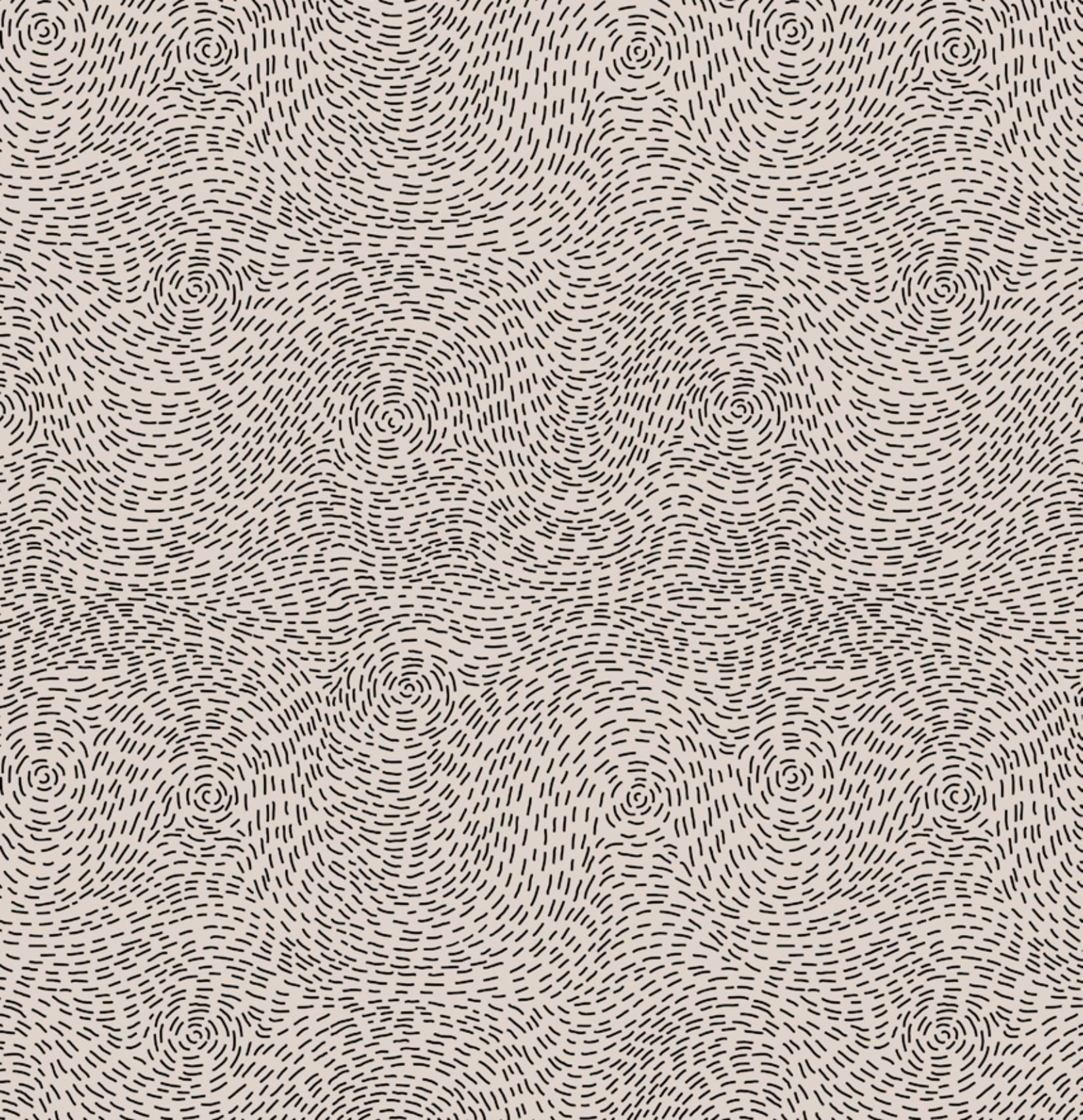
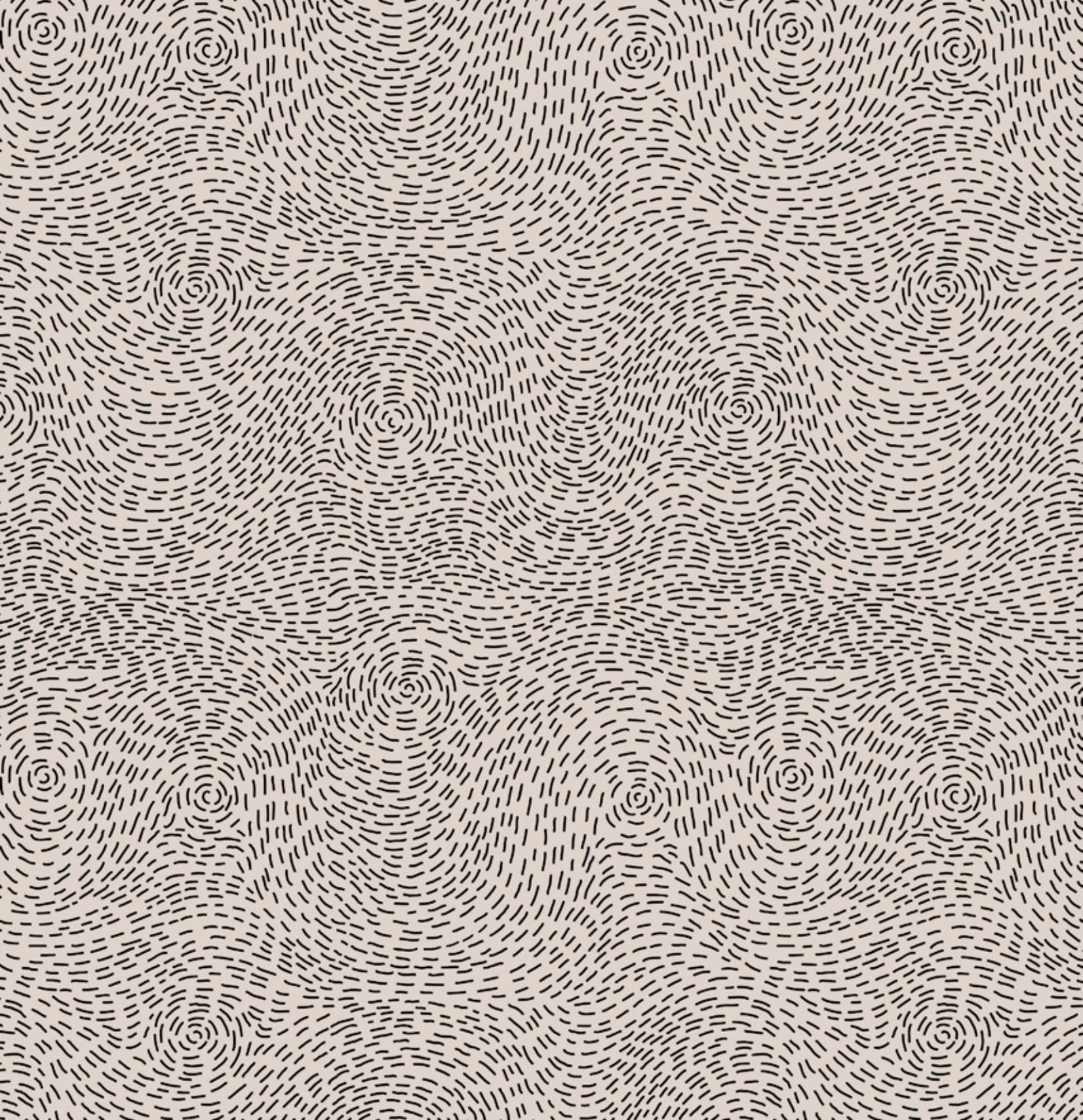


