an "Interest in Suspense Account".

b) Dividend Income
Dividend income is recognized when the shareholders' right to receive the payment is established.

c) Bills Discounted
Income on bills discounted is recognized proportionately over the tenor of the bill.

d) Dealing Securities
Profit or loss arising from the sale of dealing securities is accounted on a cash basis.

e) Other Income
Other income is recognized on an accrual basis

2.4.2 Expenditure Recognition

Expenses are recognized in the Income Statement on the basis of

a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

Interest payable is recognized on an accrual basis.

The Bank enters into off balance sheet transactions such as forward exchange contracts. At the year end losses on such transactions are dealt with in the Income Statement.

Year Ended 31 December 2004	2004 Rs.	2003 Rs.
3. INCOME		
Gross income	1,438,240,615	1,744,644,171
	<u>1,438,240,615</u>	<u>1,744,644,171</u>
Interest Income (Note - 4)	1,037,684,573	1,166,048,576
Other Income (Note - 6)	400,556,042	578,595,595
	<u>1,438,240,615</u>	<u>1,744,644,171</u>
4. INTEREST INCOME		
Loans and Advances	586,316,782	521,275,059
Government Securities & Placements with Other Banks	424,639,660	567,449,166
Other Interest Income	26,728,131	77,324,351
	<u>1,037,684,573</u>	<u>1,166,048,576</u>
5. INTEREST EXPENSES		
Deposits	290,539,388	343,202,377
Debentures	66,138,616	74,373,765
Borrowings	351,299,067	450,753,167
	<u>707,977,071</u>	<u>868,329,309</u>
6. OTHER INCOME		
Net Foreign Exchange Gain	181,999,556	158,182,765
Fee and Commission Income	191,899,406	170,961,952
Dividend Income	7,252,767	31,976,759
Capital Gain	18,261,530	215,603,152
Other Income	1,142,783	1,870,967
	<u>400,556,042</u>	<u>578,595,595</u>

Year Ended 31 December 2004

	2004	2003
	Rs.	Rs.
7. OPERATING PROFIT BEFORE TAX IS STATED AFTER CHARGING/(CREDITING)		
Directors' Emoluments	1,442,500	1,456,000
Auditor's Remuneration	632,500	550,000
Depreciation	98,358,671	92,528,476
Legal Expenses	3,261,512	5,479,605
Management Service Fees -Group	1,721,380	5,400,000
Personnel Costs Include,		
Staff Costs	197,189,784	151,404,988
Defined Benefit Plan Costs - Gratuity	4,974,152	5,320,844
Defined Contribution Plan Costs - EPF & ETF	10,849,162	9,290,244
(Profit)/Loss on disposal of Property, Plant & Equipment	(1,010,280)	(103,183)
Advertising Expenses	40,514,352	18,832,366
	<hr/>	<hr/>
8. TAX ON PROFITS FROM ORDINARY ACTIVITIES		
Current Income Tax		
Current Tax Expense on Ordinary Activities for the year (8.1)	103,375,340	30,016,506
Tax on capital gains in respect of 2003	62,430,946	-
Over Provision of Income Tax in respect of Prior years (2003)	(14,394,028)	-
VAT on Financial Institutions	52,919,312	32,013,177
	<hr/>	<hr/>
Deferred Income Tax		
Deferred Taxation charge (8.2)	(19,035,460)	(11,262,750)
Taxation Based on Profits for the period	185,296,110	50,766,933
	<hr/>	<hr/>
8.1 Reconciliation between Current Tax Expense and the Accounting Profit		
Accounting Profit Before Tax	298,492,989	225,400,066
Off Shore Profits (Exempt)	-	(4,530,633)
Other Exempt Items	(18,424,055)	(260,319,662)
Aggregate Allowable Expenses	(37,266,791)	(123,937,327)
Aggregate Disallowed Items	104,129,496	263,442,577
Taxable Profit/ (Loss)	346,931,640	100,055,021
	<hr/>	<hr/>
Statutory Tax at 20%	1,408,333	-
Statutory Tax at 30%	101,967,007	30,016,506
Current Tax Expense on Ordinary Activities for the year	103,375,340	30,016,506
	<hr/>	<hr/>

Year Ended 31 December 2004

	2004 Rs.	2003 Rs.
8.2 Deferred Tax Expenses		
Deferred Tax Expense arising due to origination and reversal of timing differences	(19,035,460)	(11,262,750)
	<u>(19,035,460)</u>	<u>(11,262,750)</u>

8.3 Deferred Tax has been computed using the current tax rate.

9. EARNINGS PER SHARE

9.1 Basic Earnings Per Share is calculated by dividing the net profit for the year of operations attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The weighted average number of ordinary shares outstanding during the period are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