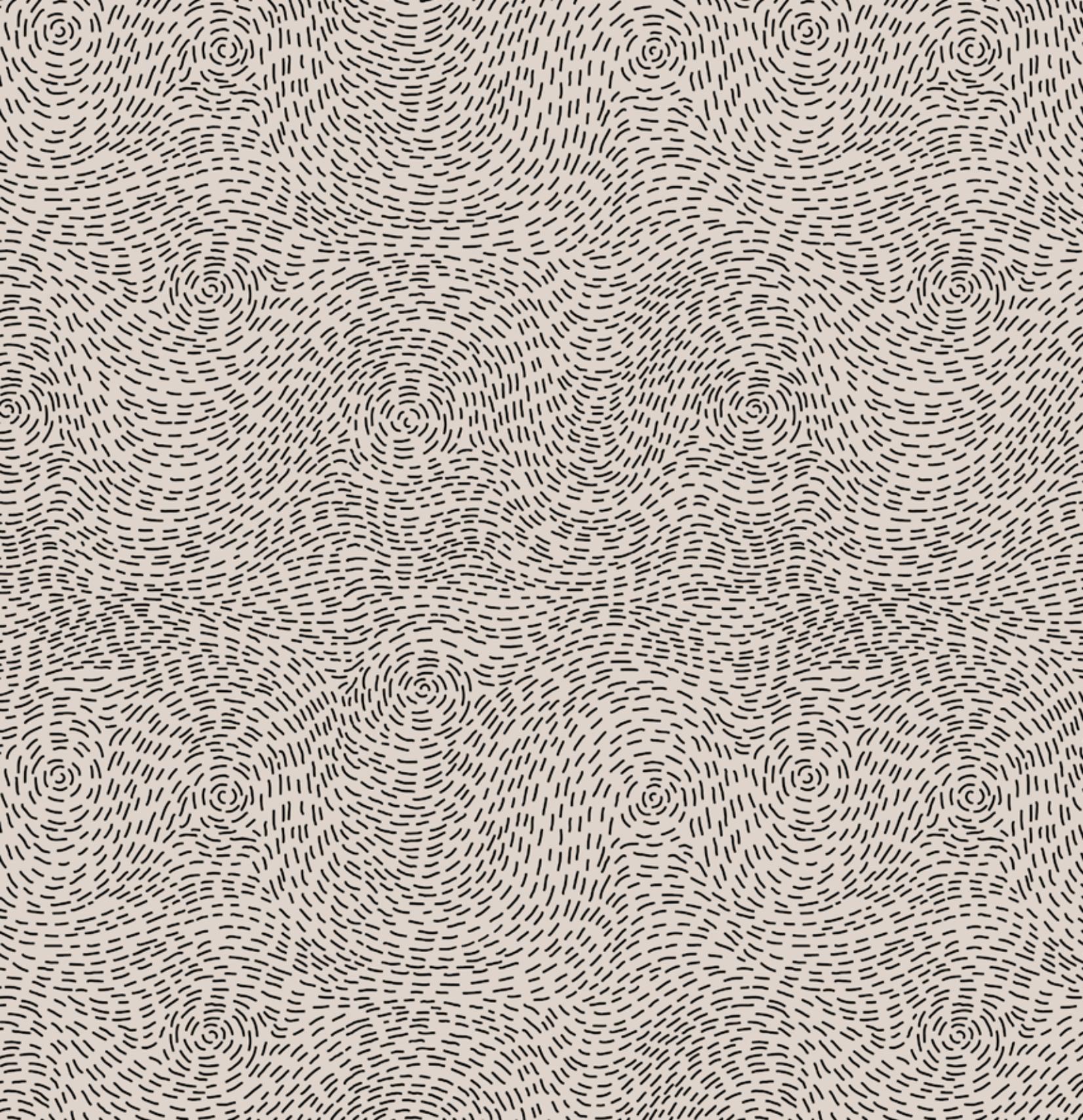
NATIONAL SAVINGS BANK

*Greater* > **GOOD**

Annual Report 2014







*Being for the Benefit of All*

# GREATER GOOD

**NATIONAL SAVINGS BANK**

Annual Report 2014

## **Greater Good**

*National Savings Bank*

*Annual Report 2014*

*Produced by: Smart Media - The Annual Report Company*

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# GREATER GOOD

Annual Report 2014



*The Leader in Developing You and Your Country*

*First Sri Lankan Bank to be rated AAA. Reaffirmed by Fitch Ratings Lanka Ltd. for the 12th consecutive year*

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### **Our Vision**

*The most reliable and sought-after choice for savings and investment solutions.*

### **Our Mission**

*Providing our customers with total financial solutions to optimise their savings and investment needs, while meeting the expectations of all our stakeholders.*

### **Our Values**

*In conducting our day-to-day business we will respond promptly and act creatively with trust, mutual respect and integrity.*



GREATER > GOOD

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*The National Savings Bank was incorporated for the greater good of Sri Lanka and its people.*

*We first espoused the efficacy of the ‘coin in the till’ model of ethical financial saving as a blueprint for a valid savings habit that brings with it financial well being and prosperity for people from all walks of life.*

*To achieve this objective we work with purpose, taking advantage of our expertise, knowledge and understanding with the aspects of life that matter most to our target audience. In ushering in greater well-being and prosperity for our customers, the Nation too grows in like manner.*

*To us, it’s all about the greater good...of people and country whilst remaining a viable and sustainable entity.*



*About this Report*

## **Report Structure** →

In your hands is the Bank's maiden integrated Annual Report. It constitutes a significant change from the reporting format of the past. Our move to this format was prompted by a desire to adopt a more holistic approach, trending internationally, that enables us to communicate more effectively and concisely, the interactions and interdependence of many aspects of our business – such as strategy, governance, performance and prospects – in the context of creating value over time. The triple bottom line evaluatory process that examines economic, social and environmental impacts on our business and by our business remains integral to the reporting process, but with better and more meaningful integration.

## **Sustainability** →

Sustainability is an overarching goal of the Bank that cuts across all aspects of our business in the value creation and capital formation process. In practice, since sustainability pervades every area of strategy and action, it made sense for the Bank to seamlessly integrate sustainability with financial reporting. Thus, whilst a separate, stand alone review on sustainability will not appear in this Report, we have retained all material disclosures and discussions associated with 'sustainability reporting', within the new format, whilst complying with core criteria of GRI G4.

## **Format** →

This Annual Report is produced in print and PDF versions. The latter is available on our website – [www.nsb.lk](http://www.nsb.lk)

## **Value Creation** →

### **Two Sides of the Same Coin** →

Explaining how the Bank creates value over time, lies at the core of our integrated reporting. Underpinning this approach, is the realisation that the ability of the Bank to create value for itself is inextricably linked to the value it creates for its stakeholders. This also explains the duality of our purpose, namely, deriving and delivering value, leading to internal and external capital formation respectively.

### **Capital Formation** →

The 'capital' we create and nurture at the Bank takes many forms and is not limited to financial capital. The Bank's internal capital formation is a result of value created by the Bank for itself (deriving value) and comprises financial capital and institutional capital. Our external capital formation is a result of financial and non-financial value created by the Bank for its stakeholders (delivering value), the key components being investor capital, customer capital, employee capital and social and environmental capital. These forms of capital are stores of value with flows taking place between them which may be increased, decreased or transformed by the Bank, including its relationships and engagement with stakeholders.

Our reporting, particularly the Management Discussion and Analysis, is thus structured along these lines; that of deriving and delivering value which lead to internal and external capital formation.

### **Report Boundary and Materiality** →

The overall boundary of this Annual Report comprises the National Savings Bank and its wholly-owned subsidiary, NSB Fund Management Company Ltd., duly identified as the 'Bank' individually and 'Group' collectively. Consistent with the framework adopted in the 2013 report, key financial aspects are discussed in the context of the Bank as well as the Group, while non-financial aspects are discussed in the context of the Bank unless stated otherwise.

This report focuses on aspects that are material or important. It is an assessment based on the extent to which these factors may substantively affect the Bank's ability to create value over the short, medium and long term. The materiality determination process is discussed under Materiality and Value Creation that begins on page 39, and also reflects 'our two sides of the same coin' view of value creation, as already described.

### **Compliance** →

The Bank's Annual Report 2014 covers the 12-month period 1st January to 31st December 2014, and is consistent with our usual annual reporting cycle for financial and sustainability reporting. The latter is in accordance with the core criteria of GRI G4 guidelines. Being an integral part of the Bank's overall business, it is subject to the Bank's existing internal and external control and assurance systems.

There are no significant changes from previous reporting periods in the scope and aspect boundaries. The most recent previous Annual Report, dated 25th April 2014, covered the 12-month period ended 31st December 2013. Comparative financial information, if reclassified or restated, has been disclosed and explained in the relevant sections.

The primary statutes that govern the activities of the Bank are the National Savings Bank Act No. 30 of 1971 and its amendments, Banking Act No. 30 of 1988 and its amendments, directives and guidelines of the Central Bank of Sri Lanka (CBSL) and regulations and directions of the Department of Inland Revenue.

The financial information contained in this report, as in the past, is in compliance with all applicable laws, regulations and standards and is declared in the several reports and statements that appear under the section on Financial Reports commencing on page 151.