9.2 The following reflects the income and share data used in the basic Earnings Per Share computation.

Year Ended 31 December 2004

	2004 Rs.	2003 Rs.
Amount Used as the Numerator:		
Net Profit for the Year	113,196,879	174,633,133
Number of Ordinary Shares Used as Denominator:		
Ordinary Shares of Rs. 10/- each	61,812,507	61,812,507
10. CASH AND SHORT TERM FUNDS		
Cash in Hand	133,623,839	64,622,628
Balances with Banks	268,202,370	170,046,277
	<u>401,826,209</u>	<u>234,668,905</u>

11. BALANCES WITH CENTRAL BANK

This includes the cash balances that is required to be maintained as per the provisions of Section 93 of the Monetary Law Act, and contains the effects of cheques pending realisation. The minimum cash reserve requirement was 10% of rupee deposit liabilities, as at December 31, 2004 and 2003.

As at 31 December 2004

	2004 Rs.	2003 Rs.
12. BILLS OF EXCHANGE		
Export Bills	922,959,170	706,043,465
Import Bills	24,061,542	25,127,252
Less: Loan Loss Provision (13.2)	(3,613,706)	(3,613,706)
	<u>943,407,006</u>	<u>727,557,011</u>
13. LOANS AND ADVANCES		
Overdraft - Others	2,643,032,086	1,997,320,650
- Group	16,614,688	146,857,056
Term Loans	2,897,544,697	1,955,187,178
Import & Export Loans	3,374,811,079	2,705,627,241
Staff Loans	152,751,578	128,490,643
Other Loans	176,474,977	19,261,674
	<u>9,261,229,105</u>	<u>6,952,744,442</u>
Less: Loan Loss Provision (13.2)	(51,492,564)	(263,702,384)
Interest in Suspense (13.2)	(25,003)	(102,573,232)
	<u>9,209,711,538</u>	<u>6,586,468,826</u>

13.1 Movements in the Provision for Loan Losses

	Provision Against Advances	
	Specific	Suspended Interest
	Rs.	Rs.
As at 01/01/2004	267,316,090	102,573,232
Provision / (Reversals) for the period/Interest Suspended	(69,650,729)	25,003
Write offs	(153,268,941)	(110,540,018)
Translation difference in FCY Conversion	10,709,850	7,966,786
As at 31/12/2004	<u>55,106,270</u>	<u>25,003</u>

As at 31 December 2004

13.2 Analysis for provision for loan losses and interest in suspense

	Loan Loss Provision	Interest in Suspense
Loans and Advances	51,492,564	25,003
Bills of Exchange	3,613,706	-
	<u>55,106,270</u>	<u>25,003</u>

As at 31 December 2004

	2004 Rs.	2003 Rs.
13.3 Total Loan Portfolio		
Performing	10,120,817,011	7,265,127,183
Non Performing	87,432,806	418,787,976
	<u>10,208,249,817</u>	<u>7,683,915,159</u>

13.4 Net Exposure on Non Performing Advances

Net Exposure on Non Performing loans and advances before setting off the value of security is given below.

Non Performing Loans and Advances	87,432,806	418,787,976
Loan Loss Provision made	(55,106,270)	(267,316,090)
Interest Suspended	(25,003)	(102,573,232)
Net Exposure	<u>32,301,533</u>	<u>48,898,654</u>

13.5 Concentration of Credit Risk

The sector wise analysis of the bank's credit portfolio given below reflects the Bank's exposure to credit risk in the various sectors of the economy.

Food, Beverages and Tobacco	2,344,071,800	1,027,401,968
Agriculture, Agro Business and Fisheries	154,280,712	135,819,086
Textiles and Wearing Apparel	1,630,490,198	1,996,449,971
Wood and Paper Products	87,499,020	65,556,105
Rubber and Leather Products	1,164,584,830	750,951,048
Metals, Chemicals and Engineering	1,371,862,139	882,830,893
Services	1,901,326,826	1,882,600,462
Other	1,554,134,292	942,305,626
	<u>10,208,249,817</u>	<u>7,683,915,159</u>

As at 31 December 2004

	2004 No of Shares	2004 Cost Rs.	2003 No of Shares	2003 Cost Rs.
14. INVESTMENT SECURITIES				
Unquoted - Shares				
Credit Information Bureau	1,200	120,000	1,200	120,000
Lanka Clear Pvt Ltd	150,000	1,500,000	150,000	1,500,000
Holcim Lanka Limited (PCCL) - Cumulative Redeemable Preference Shares of Rs. 100,000/- each (Redeemable in four equal annual installments commencing from 18/07/02 to 18/07/05)	361	36,100,000	722	72,200,000
		<u>37,720,000</u>		<u>73,820,000</u>
Sri Lanka Development Bonds - (Maturing on 28/06/06)		315,929,206		289,733,796
Seylan Bank Ltd. - Debentures - (Maturing on 31/12/08)		10,000,000		10,000,000
		<u>363,649,206</u>		<u>373,553,796</u>