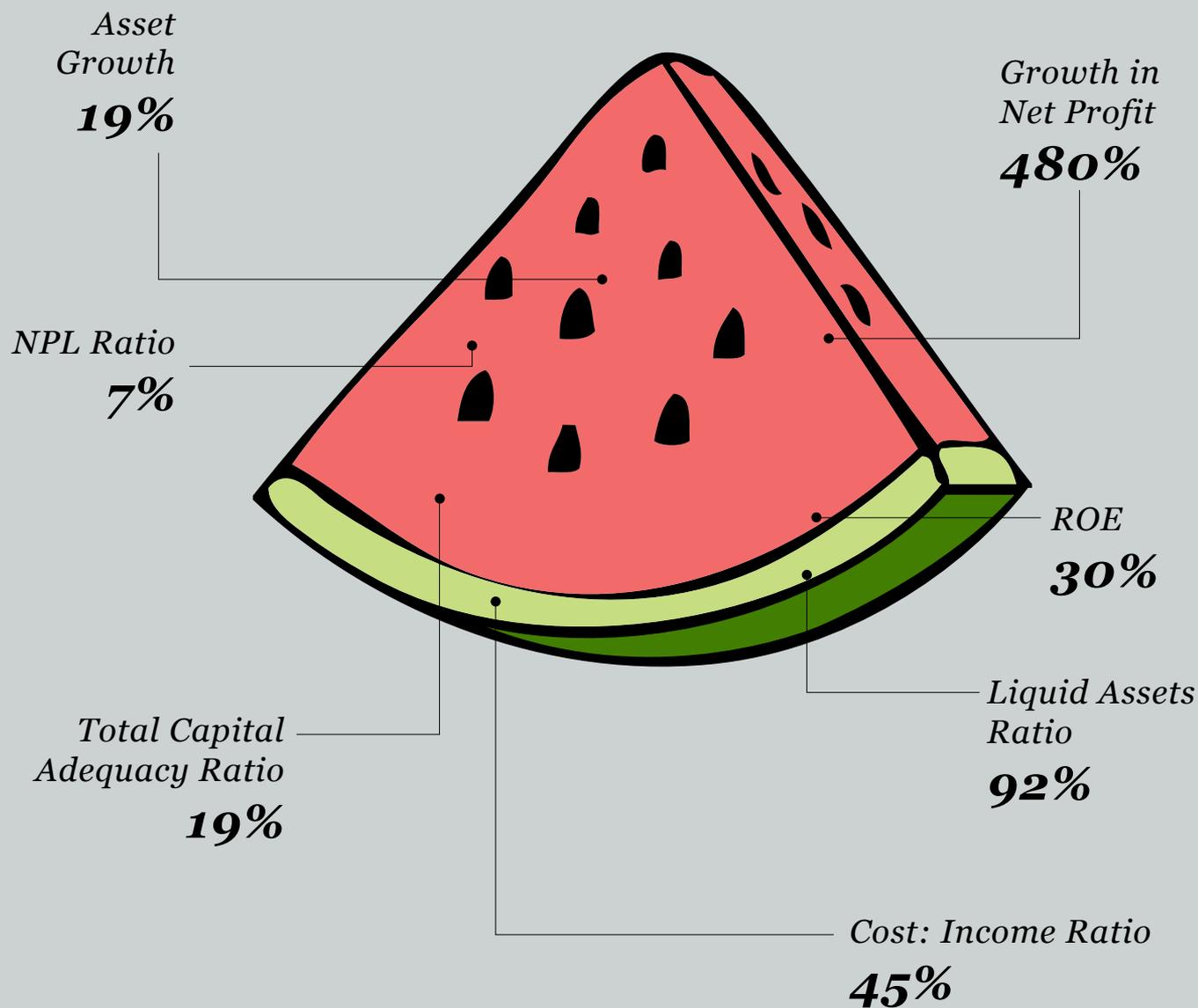
In preparing this Integrated Report, we have also drawn on concepts, principles and guidance given in the following, where applicable:

- Global Reporting Initiative (GRI) Sustainability Reporting Guidelines G4 (2013)  
[\[www.globalreporting.org\]](http://www.globalreporting.org);
- The International Integrated Reporting Framework (2013)  
[\[www.theiirc.org\]](http://www.theiirc.org); and the
- Smart Integrated Reporting Methodology™  
[\[www.smart.lk\]](http://www.smart.lk).

### **Queries** →

We welcome your comments or inquiries on this report, which could be addressed to the Finance and Planning Division at National Savings Bank, 255, Galle Road, Colombo 3 (email: [nsbgen@nsb.lk](mailto:nsbgen@nsb.lk))

*Sustainability and  
Value Creation is an overarching  
goal of the Bank that cuts across  
all aspects of our business*



	Bank			Group		
	2014 Rs. Million	2013 Rs. Million	Growth %	2014 Rs. Million	2013 Rs. Million	Growth %
<b>Results For the Year</b>						
Gross Income	77,890	65,573	19	78,573	66,671	18
Net Interest Income	21,380	10,107	112	21,661	10,255	111
Net Profit Before Income Tax	10,472	2,279	360	10,764	2,669	303
Income Tax on Profit	3,606	1,095	229	3,710	1,141	225
Net Profit After Taxation	6,867	1,184	480	7,054	1,528	362
Contribution to the Government	11,043	4,731	133	11,197	4,826	132
<b>At the Year End</b>						
Total Assets	779,466	654,368	19	786,845	662,346	19
Loans & Investments	757,182	632,187	20	764,526	640,138	19
Deposits from Customers	554,060	501,890	10	554,060	501,890	10
Shareholders' Funds (Capital and Reserves)	23,260	22,217	5	25,025	23,797	5
<b>Ratios</b>						
Return on Average Shareholders' Funds (%)	30.2	5.1		28.9	6.3	
Return on Assets (%)	1.5	0.4		1.5	0.5	
Net Interest Margin (%)	3.0	1.7		3.0	1.7	
Liquidity Ratio (%)	91.5	92.7		91.5	92.7	
Tier I (%) (Statutory Minimum Ratio Required is 5%)	20.5	18.5		21.6	19.8	
Tier I & II (%) (Statutory Minimum Ratio Required is 10%)	19.0	16.7		20.2	18.2	
Cost: Income (%) (With VAT)	44.5	67.7		44.0	65.6	
<b>Non-Financial Indicators</b>						
Branches (No.)	236	229		-	-	
Agents (Post Offices & Sub-Post Offices) (No.)	4,063	4,063		-	-	
School Bank Units (No.)	2,287	1,723		-	-	
ATMs (No.)	260	247		-	-	
Accounts Holders (Million)	18.35	17.90		-	-	
Staff (No.)	3,407	2,943		-	-	



# *Messages*



*Letter from the Chairman – 17*  
*General Manager/CEO's Review – 20*



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## *Banking for the Greater Good*

*For the National Savings Bank, founded in 1972, there is a greater good above and beyond the straightforward business of making money out of money. The economic and social welfare of Sri Lankan people are central to our role.*

*This does not mean that NSB is unprofitable. Far from it, indeed the year under review saw the Bank record its highest ever annual profit before tax, Rs. 10.5 Billion and profit after tax was Rs. 6.9 Billion. These figures become still more impressive when one reflects that, in the same year, NSB also returned a total of Rs. 11 Billion to the Government in the form of taxes, levies, dividends and special fees.*

---

Still, our real goal lies beyond mere profit. Our true object is financial inclusion – participation in the legitimate economy and access to an appropriate range of finance and banking options for all Sri Lanka citizens. As a result, our business model is somewhat different from that of other banks; customer numbers and savings-deposit figures are also important yardsticks of success.

In 2014, the Bank mobilised Rs. 59.4 Billion from depositors, causing its deposit base to grow by 10.4%. Savings deposits accounted for 44% of this total – a significant improvement in the deposit mix. This represents a total of 18.3 Million individual savings and fixed deposit accounts. In gross figures, the total deposit base stood at Rs. 554 Billion on 31st December 2014.

It would be idle to deny that NSB has faced some problems in the recent past – by no means all of its own making. Despite this, I am pleased to find that I have been appointed Chairman of a vibrant and financially robust institution. The Bank's total assets now stand at Rs. 780 Billion. The Bank's solid financial performance is discussed in detail elsewhere in this Annual Report.

### **The People Who Really Matter** →

As I have already implied, NSB is equally concerned with the welfare of its customers. It is through them alone that we can attain our ultimate goal of financial inclusion for all Sri Lankans. We do not delude ourselves that we are operating in a vacuum; the country now boasts a mature and active banking sector that features both private and public sector involvement. While there are still socioeconomic groupings and strata that NSB is best suited to serve, or which fall through the cracks of other banks' marketing plans, we cannot forget that we are surrounded by hungry competitors, and that we must keep reinventing ourselves and our offerings in order to stay relevant, profitable and on-mission.

### **Resources with which to Build** →

Profitability and financial health are capital to be invested in the Bank's national and social mission. They are resources, so to speak, with which to build the future. In 2015, a large portion of these resources will be dedicated to the expansion of our financial services portfolio into new areas. For instance, we are planning an aggressive move into new areas of banking, the first results of which will be seen in the months ahead. More fundamentally, we shall continue to invest in our physical distribution network, in part to make transactions more convenient for remittance customers. We are also exploring the possibility of taking our products and services overseas.

### **Taking NSB to the Next Level** →

We plan to open at least ten new branches in 2015, in several under-penetrated areas for greater financial accessibility. Meanwhile, existing branches will be upgraded and overhauled, with new technology investments to enhance customer relevance and convenience. This is now an ongoing process at NSB.

The current year will also see us invest considerable resources in getting to know our customers better. We need better intelligence at local, grassroots level: the kind of detailed information that jump-starts insight and inspires us to come up with innovative, highly marketable products. We shall introduce new ways and means to assess customer satisfaction, the relevance and functionality of our products, ease of opening an NSB account and the quality of service at city offices and rural branches.

This knowledge will help us develop new products, new systems, new ways to observe and take stock of ourselves and our customers. It will enable us to reassess our product mix and better align it with emerging trends in the market. It will help us reinforce our 44-year-old brand and develop top-notch product and service-related daughter brands.

It will, in short, serve us as a springboard for future innovation. An innovation is essential if we are to develop the banking concepts that will take NSB to the next level. Given the far reaching changes the Sri Lankan banking sector would experience in the near future, a step change in profile is urgently needed: it will be key, not only to preserving and increasing our market share, but also to the maintenance of our unique identity and furtherance of our mission.

There are other areas too, in which NSB must improve. We need to strengthen corporate management, especially in credit and Treasury operations, marketing, HR and administration. Organisation-wide, we need to bring in greater professionalism and enhance governance.

As we move to take active control of our future in these ways, we shall never lose sight of our unique place in the wider economic and social picture. NSB exists, first and foremost, to promote certain national and social goals. Although the details of policy may change from administration to administration, these goals have never varied and will never. By its very mandate, NSB is committed to support the economic and social programmes of the Government in office. Good news is that the incumbent Government has been extremely supportive in this regard, establishing a framework conducive to meet the Bank's core operations. With our broad geographical base, our strength in diversity and our influence in all economic and social categories, there is a great deal we can and will do in the months and years ahead to improve the lives of all Sri Lankan citizens.

### **Conclusion** →

As we stand poised on the threshold of a new era for the Bank and for the country, our customers and external stakeholders can draw confidence from the strength of our position. They themselves have contributed to it, and for this I thank them on behalf of the Government and the NSB team. No matter in what capacity they made and continue to make their respective contributions, they have been integral to our success.

Thanks are also due, in no small measure, to our own people. This year's gratifying profitability and business volumes are the result of their hard work and loyalty to the organisation. In this context, I should like to add my particular, personal thanks to the General Manager/CEO and his management team.

I extend our unreserved appreciation to the Postmaster General, officials of the Postal Department, postmasters, sub-postmasters and other officials for their vital assistance which made our reach in grass roots.

I also offer my sincere thanks to my fellow Directors for their insight, advice, support and professionalism – factors which I have come to rely on, and which also play an integral role in the Bank's success.

On conclusion, I would like to thank the Hon. Minister of Finance, the Hon. State Minister of Finance, the Secretary to the Treasury, the Governor of Central Bank and officials, the Attorney General, the Auditor General and his team and heads of other regulatory bodies for their unstinted support, guidance and assistance.

Look forward to working with all these officials in the ensuing year to achieve strategic objectives.



**Aswin De Silva**  
Chairman

26th March 2015  
Colombo

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## *Consciously playing our part*

*For over 180 years, the last 42 as the National Savings Bank, we have consciously played our part and helped Sri Lanka grow. Believing that success should be measured by the greater good of development, our mission at NSB has always been about more than earning a higher return, being a beneficent workplace or even helping our customers succeed – although all three goals are important to us. Instead, we have worked to provide all Sri Lankans with the financial wherewithal they need to build a just and prosperous society.*

*Overall, our 2014 results were extremely encouraging. Although the Sri Lankan financial services sector faced a number of challenges, particularly with respect to the global macroeconomic environment and also getting accustomed to low interest rate regime, we made significant progress in all our lines of business.*

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In 2014, the Bank became:

**Stronger** — The Bank led the market in terms of lending growth. We achieved an asset base of Rs. 780 Billion, up by 19% from Rs. 654 Billion a year before, funded by our successful tapping of the International Bond market and growth in our deposit base. Several major loans to State-Owned Enterprises (SOEs) amounting to Rs. 79 Billion as of 31st December 2014 and the growth in the loans portfolio contributed to this growth in asset base. This growth is particularly impressive given the contraction of our pawning business. Total value of the pawning portfolio declined to Rs. 33 Billion by end of 2014 from Rs. 50 Billion recorded by mid 2013.

**More attractive** — In 2014, one key to our success was through the introduction of a number of specialised products that helped us reach some important groups of previously underserved Sri Lankans. Those products included:

- **NSB Divi Surakum**, a special pension plan for resident/non-resident Sri Lankans who are not entitled to receive a permanent pension to enjoy a comfortable retired life.
- **Buddhi**, a scheme that offers loans for higher studies at attractive interest rates and a repayment schedule that only begins on completion of studies. In 2014, we disbursed Rs. 0.1 Billion to students.
- **NSB Diriya**, a personal loan product developed for small and medium scale entrepreneurs to meet their start up or working capital needs. The Bank also introduced a special loan category for women and disabled people who want to start businesses.

**More approachable** — Year after year, it keeps getting easier than before to be a customer of NSB. In addition to banking through our network of 230+ branches and 4,000+ post offices and sub-post offices, we offer SMS and telephone banking and online banking. Expanding the network further, we opened seven more branches in strategic locations during the year. We have also established remittance relationships with many exchange houses and banks in countries where

there is a sizable Sri Lankan expatriate population. Today, we can confidently maintain that NSB is in reach of all Sri Lankans, wherever they may be.

**Smarter** — In our current strategic plan, one of our key objectives is to increase the efficiency of the Bank through the automation of more processes. In 2014, we began a long-range process of upgrading our systems in a way that will improve the Bank's efficiency, lower its costs and enhance its customer service.

**More skilled and flexible** — Conventional wisdom has it that as financial services grow more automated, the human element becomes less important. In fact, the opposite is true: companies the world over are finding that as computers take over more of the routine work, the jobs that remain tend to demand people who have more highly developed skills and a greater capacity to learn.

During the year, the Bank recruited a total of 560 new employees giving priority for women. After this recruitment drive, the Bank equipped itself with more qualified employees to become managers, giving us a deep reservoir of potential leaders to draw on as we continue to grow. In addition to this hiring more leaders for tomorrow, we filled some important positions that further professionalised the enterprise.

We are proud of our relatively lower staff turnover ratio which speaks volumes about our attractiveness as an employer, particularly given that as the economy grows, the number of attractive opportunities does too.

### **Contributions to Government** →

As a fully Government-owned institution, our contribution to the Government is manifold. We pay dividends, help collect taxes and fund national infrastructure development projects.

During the year, we paid Rs. 4 Billion as dividends and Rs. 1.3 Billion as a special fee to the Government Treasury. We paid Rs. 5.7 Billion as direct taxes on our own profits.

### ***Contributions to Society*** →

In 2014, the Bank devoted its social responsibility resources to helping all of Sri Lankan society. In addition to 'giving at the office,' through our special products for children, young people, women and senior citizens, we contributed to a variety of educational, cultural and religious undertakings. Our work even extended beyond the island as we reached out to Sri Lankans working in Saudi Arabia, Kuwait, Dubai and as far as Italy, offering them not just financial advice on how to send remittances home safely but a friendly face from home, through the organisation of a number of community activities throughout the year.

### ***A Plan Takes Hold*** →

One reason for the last year's successes to be especially encouraging to us is that they indicate our 2014-2016 strategic plan is working.

Even before this initiative began, NSB was already Sri Lanka's third-largest bank in terms of deposits and the institution with one of the widest account bases. Its unique Government-backed guarantee on all deposits and national reach had given the Bank one of the island's largest fund bases, as well as access at advantageous terms to the international institutional investment market.

Now, by following this strategy, we are raising NSB's value to all its stakeholders as we try to capitalise on our competitive advantages through the development of additional capabilities. In each of our priority areas – Information Communication Technology development, customer satisfaction, recruitment and treasury management – we made substantial progress to gear the Bank for the times ahead.

In two more years, I have no doubt that our current programme will enable us to reach our goal: surpassing total assets of Rs. 1 Trillion, a deposit market share of 12%. We also expect to win 8% market share of foreign remittances and continue to grow our credit at a steady 19% a year for the next two years.

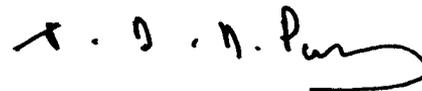
### ***A Team for the Greater Good*** →

In my many years with the National Savings Bank, I have come to realise that the Bank is far more than an important financial conduit: NSB is a replica of Sri Lanka – a community in which diverse groups of people all have a vital role to play in advancing our society.

I would like to thank first the outgoing Chairperson, the Board of Directors and the former General Manager/CEO for their valuable counsel, support and years of dedicated service. I would also like to thank our management and each and every member of our staff for their devotion to the Bank. I also take this opportunity to warmly welcome the Chairman and other members of the new Board who will provide leadership and encouragement for the implementation of the strategic plan and further advance the cause of savings among Sri Lankans.

We owe thanks to our other stakeholders as well: to the Hon. Minister of Finance, Secretary and other officials of the Ministry of Finance, the Secretary to the Treasury, the Governor and officials of the Central Bank of Sri Lanka, the Auditor General, the Attorney General and the Postmaster General and his staff for their support and guidance; investors for their confidence; and the trade unions for their support and co-operation.

Most of all, I would like to thank our customers for choosing us as their financial service partner. Whether you chose us to safeguard a fistful of Rupees for your little girl, fund your nephew's medical education or extend a multi-billion Rupee loan to build a new bridge, we are proud to have earned your trust.