As at 31 December 2004

	2004 Rs.	2003 Rs.
15. OTHER ASSETS		
Interest and Fees Receivable	52,613,662	59,943,808
Deposits and Prepayments	26,972,209	16,680,472
	<u>79,585,871</u>	<u>76,624,280</u>

16. PROPERTY, PLANT & EQUIPMENT

Valuation	Balance As at 01/01/2004 Rs.	Additions/ Transfers Rs.	Disposals/ Transfers Rs.	Balance As at 31/12/2004 Rs.
Freehold Land	78,000,000	86,856,500	-	164,856,500
Buildings	223,598,998	6,264,301	44,719,799	185,143,500
Cost				
Office Furniture & Equipment	32,039,978	37,273,696	(249,144)	69,562,818
Computer Equipment	286,777,096	32,644,189	249,144	319,172,141
Motor Vehicles	7,293,078	-	1,555,777	5,737,301
	<u>627,709,150</u>	<u>163,038,686</u>	<u>46,275,576</u>	<u>744,472,260</u>

16. PROPERTY, PLANT & EQUIPMENT CONTD.

Depreciation	Balance As At 01/01/2004	Charge for the year	Disposals/ Transfers	Balance As at 31/12/2004
Valuation	Rs.	Rs.	Rs.	Rs.
Buildings	33,539,849	15,037,106	44,719,799	3,857,156
Cost				
Office Furniture & Equipment	9,181,326	11,603,653	(52,171)	20,837,150
Computer Equipment	102,479,897	69,589,399	55,805	172,013,491
Motor Vehicles	2,947,728	2,128,513	1,296,481	3,779,760
	<u>148,148,800</u>	<u>98,358,671</u>	<u>46,019,914</u>	<u>200,487,557</u>
Net Book Value				
Freehold Land	78,000,000			164,856,500
Buildings	190,059,149			181,286,344
Office Furniture & Equipment	22,858,652			48,725,668
Computer Equipment	184,297,199			147,158,650
Motor Vehicles	4,345,350			1,957,541
	<u>479,560,350</u>			<u>543,984,703</u>

16.1 The land & buildings were revalued during the last year by Mr. A.A.M. Fathihu an independent valuer, on an open market value for existing use basis. The results of such revaluation were incorporated in these financial statements from its effective date, which is October 1, 2004, under additions/transfers of freehold land and buildings. The surplus arising from the revaluation was transferred to a revaluation reserve.

The carrying amount of revalued assets that would have been included in the financial statements had the assets been carried at cost less depreciation is Rs. 253.1 Mn.

16.2 During the year the company acquired property plant & equipment to the aggregate value of Rs. 70,030,336/-, of which Rs. 68,007,175/- were cash payments. (2003 - Rs. 38,571,892/-)

16.3 Property Plant & Equipment includes fully depreciated assets having a gross carrying amount of Rs. 19,035,622/- (2003 - Rs. 19,035,622/-)

As at 31 December 2004

	2004	2003
	Rs.	Rs.
17. INTANGIBLE ASSETS		
Goodwill		
Balance at the beginning of the year	-	163,832,653
Additions during the year	-	-
Amortised during the Year	-	(163,832,653)
Balance at the end of the year	<u>-</u>	<u>-</u>

As at 31 December 2004

	2004	2003
	Rs.	Rs.
18. DEPOSITS		
18.1 Type of Deposits		
Interest bearing Deposits		
Savings Deposits	1,846,094,736	957,132,489
Time Deposits	6,943,179,154	4,910,449,300
Certificate of Deposits	77,156,333	114,984,132
Deposits by Foreign Banks **	84,777	7,669,511
	<u>8,866,515,000</u>	<u>5,990,235,432</u>
Non-Interest Bearing Deposits		
Demand Deposits - Others	1,888,246,457	1,484,771,598
- Group	219,561,793	18,122,235
Margins	110,811,034	92,000,886
	<u>11,085,134,284</u>	<u>7,585,130,151</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 the related settlement thereof.

As at 31 December 2004

	2004	2003
	Rs.	Rs.
19. BORROWINGS		
Borrowing from banks	257,645,019	293,186,178
Borrowings under repurchase agreements	2,916,095,968	3,214,374,491
Call Borrowings from Financial Institutions	-	155,000,000
Term Borrowings from Financial Institutions	281,000,000	623,275,000
	<u>3,454,740,987</u>	<u>4,285,835,669</u>

As at 31 December 2004

	2004 Rs.	2003 Rs.
20. BALANCES PAYABLE TO RELATED PARTY		
National Development Bank of Sri Lanka	40,567,227	52,933,849
	<u>40,567,227</u>	<u>52,933,849</u>
21. OTHER LIABILITIES		
Accrued Expenditure	60,693,990	47,503,832
Other Liabilities	358,658,041	573,704,564
Interest Payable	86,782,299	112,565,744
	<u>506,134,330</u>	<u>733,774,140</u>
22. DEBENTURES		
Debentures issued to National Development Bank of Sri Lanka	<u>631,875,000</u>	<u>631,875,000</u>

The Debentures consists of 631,875 unsecured subordinated redeemable debentures of Rs. 1,000 each issued on 1st October 2001.

Number of Debentures	Allotment Date	Maturity date	Rate of Interest
631,875	01st October 2001	01st October 2006	<p>The Debenture carries an annual coupon rate of interest calculated at the rate of the one year weighted average treasury bill rate (Grossed up for withholding tax), plus 100 basis points per annum.</p> <p>Interest shall begin to accrue from the issue date and be payable annually thereafter to NDB on Debentures outstanding on 01st October 2002, 2003, 2004, 2005 & 2006 respectively until maturity.</p>

As at 31 December 2004

	2004 Rs.	2003 Rs.
23. DEFERRED TAX		
Balance at the Beginning of the year	50,488,554	61,751,304
Provision / (Reversals) Made During the year	(19,035,460)	(11,262,750)
Balance at the end of the year	<u>31,453,094</u>	<u>50,488,554</u>
24. OTHER DEFERRED LIABILITIES		
Retirement Benefits Obligation-Gratuity		
Balance at the beginning of the year	23,661,728	19,196,590
Charge for the year	4,974,152	5,320,844
Transferred for the year	-	612,108
Payments during the year	(740,821)	(1,467,814)
Balance at the end of the year	<u>27,895,059</u>	<u>23,661,728</u>
25. SHARE CAPITAL		
Authorised		
200,000,000 Ordinary Shares of Rs. 10/- each	<u>2,000,000,000</u>	<u>2,000,000,000</u>
Issued & Fully Paid		
61,812,507 Ordinary Shares of Rs. 10/- each	<u>618,125,070</u>	<u>618,125,070</u>
	<u>618,125,070</u>	<u>618,125,070</u>

25.1 Rights, Preference and Restrictions of Classes of Capital

The holders of ordinary shares confer their right to receive dividends as declared from time to time and are entitled to one vote per share at a meeting of the Company.

The restriction and variation of rights of classes of capital are in terms of the Memorandum and Articles of Association.

26. COMMITMENTS AND CONTINGENCIES

26.1 In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of such transactions.

<i>As at 31 December 2004</i>	2004	2003
	Rs.	Rs.
Acceptances	1,276,102,761	961,335,674
Letters of Credit	2,253,706,713	1,417,631,917
Guarantees	2,679,733,882	2,903,308,978
Forward Exchange Contracts (Net)	208,019,669	106,884,059
SBL Settlement Account	-	(149,478,000)
Travellers cheques	82,453,115	49,132,737
	<u>6,500,016,140</u>	<u>5,288,815,365</u>

26.2 Contingent Liabilities

Litigation against the Bank.

NDB Bank as the Plaintiff has appealed against a decision of the Director General of Customs on account of the GST & NSL claim amounting to approximately Rs. 9 Mn, on the import of software during 2002.

26.3 Capital Expenditure Commitments

The Company does not have significant capital commitments as at the balance sheet date.

27. MATURITY ANALYSIS

An analysis of the interest bearing assets and liabilities based on the remaining period of the balance sheet date to the respective contractual maturity dates is as follows.