**S.D.N. Perera**  
General Manager/CEO

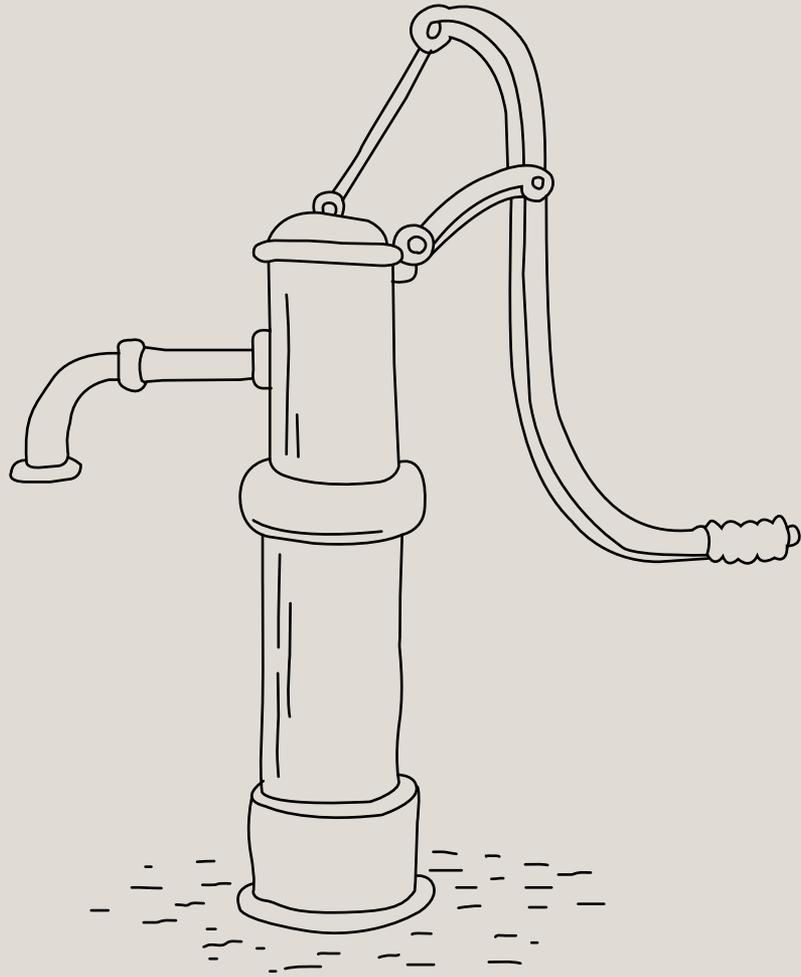
26th March 2015  
Colombo





# *Business Model*

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### **The Bank** →

The National Savings Bank is Sri Lanka's oldest financial institution. It has a proud heritage that dates back over 180 years. Incorporated in 1971, through the amalgamation of the Ceylon Savings Bank (Est. 1832), the Ceylon Post Office Savings Bank (Est. 1885), the Savings Certificates Section of the Postmaster General's Department (Est. 1938) and the National Savings Movement (Est. 1942), the Bank today stands tall as the country's premier savings bank (see page 291 for profile). Thus, in 1972, The National Savings Bank (NSB) was established as a fully state-owned institution, by Act of Parliament. The Bank's business is complemented by its wholly-owned subsidiary, NSB Fund Management Company Ltd., and together they comprise the NSB Group.

For the 12th consecutive year, NSB earned a AAA long-term credit rating from Fitch Ratings Lanka Ltd., in recognition of its financial stability and management practices. This was further strengthened by re-affirmation of BB- Stable international credit rating by Fitch Ratings and B+ by Standard and Poor's Rating services. NSB as first among equals of its peers, offers a splendid array of modern banking experiences, blended with modern technology, to cater to the evolving needs of every member in the family.

### **Markets Served** →

Focused on promoting thrift and mobilising savings, the Bank's operations span the entire length and breadth of Sri Lanka and our 'footprint' consists of over 5,000 touch points incorporating 236 branches (see page 278 for geographic distribution), 2,287 school bank units, 653 post offices, 3,410 sub-post offices, 260 ATMs as well as via Internet/phone banking.

The Bank offers a wide range of deposit and credit products (see page 272) to a broad clientele. Sri Lankans from all walks of life bank with NSB, from rural farmers with modest means to successful urban entrepreneurs; from school children learning to save to senior citizens seeking a superior return for their retirement; from expatriate nationals, sending money home to Government workers trusting us with their pensions; from home builders seeking construction loans to build affordable housing to corporates seeking long-term project finance.

### **Operational Structure** →

The Bank's internal structure broadly comprises 'operations divisions' and 'support services'. The former encompasses the activities of Branch Management, Retail Lending, Corporate Finance, International Operations, Postal Banking and Treasury Operations whilst the latter includes the activities pertaining to areas such as Legal, Information Technology, Supplies, Premises, Finance and Planning, Human Resource Development, Training, Marketing, Risk Management, Compliance and Internal Audit.

Mr. H.M. Hennayake Bandara retired from the post of General Manager/CEO with effect from 19th June 2014, after serving the Bank for 14 years in Corporate Management level. Mr. S.D.N. Perera took over as the Acting General Manager/CEO with effect from 20th June 2014. Mr. Perera was assumed duties as the General Manager/CEO on 12th March 2015.

Structurally, the Bank also made some significant changes in its back-office functions. Our Compliance division was detached from the Risk Management Division and set up as an independent department. The Card Centre and E-Banking Unit too was transferred from the purview of the IT Division to the Branch Management Division and Asset Management Division respectively. The Bank also restructured the back-office operations of the Asset Management Division (AMD), Credit Division, Corporate Credit Division and the International Business Unit (IBU) under the Finance & Planning Division. At the same time, the Treasury function of both Asset Management and IBU was entrusted to the restructured Asset Management Division and their middle office functions were brought under the purview of the Risk Management Division. Finally, the credit risk management function that had been carried out by the Credit division and Corporate Credit Divisions were also transferred to the Risk Management Division.

### Scale of Operations →

At the end of 2014, the Sri Lankan banking industry included 25 licensed commercial banks and 9 licensed specialised banks, with 34 players in total (2013: 33 banks). In terms of market share, the Bank accounted for 5.5% of Loans and Receivables, a 11.5% share of customer deposits and a 11.1% share of total assets.

The gross income of the Bank increased by 19% during the FY 2014 to Rs. 77,890 Million, with profit before tax increased by 360% to Rs. 10,472 Million, mainly as a result of increase in net interest margin. Total assets of the Bank grew by 19% to Rs. 779,466 Million during the year.

The number of deposit accounts has increased steadily at around 2.5% p.a. over the past three years and reached 18.35 Million by end 2014.

The Bank's staff strength averaged 3,159 persons over the past three years, with year 2014 ending with a total of 3,358 employees, of which 89% were in the permanent cadre.

### ***International Economic Environment*** →

The global economy grew by just 3.3% in 2014, according to the IMF's World Economic Outlook Update for January 2015. A modest increase in global growth to reach 3.8% in 2015 is expected, while a stronger growth performance is anticipated in some advanced economies and emerging economies. Nevertheless, geopolitical uncertainties, threat of deflation, increased volatility in financial markets, high debt levels and high unemployment in certain regions and countries continue to threaten a full recovery in global economic activity.

Emerging market and developing economies grew at 4.4% in 2014. Many emerging markets and developing economies are in the process of adjusting to tighter global financial conditions. Domestic demand in China moderated more than expected, topping 7.4%. In India, the post-election investor optimism helped the country end the year with a 5.6% growth. Meanwhile, geopolitical uncertainties clouded the economic outlook of the Middle East, Russia and the Commonwealth of Independent States. Global inflation is expected to remain low in 2014-15 with excess capacity in advanced economies, weaker domestic demand in several emerging markets and subdued commodity prices. The US Federal Reserve continued the gradual tapering of its Quantitative Easing (QE) programme as signs of economic recovery became stronger, but the European Central Bank (ECB) moved in a different direction due to deflationary fears. These 'asynchronous' monetary policy adjustments in advanced economies have resulted in increased volatility in global financial markets, including steep swings in exchange rates between mature economies as well as with and among the developing economies. Capital flows to most of the emerging economies declined sharply in the first half of 2014, mainly due to concerns about the recovery of Euro zone economies, intensified geopolitical tensions in emerging economies and the gradual unwinding of monetary stimulus in the US.

The drop in oil prices that started in mid 2014 would have normally spurred economic growth, but many international organisations expect the impact of the prevailing low oil prices to be modest due to a variety of offsetting factors in both oil producing as well as importing countries, such as unfavourable economic environments, high unemployment levels, political uncertainties, tightened monetary and fiscal policies, poor consumer spending and a lingering hangover from the global economic crisis in 2008.

### ***Local Economic Environment*** →

The Sri Lankan economy has grown by 7.4% in the year 2014, reflecting increased domestic economic activity and rising external demand. The positive macroeconomic policy environment contributed to the strengthening of the growth momentum while global economic conditions continued to improve, particularly in export destinations, which supported domestic economic activity. While all three sectors contributed to the growth, the contribution of the Agricultural sector was moderate due to adverse weather conditions. The Industrial sector made the highest contribution followed by the Services sector.

Well-managed demand pressures, favourable inflation expectations and supply side improvements kept consumer price inflation below 5 percent on a year-on-year basis during the year. In the context of low inflation and a benign inflation outlook, the Central Bank maintained a relatively easier monetary policy stance to provide further stimulus to economic activity and reduced the Standing Lending Facility Rate (SLFR) by 50 basis points in January 2014. Nevertheless, the reliance of the private sector on bank credit to finance economic activity moderated as the availability of other domestic and foreign sources of financing grew. In this context, the Central Bank rationalised access to the Standing Deposit Facility with effect from 23rd September 2014, to urge commercial banks to pursue credit disbursements more actively at reasonable interest rates.