Maturity Period	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 years Rs.	Total as at 31.12.2004 Rs.
Interest bearing Assets						
Government Securities	644,878,827	519,875,100	1,629,414,261	332,856,565	-	3,127,024,753
Placements with Other Banks	1,570,286,900	50,000,000	-	-	-	1,620,286,900
Bills of Exchange	886,252,749	57,154,257	-	-	-	943,407,006
Loans and Advances	8,166,221,233	310,308,662	262,808,149	367,482,097	102,891,397	9,209,711,538
Commercial Paper	39,444,178	70,442,922	-	-	-	109,887,100
Investment Securities	-	36,100,000	315,929,206	10,000,000	1,620,000	363,649,206
	<u>11,307,083,887</u>	<u>1,043,880,941</u>	<u>2,208,151,616</u>	<u>710,338,662</u>	<u>104,511,397</u>	<u>15,373,966,503</u>
Non Interest bearing Assets						
Cash & short term funds	401,826,209	-	-	-	-	401,826,209
Balance with Central Bank	543,214,278	-	-	-	-	543,214,278
Interest & fees receivable	47,471,596	1,865,582	1,174,452	1,642,225	459,807	52,613,662
Other Assets	24,513,535	-	-	-	2,458,674	26,972,209
Property, plant and equipment	113,889	1,339,970	133,121,475	63,266,525	346,142,844	543,984,703
	<u>1,017,139,507</u>	<u>3,205,552</u>	<u>134,295,927</u>	<u>64,908,750</u>	<u>349,061,325</u>	<u>1,568,611,061</u>
Interest bearing Liabilities						
Deposits	9,140,113,138	1,919,703,275	25,317,871	-	-	11,085,134,284
Borrowings	3,026,453,910	426,152,480	2,134,597	-	-	3,454,740,987
Debentures	-	-	631,875,000	-	-	631,875,000
	<u>12,166,567,048</u>	<u>2,345,855,755</u>	<u>659,327,468</u>	<u>-</u>	<u>-</u>	<u>15,171,750,271</u>
Non Interest bearing Liabilities						
Interest Payable	72,617,037	14,001,410	163,852	-	-	86,782,299
Other liabilities	505,521,977	-	-	-	-	505,521,977
Balance Payable to Related Party	40,567,227	-	-	-	-	40,567,227
Deferred Taxation	-	-	-	31,453,094	-	31,453,094
Other Deferred Liabilities	-	-	-	-	27,895,059	27,895,059
Shareholders' Funds	-	-	-	-	1,078,607,637	1,078,607,637
	<u>618,706,241</u>	<u>14,001,410</u>	<u>163,852</u>	<u>31,453,094</u>	<u>1,106,502,696</u>	<u>1,770,827,293</u>

28. SEGMENT INFORMATION

The operations of the Bank are categorised under the sole segment of "Banking", the details of which are provided in the main financial statements.

29. ASSETS PLEDGED

There were no assets pledged as security against liabilities as at the balance sheet date.

30. POST BALANCE SHEET EVENTS

There have been no material events occurring after the balance sheet date that required adjustments to or disclosures in the financial statements.

31. DIRECTORS' INTEREST IN CONTRACTS WITH THE BANK

S K Wickremesinghe, N S Welikala, S E Captain, and G C B Wijeyesinghe were Directors of the bank from the date of incorporation (11 May 2001).

E Wickramaratne, Director & CEO was appointed to the board on 2 July 2001.

A R Gunasekara, H D S Amarasuriya, J R Cooney, N Srinivasan, and D M Swaminathan were Directors of the bank, appointed to the board on 25 September 2002.

L de Mel is a Director of the bank, appointed to the board on 12 June 2003.

D M Swaminathan resigned from the board with effect from 28 May 2004.

J R Cooney resigned from the board with effect from 18 June 2004.

S R de Silva is a Director of the bank, appointed to the board on 18 June 2004

S E Captain resigned from the board with effect from 31 October 2004.

The interest of each Director, direct or indirect in all financial and other arrangements with the bank are disclosed under Note 32, Related Party Disclosures.

32. RELATED PARTY DISCLOSURES

The bank carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with the following related parties. These related parties, names of Directors, their relationship,

32. RELATED PARTY DISCLOSURES CONTD.

Related Party	Name of Director	Position Held	Details of Financial Dealings
			<p>NDB Bank has lent Rs. 802Mn under treasury bill / bonds to NDB, which will mature in 2005/2006.</p> <p>NDB has seconded certain staff members to the Bank for which the bank reimburses the salary related expenses to NDB. During the financial year 2004 the Bank incurred Rs. 37.8 Mn as such expenses (2003 - Rs. 20 Mn).</p> <p>During the year NDB provided management & legal services to the Bank for which NDB charged Rs. 1.7 Mn (2003 - 5.4 Mn) & Rs. 0.9 Mn (2003- 3.0 Mn) respectively.</p> <p>The Bank has obtained the approval of the Central Bank of Sri Lanka to use the capital of NDB, in fulfilling its Single Borrower and Capital Adequacy requirements. As a result of the above approval, the arrangement existing upto 2003 of transferring Loans & Advances and Contingencies which are above the Single Borrower Limit to NDB, ceased. (2003 -Rs. 149 Mn)</p>
NDB Investment Bank Ltd.	S K Wickremesinghe N S Welikala L de Mel	(Chairman) (Director) (Director)	<p>NDB Investment Bank Ltd. maintains current accounts with the Bank and the total overdraft balance amounted to Rs. 6,305 as at 31st December 2004.</p> <p>NDB Investment Bank Ltd has placed call deposits with the bank amounting to Rs. 3.2 Mn.</p>

32. RELATED PARTY DISCLOSURES CONTD.

Related Party	Name of Director	Position Held	Details of Financial Dealings
NDB Investment Bank Ltd. contd.			NDB Investment Bank Ltd has invested Rs. 8.5 Mn under treasury bill repurchase agreements through the bank, maturing on 4th & 11th of January 2005, respectively.
NDB Housing Bank Ltd.	S K Wickremesinghe N S Welikala	(Chairman) (Director)	NDB Housing Bank Ltd maintains current accounts with the Bank and the total balance amounted to Rs. 9,000 as at 31st December 2004. (2003- Rs. 25,000) NDB Housing Bank maintains current accounts with the Bank and the total overdraft balance amounted to Rs. 235, as December 2007. NDB Housing Bank Ltd haplacntecal((,

32. RELATED PARTY DISCLOSURES CONTD.

Related Party	Name of Director	Position Held	Details of Financial Dealings
Eagle Insurance Company	N S Welikala	(Director)	Eagle Insurance has placed call deposits with the Bank amounting to Rs. 5.3 Mn (2003- Rs. 8.5 Mn)
	E Wickramaratne	(Alternate Director)	
	H D S Amarasuriya	(Director)	Eagle Insurance maintains demand deposits with the Bank as at 31st December 2004 amounted to Rs. 125,000 (2003- Rs. 117,959).
	L de Mel	(Director)	
			Eagle Insurance maintains current accounts with the Bank and the total overdraft balance as at 31st December 2004 amounted to Rs. 3.8 Mn (Rs. 2003 - Rs. 0.1 Mn).
			Eagle Insurance maintains savings accounts with the Bank amounting to USD 3.6Mn (2003- USD 0.6 Mn).
			The Bank paid Eagle Insurance Rs. 8.1Mn as Insurance Premia for the year 2004. (2003 - Rs. 7.8 Mn).
Development Holdings (Pvt) Ltd. (DHPL)	N S Welikala	(Director)	DHPL maintains a demand deposit with the bank amounting to Rs. 6.4 Mn (2003- Rs. 2.5 Mn).
Capital Development & Investment Ltd. (CDIL)	N S Welikala	(Director)	CDIL maintains a demand deposit with the bank amounting to Rs. 0.87 Mn.
Cisco Speciality Packaging Ltd. (CSPL)	L de Mel	(Director)	CSPL maintains a demand deposit with the bank amounting to Rs. 1.44 Mn.

32. RELATED PARTY DISCLOSURES CONTD.

Related Party	Name of Director	Position Held	Details of Financial Dealings
Lakjaya Thrift & Credit Foundation Ltd.	N S Welikala	(Director)	<p>Lakjaya maintains a demand deposit with the bank amounting to Rs. 472.</p> <p>Lakjaya maintains savings accounts with the Bank amounting to Rs. 0.55 Mn.</p> <p>Lakjaya has placed call deposits with the Bank amounting to Rs. 0.21 Mn.</p>
Lanka Hospitals Pvt. Ltd.	N S Welikala	(Director)	<p>Lanka Hospitals Pvt. Ltd. maintains a demand deposit with the bank amounting to Rs. 8,076.</p> <p>Lanka Hospitals Pvt. Ltd has placed call deposits with the Bank amounting to Rs. 0.65 Mn</p>
NDB Bank Ltd.	A R Gunasekara	(Director)	<p>Mr A R Gunasekara and Mrs. S R Gunasekara have an approved overdraft limit of 33.7 Mn, 100% cash backed by fixed deposits, of which Rs. 11,298 was outstanding as at December 31, 2004.</p>
NDB Bank Ltd.		(Senior Management)	<p>During the year Senior Management of the Bank invested in Treasury Bills & Commercial Paper (Repurchase Agreements) through the Bank, out of which Rs. 18.7 Mn is unmaturing as at December 31, 2004. (2003 - Rs. 15.9 Mn)</p> <p>Senior Management invested in interest bearing deposits of the Bank amounting to Rs. 22 Mn in the normal course of business as at December 31, 2004. (2003 - Rs. 9.9 Mn)</p>

32. RELATED PARTY DISCLOSURES CONTD.

In addition to the above, certain Directors of the Bank are also either a Director and/or a share holder of the following entities which have financing arrangements with the Bank in the normal course of business.