Public investment reached 6.8% of GDP with continued Government investment in Infrastructure projects. The unemployment rate declined to 4.3% during the year 2014 from 4.4% in 2013. Domestic savings increased to 21.1% of GDP in 2014 from 20% in 2013, while gross investment reached 29.7% of GDP in 2014, up from 29.5% recorded in the previous year. National savings also increased to 27% of GDP from 25.8% in 2013 with increased workers' remittances.

Earnings from exports during 2014 rose 7% to USD 11,130 Million, driven largely by a rise in textile and garments, tea and coconut exports. Exports recorded healthy growth while imports decelerated, resulting in a lower trade deficit. Continued inflows to the private and public sectors further strengthened the financial account of the Balance of Payments (BOP). Reflecting these developments, the BOP recorded a surplus of USD 1,369 Million by end 2014 and gross official reserves reached a historically high level of USD 8.2 Billion at end of 2014.

The external current account deficit also contracted to USD 523 Million during the year 2014 compared to deficit of USD 2,541 Million in 2013. A substantial increase in earnings from export of goods and also the export of services such as tourism, port and airport related services and computer and information services, together with an increase in workers' remittances, helped reduce the external current account deficit. Workers' remittances, which account for a greater share of the secondary income account, grew by 9.5% to USD 7,018 Million for the year 2014. The increase in skilled and professional labour migrants as well as increased awareness on remitting money through formal channels has contributed to the significant growth in workers' remittances.

Meanwhile, net inflows to the Colombo Stock Exchange (CSE) included USD 43.7 Million to the secondary market and USD 4.4 Million to the primary market, while the proceeds

of the International Sovereign Bond issues amounting to USD 1.5 Billion and foreign investments in Treasury Bills and Treasury Bonds at USD 196 Million also contributed to the improvement of the financial account during the period. Improved trade balance, other inflows to the current account and enhanced inflows to the financial account contributed to this significant improvement in the BOP.

The Sri Lankan Rupee remained stable against the USD during the first nine months of the year, appreciating marginally by 0.3%. Continued inflow of foreign exchange by way of current, capital and financial flows helped maintain the stability of the Rupee during this period. Reflecting the cross currency exchange rate movements, the Sri Lankan Rupee appreciated against the Japanese Yen by 13.5%, the Pound Sterling by 5.6% the Euro by 13.2% and the Indian Rupee by 2.1%, while depreciating against the USD by 0.23% by end 2014.

### ***Financial Services Sector*** →

In 2014, several adjustments were introduced by the Central Bank to streamline the policy interest rate corridor. Accordingly, the Central Bank established a Standing Rate Corridor (SRC) in place of the policy rate corridor while introducing Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) that replaced, respectively, the Repurchase rate and the Reverse Repurchase rate.

Further, in consideration of the Central Bank's zero credit risk in Rupee transactions, the Standing Deposit Facility (SDF) was uncollateralised from February 2014, while all other Open Market Operation (OMO) transactions continued to remain collateral based.

Reflecting on the Central Bank's desire to curtail the volatility of interest rates in the short-term money market further, on 2nd January 2014, the Standing Rate Corridor was compressed to 150 basis points from 200 basis points by reducing the SLFR by 50 basis points. Since then, the SDFR and the SLFR have remained at 6.50% and 8.00%, respectively. In addition to these measures, considering the improvements in the external sector, the Central Bank decided to remove the minimum cash margin requirement of 100% against Letters of Credit opened with commercial banks for the import of certain categories of motor vehicles, imposed on 30th August 2013, with effect from 2nd January 2014.

To encourage Banks to lend more actively to the private sector, access to the SDF was rationalised as a temporary measure with effect from 23rd September 2014. Accordingly, OMO participants including commercial banks would earn a lower rate of 5 percent if they access the SDF of the Central Bank more than 3 times per calendar month.

Net Credit Growth (NCG) of commercial banks amounted to Rs. 231 Billion, which was mainly a result of banks investing surplus funds in Government Securities. Eased access to foreign financial markets and improved domestic corporate debt and equity markets as well as the impact of lower gold prices, which affected the pawning portfolio of the banking sector, were reflected in the moderation of the growth of credit extended to the private sector by commercial banks in 2014. Accordingly, the year-on-year growth of credit extended to the private sector decelerated to 2.6% up to November 2014 from 7.5% at end 2013.

Reflecting monetary policy easing, market interest rates fell further in the first nine months of 2014. The Average Weighted Call Money Rate (AWCMR), which moved towards the lower bound of the SRC during the year due to high levels of Rupee liquidity in the market, declined further with the announcement of rationalising access to the SDF of the Central Bank. Yield rates on Government Securities

too declined significantly during the year 2014 to reach historically low levels. The Average Weighted Deposit Rate (AWDR) declined to 6.20% by end December 2014 from 9.37% at end 2013. The Average Weighted Fixed Deposit Rate (AWFDR) also declined to 7.13% by end December 2014 compared to 11.78% at end 2013. Commercial banks' lending rates also continued to adjust downwards along with other market interest rates during the period under review with some rigidity in rates applicable on longer term advances being observed in the early part of the year. The weekly Average Weighted Prime Lending Rate (AWPR) declined significantly by 387 basis points to a historically low level of 6.26% by end December 2014 from 10.13% at end December 2013.

Although this is good macroeconomic news, some of these numbers represent a mixed blessing for the banking sector. The Interest margin of the banking sector held steady at 6.00% during the first 10-months period of the year but started to decline from the beginning of November. The spread between the Average Weighted Prime Lending Rate and Average Weighted Fixed Deposit Rate also fell.

However, low levels of inflation led the Real Interest Rate (as measured by the difference between the 12-month Gross T-bill rate and Inflation) to grow.

The overall soundness of the sector improved, as most institutions enhanced their reserves and compliance functions in order to meet the Central Bank's new requirements for adequate capital and liquidity levels and an enhanced regulatory and risk management framework. The deceleration of credit growth however, impacted on the profitability of financial institutions. Domestic money market as well as the domestic foreign exchange market remained substantially liquid.

The stability of the financial system was maintained while the sector expanded. The process of financial sector consolidation, aimed at strengthening financial institutions further, completed six transactions by end of the year and 22 mergers/acquisitions are being finalised. Domestic financial markets remained liquid and the stock market and the corporate debt market gathered further momentum. The price indices of the CSE improved during the year and the market capitalisation reached a record Rs. 3 Trillion by end December 2014. The corporate debt securities market too continued to improve, mainly in response to new Government tax incentives.

The Treasury Bill Weighted Average (net) rates for 3, 6 and 12-months were 7.42%, 7.53% and 7.95% respectively at the beginning of the year. The Treasury Bill rates were 5.74%, 5.84% and 6.01% for 3, 6 and 12-months respectively at the end of the year. Accordingly, the 3, 6 and 12-month Treasury Bill rates declined by 168 basis points, 169 basis points and 194 basis points respectively, during the year. Primary and secondary market yields for Treasury Bonds declined during the year across all maturities. It is interesting to note that the long-term yield of the Treasury Bonds have come down significantly compared to the short-term yield, an indication that investors are becoming more concerned about long-term economic prospects.

### **Prospects for 2015** →

The Sri Lankan economy is projected to grow at a rate of around 8% in 2015, with all sectors contributing to this growth. Private and public sector investments to strengthen the traditional sectors as well as new emerging sectors are expected to raise the growth potential of the economy. Improving physical and social infrastructure is likely to enhance productivity of the economy further, resulting in sustainable and inclusive growth. Inflation is expected to remain below 5% in the medium-term. The recent decline in domestic energy prices should dampen inflation in the period ahead. Forward-looking monetary policy measures are expected to be implemented to maintain inflation at a level below 5%.

## Our Purpose →

The core mission of NSB is to provide customers with total financial solutions that optimally meet their savings and investment needs, whilst meeting the expectations of all other key stakeholders as well. It's about actively participating with accountability, in the positive growth of economic, social and environmental capitals of the individuals and communities we work with, leading to the greater good of the nation and her people.

This calls for balancing the diverse expectations of the Bank's stakeholders. We achieve this through stakeholder identification, engagement and mapping, which in turn lead to prioritisation, goal setting and strategising. It is a business model that recognises the two sides of value creation we discussed earlier (page 9).

## Our Strategic Priorities →

Our primary goal is to maintain our position as steward of the country's savings. Over the next several years, we will diligently work on the following four interconnected priorities that will help us achieve this overarching goal:

### • **Customer Satisfaction**

The success of the Bank is heavily dependent upon constant interaction with the customer in order to identify specific needs, to measure the delivery of these requirements and to monitor the responses received from customers. Therefore, we intend to develop and implement a Customer Service Index (CSI) to help track customer satisfaction levels and discern areas of significant improvement needed or shortcomings.

### • **Information and Communication Technology (ICT) Development**

Future banking and financial services will be heavily dependent on ICT and customers would be rapidly moving towards a virtual banking regime as opposed to the traditional model of banking and finance. In line with

current trends and to meet the needs of the customer of the future, NSB plans to institutionalise a complete banking software solution during the next three to four years.

### • **Treasury Management**

The NSB treasury will be strengthened with enhanced systems processes, skills and competencies with optimal balance sheet management.