Name of Director and Relationship	Company	Nature of Facility	Limit Approved (Mn)	Balance Outstanding 31/12/04 (Rs. Mn)
G C B Wijeyesinghe (Director)	Ceylon Trading Company	Overdraft	LKR 7.00	0.70
H D S Amarasuriya (Chairman)	Regnis (lanka) Ltd	Overdraft	LKR 5.00	7.50
		Import Bills		3.86
G C B Wijeyesinghe (Director)		Letter of Credit	LKR 100.00	11.46
		Other	LKR 5.00	14.90
		Sub Limits		
		Post Import Finance	LKR 100.00	64.50
		Short Term Loan		
		/Commercial Paper	LKR 75.00	25.00
		Acceptances	LKR 100.00	-
H D S Amarasuriya (Chairman)	Commercial Leasing Company Ltd	Medium Term Loans	LKR 100.00	87.50
		Short Term Loans	LKR100.00	86.50
		Sub Limits		
		Overdraft	LKR 5.00	0.03
H D S Amarasuriya (Chairman)	Singer (Sri Lanka) Ltd.	Overdraft	LKR 20.00	-
		Letter of Credit	LKR 140.00	-
G C B Wijeyesinghe (Director)		Sub Limits		
		Post Import Finance	LKR 140.00	-

32. RELATED PARTY DISCLOSURES CONTD.

Name of Director and Relationship	Company	Nature of Facility	Limit Approved (Mn)	Balance Outstanding 31/12/04 (Rs. Mn)
S K Wickremesinghe (Director)	CIC Fertilizers Ltd.	Letter of Credit	LKR 350.00	393.85
		/Post Import Finance		
		Short Term Loan	LKR 150.00	-
		Sub Limits		
		Overdraft	} LKR 100.00	6.26
Short Term loan	50.00			
Commercial Paper	-			
H D S Amarasuriya (Director)	Bata Shoe Co.of Ceylon Ltd	Term loan	LKR 62.00	46.00
		Overdraft		7.06
G C B Wijeyesinghe (Director)	Central Finance Co. Ltd.	Letter of Credit	LKR 150.00	-
		Sub Limits		
		Short Term loan	LKR 150.00	-
		Overdraft	LKR 50.00	0.10
		Guarantee	LKR 150.00	-
N S Welikala (Director)	Maldives Finance Leasing Company	Short Term loan	USD 0.5	-

Investor Information

1. Stock Exchange

The Income statement for the year ended December 31, 2004 and the Balance Sheet of the Bank as at the date have been submitted to the Colombo Stock Exchange within two months of the date of the Balance Sheet.

2. Ordinary shareholders as at December 31, 2004

Range (Shareholdings)	Residents			Non Residents			Total			
	No.	Shares	%	No.	Shares	%	No.	Shares	%	
Individuals										
0 - 500	4,146	623,171	1.01	28	4,192	0.01	4,174	627,363	1.01	
501 - 5,000	1,154	1,568,827	2.54	24	35,160	0.06	1,178	1,603,987	2.59	
5,001 - 10,000	54	388,608	0.63	1	7,600	0.01	55	396,208	0.64	
10,001 - 20,000	24	315,621	0.51	-	-	-	24	315,621	0.51	
20,001 - 30,000	5	116,067	0.19	-	-	-	5	116,067	0.19	
30,001 - 40,000	1	38,190	0.06	-	-	-	1	38,190	0.06	
40,001 - 50,000	-	-	-	-	-	-	-	-	-	
50,001 - 100,000	3	242,740	0.39	-	-	-	3	242,740	0.39	
100,001 - 1,000,000	2	332,368	0.54	1	115,000	0.19	3	447,368	0.72	
1,000,001 - Over	-	-	-	-	-	-	-	-	-	
SUB TOTAL	5,389	3,625,592	5.87	54	161,952	0.26	5,443	3,787,544	6.13	
Corporate										
0 - 500	108	15,476	0.03	3	860	-	111	16,336	0.03	
501 - 5,000	86	145,403	0.24	2	4,235	0.01	88	149,638	0.24	
5,001 - 10,000	9	65,465	0.11	-	-	-	9	65,465	0.11	
10,001 - 20,000	5	82,387	0.13	-	-	-	5	82,387	0.13	
20,001 - 30,000	4	98,718	0.16	-	-	-	4	98,718	0.16	
30,001 - 40,000	0	-	-	-	-	-	-	-	-	
40,001 - 50,000	0	-	-	-	-	-	-	-	-	
50,001 - 100,000	3	218,555	0.35	-	-	-	3	218,555	0.35	
100,001 - 1,000,000	1	192,100	0.31	-	-	-	1	192,100	0.31	
1,000,001 - Over	1	57,201,764	92.54	-	-	-	1	57,201,764	92.54	
SUB TOTAL	217	58,019,868	93.86	5	5,095	0.01	222	58,024,963	93.87	
TOTAL	5,606	61,645,460	99.73	59	167,047	0.27	5,665	61,812,507	100	

The percentage of shares held by the public as at December 31, 2004 (excluding NDB) was 7.46 %.