### • **Human Resource Development**

It is essential that NSB recruit, train, develop and retain young, professional, experienced personnel to achieve our goals. Therefore, in order to have sustainable growth, we will focus on (a) improving skills, capacities and the competencies of employees; (b) filling all vacant positions and ensuring that all branches have adequate staff; and (c) implementing effective performance evaluation, whilst linking performance to rewards. These will be addressed through an effective Human Resource Development (HRD) Plan.

## Our Goals →

Based on the strategic direction, with due regard to the current and projected operating environment and backed by a set of solid strategies, we have developed several important goals that we plan to achieve over the next several years. These goals relate to business volumes and their growth rates, related market shares, balance sheet structure, profitability, stability and the underlying resource requirements. Being quantifiable goals, they will provide clarity and help us move in the right direction.

1. *Maintain a market share of 12% in deposits.*
2. *Become a Rs. 1 Trillion Bank by 2016.*
3. *Maintain an annual growth in retail credit portfolio at 19%.*
4. *Maximise the return to have 1.73% ROA.*
5. *Maintain a minimum CAR of 15%.*

We have identified our key stakeholders on the basis of those who may be significantly affected by the Bank’s decisions and activities and those whose actions affect the Bank’s ability to create value in the short, medium and long term. Accordingly, the key stakeholders with whom we engage quite frequently are –

- Shareholder
- Customers
- Employees
- Suppliers
- Regulators and Government Institutions
- Society and Environment

### **Stakeholder Engagement** →

Engagement with stakeholders is both programmed as well as ad hoc. Often it is a combination of both and based on statutory as well as business interests.

Stakeholder	Mode of engagement	Frequency of engagement	Topics discussed	Method of response
<b>Shareholder</b> — <i>(Government of Sri Lanka, represented by the Ministry of Finance)</i>	Submission of the Annual Report to the Ministry and Parliament	Annually	Annual results and financial position	Submission of reports by due days
	Annual Budget	Annually	Contribution towards the Consolidated Fund	Contribution to the Consolidated Fund
	Annual Action Plan	Annually	Ensuring compliance in regulatory reporting	Establishment of controls and procedures
	Strategic Business Plan	Once in three years	Ensuring maintenance of Statutory Ratios (Capital Adequacy, Liquid Assets etc.)	Maintaining transparency and accountability
	Management Letter	Annually	Assuring feasibility on network expansion	Approval for procurement decisions
	Media Statements	As & when required	Plans to launch new products and re-launch existing products.	
	Publications	As & when required	Strategies to maintain low NPLs	
	Interim Financial Statements	Quarterly	Ensuring compliance with laws and regulations	
	Periodic updates	As and when required	Market position	
	Corporate website	Periodically	Target achievements	
	Appointment of members to the Board	When there is a change in the Board	Purchase of goods and services	
	Participating in the Procurement Committee meetings	Twice a month		
	Procurement Plan	Quarterly		

Stakeholder	Mode of engagement	Frequency of engagement	Topics discussed	Method of response
<b>Customers</b> —	Customer access points	As and when required	Interest rates and features of products and services	Introducing more features to products
	<i>Ithurum Ayojana Kawa</i>	As and when required	New products and services introduced	Connecting advance technological features to products
	School banking units	As and when required	Accessibility to relevant and reliable banking information	Marketing campaigns
	Call centre	As and when required	Awareness on promotional activities	Direct promotional campaigns
	Surveys on customer satisfaction	As and when required by the customer	Satisfaction on rendered service	Enhancing customers access points
	Corporate events	Periodically	Future expectations of customers	Customer surveys
	Corporate website	Occasionally	Loan disbursement/loan recovery	Opening and re-location of branches.
	Customer awareness programmes	As and when required	The Bank and products/ services offered	Enhancing customer satisfaction
	CSR activities	As and when required	Change in customer characteristics and market trends	
Promotional campaigns	As and when required			

Stakeholder	Mode of engagement	Frequency of engagement	Topics discussed	Method of response
<b>Employees</b> — <i>(Including employee unions and executive associations)</i>	Managers' conference	Quarterly	Remuneration	Improvements to performance evaluation system
	Regional review meetings	Quarterly/monthly/weekly	Performance bonus	Granting promotions
	Performance appraisals	Annually	Welfare activities towards staff	Granting transfers
	Transfer Board	Quarterly	BASEL III implementation	Handling grievances
	Internal News Letter	Quarterly	Future plans and strategic plan implementation	Providing training and development opportunities
	Special announcements through public address system	As and when required	Defined benefit and contribution plans	Annual salary increments
	Circulars published in intranet	Continuous	Training and other facilities to improve skills and competencies of employees	Special appreciations
	Training programmes	As per training plan	Disciplinary actions	Disciplinary actions
	Ad hoc meetings	As and when required	Special appraisals	Changes to process to motivate employees/enhance performance
	Planning and setting targets	As and when required	Bank's processes, procedures and staff grievances	Appointment of employee mentors
	Operational Committee meetings	As and when required	Implementation of collective agreement on salary and non-salary benefits	Signing collective agreement
	Operation of welfare activities and sports club	As and when required		
	Negotiations on collective agreements	Once in 3 years		

Stakeholder	Mode of engagement	Frequency of engagement	Topics discussed	Method of response
<b>Suppliers</b> —	Procurement Plan	Annual	Bank's requirement	Calling quotations
	Procurement activities	As & when required	Registration of suppliers	Signing agreements to supply goods and services
	Meetings with suppliers	As & when required	Procurement opportunities	Payments on contractual obligations
	Site inspections	As & when required	Delivery of contractual obligations	Short listing suppliers
	Product demonstrations	As & when required	After sales maintenance service arrangements	Awarding contracts
	Tender notices	As & when required	Warranty arrangements	Renewal of license
	Publication of information/notices	As & when required	Product quality defects Price negotiations	
<b>Regulators and Government Institutions</b> — Central Bank of Sri Lanka Department of Inland Revenue Auditor General's Department Other Government Organisations Professional organisations and business community	Directions and circulars	As and when issued	Performance of the Bank	Periodic returns
	Interim Financial Statements	Quarterly	Regulations and directives for Specialised Licensed Banks issued by the CBSL	Responses and actions on supervisory concerns
	Statutory Examination	Annually	Matters relevant to audit	Replies to audit queries
	Periodic returns to regulatory bodies	Periodically	Compliance with tax regulations issued by IRD	Payment of taxes and other statutory payments
	Interviews and meetings	As & when required	Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards issued by the ICASL	Responses and suggestions on industrial and professional concerns
	Specialists' opinion	As & when required	Banking license fee	
	Participation in competitions	As & when required	Labour regulations Marketing and promotional Campaigns Awards and accolades Approval to open new branches Relevant laws and regulations	
Annual Report	Annually			

Stakeholder	Mode of engagement	Frequency of engagement	Topics discussed	Method of response
<b>Society and Environment</b>	Media Campaigns	As & when required	Launch and re-launch of Products and services	CSR activities
	CSR Projects		Scholarships granted by the Bank	Responses to inquiries
	Sponsorships		Social Responsibility activities carried out by the Bank	Recruitments
	Press releases		Employment opportunities	Opening branches and installing ATMs
	Public relation activities			Introduction of products with special features
	Special events			School banking units and <i>Ithurum Ayojana Kawa</i>
	Delivery channels			
	Recruitments			
	Corporate website			
	Call Centre			
Funding Government infrastructure projects				

In addition, the Bank holds memberships in the following organisations through which it engages with industry participants and the wider public.

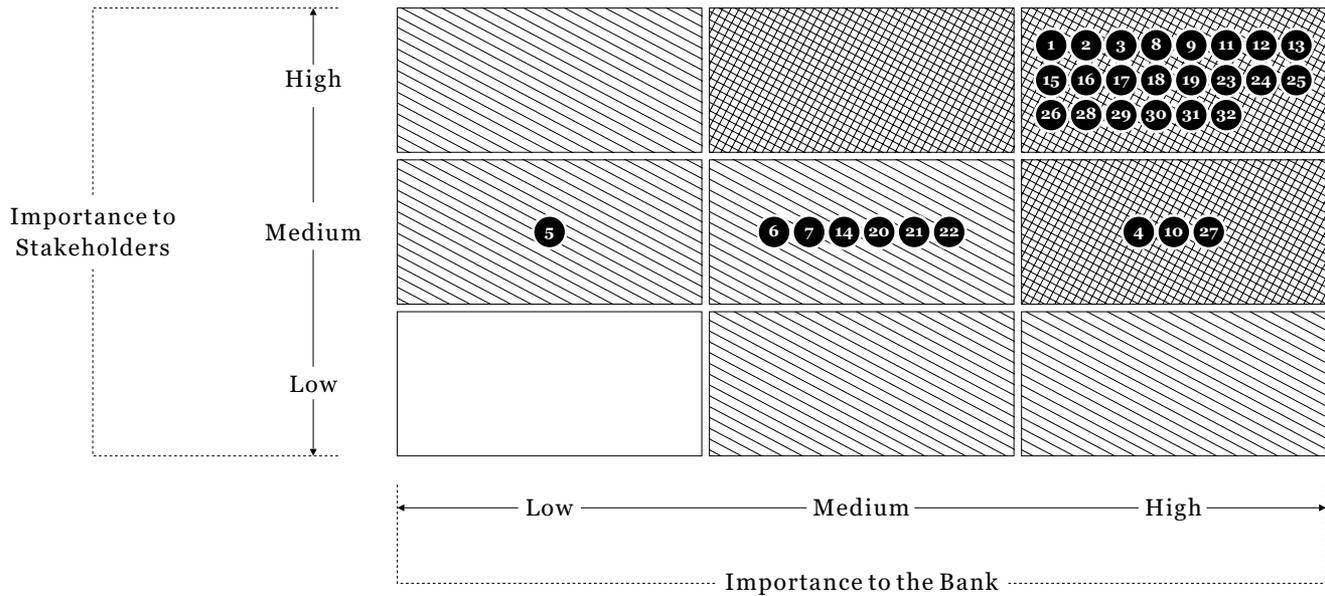
- The National Chamber of Commerce of Sri Lanka
- Society for Worldwide Interbank Financial Telecommunication (SWIFT)
- Eurogiro Global Payments community
- LankaClear (Pvt) Ltd.
- The Sri Lanka SWIFT User Group
- The World Savings Banks Institute
- Association of Compliance Officers of Banks, Sri Lanka
- Association of Banking Sector Risk Professionals, Sri Lanka
- Employers' Federation of Sri Lanka
- Institute of Bankers of Sri Lanka (IBSL)
- Association of Professional Bankers of Sri Lanka