3. Share Valuation

The market value of NDB Bank Limited ordinary shares on December 31, 2004 was Rs. 26.00 per share. The lowest and the highest values recorded during this 12 month period were Rs.16.50 per share on February 10, 2004 and Rs. 31.00 per share on April 23, 2004 respectively"

4. Major Shareholders

The twenty largest shareholders of the Bank as at December 31, 2004 were as follows

Name of Shareholder	Shareholding	Percentage
1 National Development Bank	57,201,764	92.54%
2 Mr A V Amerasinghe	225,000	0.36%
3 Sino Lanka (Private) Limited	192,100	0.31%
4 Miss A D Perera	115,000	0.19%
5 Mr M F Hashim	107,368	0.17%
6 Mrs S M Chrysostom	100,000	0.16%
7 Mr J R de Silva	87,765	0.14%
8 Malship Ceylon Limited	77,225	0.12%
9 Timex (Garments) Limited	71,680	0.12%
10 Mackwoods Limited (Account No 1)	69,650	0.11%
11 Mr M Radhakrishnan	54,975	0.09%
12 Mr A W L R Silva	38,190	0.06%
13 Smart Development (Private) Limited	29,200	0.05%
14 Mackwoods Securities Limited	25,800	0.04%
15 Mr R M S Fernando	25,657	0.04%
16 Mrs N I Hashim	25,500	0.04%
17 Growth Lanka (Private) Limited	22,500	0.04%
18 Mr S A R Joseph	22,300	0.04%
19 Mr B K Sirimanne	21,650	0.04%
20 Univogue Garments Limited	21,218	0.03%
Total	<u>58,534,542</u>	<u>94.70%</u>

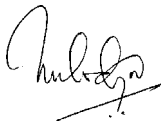
Notice of Meeting

Notice is hereby given that the Fourth Annual General Meeting of NDB Bank Limited (Bank) will be held at the "Golden Ballroom" of the Colombo Plaza Hotel, 77, Steuart Place, Colombo 3, at 11.00 a.m. on Wednesday, the eleventh day of May two thousand and five 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 the Bank, the Balance Sheet, the Profit & Loss Account and the Auditor's Report relating to the year ended December 31, 2004.
2. To re-elect Mr. Sarath Kusum Wickremesinghe who retires at the Annual General Meeting in terms of Article 84 of the Articles of Association of the Bank .
3. To re-elect Mr. Nihal Senenayake Welikala who retires at the Annual General Meeting in terms of Article 84 of the Articles of Association of the Bank.
4. To re-elect Mr. Nagarajan Srinivasan who retires at the Annual General Meeting in terms of Article 84 of the Articles of Association of the Bank.

5. To appoint Mr. Sriyan Ranjit de Silva, who was appointed to the Board of Directors of the Bank as a casual vacancy in terms of Article 91 of the Articles of Association of the Bank.
6. To declare a dividend as recommended by the Directors.
7. To reappoint M/s Ernst & Young, Chartered Accountants, as Auditors of the Bank and authorise the Board of Directors to determine their remuneration.
8. To determine the remuneration payable to the Directors.

By order of the Board



Melody Wickramanayake
Board Secretary

March 15, 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 the Bank. The Form of Proxy is sent herewith.
3. The instruments appointing proxies must be deposited at the Registered Office of NDB Bank Limited, at 40 Navam Mawatha, Colombo 2 not later than forty eight (48) hours prior to the time appointed for the holding of the meeting.
4. Shareholders/Proxy holders attending the meeting are requested to bring their National Identity Cards.

I/We
(holder/s of NIC No./s)
of
being a Shareholder / being Shareholders of NDB Bank Limited (Bank), hereby appoint

1.
holder of NIC No.
or failing him/her

2. Mr S K Wickremesinghe of Colombo (Chairman of the Bank), or failing him, one of the Directors of the Bank,

as my /our proxy to vote and /or speak for me /us and on my/our behalf at the fourth Annual General Meeting of the Bank to be held on Wednesday, the 11th day of 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

.....
Signature of the Shareholder

.....
*Common Seal
(if applicable)*

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 Registered Office of the Bank, No 40 Nawam 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 the Bank.
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 holder/s.
5. The full name and the registered address of the Shareholder appointing the proxy should be legibly entered in the form of proxy.

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