Through an extensive mapping process involving Bank executives, employees and key stakeholders, we developed a list of what we consider to be the 50 most important aspects of materiality and value creation of our business.

Aspects	Significance in terms of Bank's sustainability context	Internal	Customers	Communities	Suppliers	Regulators	To the Bank	To the stakeholders	Report
<b>Economic</b>									
1	Economic performance	H	⊗				H	H	Yes
2	Market presence	H	⊗				H	H	Yes
3	Indirect economic impact	H		⊗			H	H	Yes
<b>Environmental</b>									
4	Energy	M	⊗				H	M	Yes
5	Emissions	L					L	M	No
6	Effluents and waste	M	⊗				M	M	No
7	Products and services	M		⊗			M	M	No
<b>Social: Labour Practice and Decent Work</b>									
8	Employment	H	⊗			⊗	H	H	Yes
9	Labour/management relations	H	⊗	⊗			H	H	Yes
10	Occupational health and safety	M	⊗				H	M	Yes
11	Training and education	H	⊗			⊗	H	H	Yes
12	Diversity and equal opportunity	H	⊗		⊗		H	H	Yes
13	Equal remuneration for women and men	H	⊗		⊗		H	H	Yes
14	Supplier assessment for labour practices	M				⊗	M	M	Yes
15	Labour practices grievance mechanisms	H	⊗				H	H	Yes

Aspects	Significance in terms of Bank's sustainability context	Internal	Customers	Communities	Suppliers	Regulators	To the Bank	To the stakeholders	Report
<b>Social: Human Rights</b>									
16	Non-discrimination	H	⊗		⊗		H	H	Yes
17	Freedom of association and collective bargaining	H	⊗				H	H	Yes
18	Child labour	H	⊗		⊗		H	H	Yes
19	Forced or compulsory labour	H	⊗		⊗		H	H	Yes
20	Security practices	M	⊗				M	M	No
21	Assessment	M	⊗				M	M	No
22	Supplier human rights assessment	M			⊗		M	M	No
23	Human right grievance mechanism	H	⊗				H	H	Yes
<b>Social: Society</b>									
24	Local communities	H		⊗	⊗		H	H	Yes
25	Anti-corruption	H	⊗				H	H	Yes
26	Compliance	H	⊗			⊗	H	H	Yes
27	Supplier assessment for impact on society	M			⊗		H	M	Yes

Aspects	Significance in terms of Bank's sustainability context	Internal	Customers	Communities	Suppliers	Regulators	To the Bank	To the stakeholders	Report
<b>Social: Product Responsibility</b>									
28	Product and service labelling	H	⊗	⊗			H	H	Yes
29	Marketing communication	H	⊗	⊗			H	H	Yes
30	Customer privacy	H	⊗	⊗			H	H	Yes
31	Compliance	H	⊗			⊗	H	H	Yes
<b>Other Topics</b>									
32	Bank's CSR activities	H					H	H	Yes



The economic, social and environmental implications of business are increasingly becoming more important than ever. In a world where the population is growing, natural resources are depleting faster than their regenerative capacity and stakeholder expectations are fast changing.

Our management approach outlines how NSB's economic, social and environmental impacts are managed. Accordingly, we will first identify aspects that are material to NSB and its stakeholders.

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

On the basis of an aspect meeting any one of the following criteria, it was identified to be material to the Bank.

1. Top 32 most important internal and external stakeholder expectations and concerns (ascertained from various means of engagement, primarily correspondence)
2. Whether an aspect is a risk to the Bank or whether it creates value
3. Aspects contained in the GRI G4 Guidelines

Accordingly, the following aspects have been identified to be material in the spheres of economic, social and environmental.

### ***Material Economic Aspects*** →

Since economic prosperity is a sine qua non for the Bank to be able to contribute to the social and environmental prosperity and well-being of the Nation, the Bank attaches due prominence to its economic performance. Goals - both financial and non-financial - have been set in the Corporate Business Plan and related budgets.

The Bank continued to grow organically by consistently expanding its market position in terms of reach and enhancing its value proposition in terms of products and services, benchmarked service standards and streamlined internal processes. Being a national bank, island-wide presence contributes immensely to our success. Wherever possible and practical, we prefer local hires since it improves the diversity within the NSB team and provides fresh insights on local needs that may also be replicable elsewhere.

NSB pays due attention to the needs of the under-served populations in rural areas and in the North and the Eastern Provinces, for accessible and affordable services, while effectively managing its reach and products and services portfolio. Our branch network stood at 236 as at the end of the year, most of which have been opened in the rural areas where fewer facilities for savings and investment were available for people. This has helped rescue people in these areas from being ensnared by informal financial services. All branches now have Automated Teller Machines (ATM) providing 24-hours accessibility to banking services. In addition, there are 22 off-site ATMs, making a total of 260 ATMs in the island-wide network. POS mobilisation too continued to grow as the devices in the field grew in parallel with the expansion of the branch network. POS banking has proved to be an immense success in providing banking solutions to encourage the savings habit at schools, weekly and weekend fairs and factories.

The Bank is very close to peoples' hearts and in fact, it is an undeniable truth that the vast majority of Sri Lankans have learnt the basics of savings from NSB. Going beyond the promotion of domestic savings and taking into account the immense contribution Sri Lankan migrant workers make towards the Gross Domestic Production, the Bank is determined to enhance its capabilities and focus on inward remittances and NRFC and RFC deposit mobilisation, thus supporting Sri Lankan expatriates. As a trusted and responsible state-owned Bank, NSB is proud to play the role of guardian of their remittances. The Bank has relationships with

prominent, established exchange houses around the world. In total, we are involved with 37 organisations, including MoneyGram International and the Eurogiro fraternity.

We continued to contribute towards the strengthening of the national framework by ensuring the availability of funds for development initiatives, primarily infrastructure projects. In addition, loans through the Paddy Marketing Board to farmers amounted to Rs. 1,000 Million for agricultural purposes as at 31st December 2014. More than 90% of the Bank's Investment portfolio represents investments in Government Securities.

Beyond the value created for ourselves and the significant contribution to the Government coffers by way of Income Tax, indirect taxes, Special fees to Treasury and contributions to the Consolidated Fund in the form of dividends, our market presence impacts the local communities in many a way - including job creation, support extended to those in the supply chain, development of skills and knowledge and assistance in attracting other investors.

The Bank has taken measures to keep abreast with technological advancement that has bearing and influence on the financial services industry. Our Internet Banking and SMS Banking facilities added contemporary convenience for people able or wishing to manage their banking transactions on the move or at home. We have also introduced bill payment facilities, building one-stop-shop convenience through our network. We are connected to major utility suppliers, telecom providers and major insurance companies. The internet banking facilitated fund transfers to most of the Banks in the country.

We continue to conduct research on products and services offered by the Bank to re-design them in order to maximise customer convenience and satisfaction.

### ***Material Environmental Aspects*** →

As Elon Musk, the CEO of Tesla Motors said recently, 'we are all in the same ship and the ship is sinking'. He was of course referring to a world where natural resources were fast depleting and as stakeholders of the world, we would all perish with the world unless we acted together, fast.

As a service-oriented organisation and with minimal use of physical input materials, the Bank's operations do not have a material direct impact on the environment in terms of intensive resource utilisation, emissions or generation of hazardous waste. However, being a responsible public entity, the Bank strives to inculcate a culture of responsibility amongst its employees to encourage them to take personal responsibility for the effective and efficient use of materials and energy.

We only use promotional materials most of them are in biodegradable form. Non-biodegradable materials like polythene are not used as promotional materials. The Bank is quite conscious of the use of printing of paper and resulting wastage and their environmental impacts. Waste papers are collected and handed over to the Paper Corporation for recycling. The Bank uses teleconferencing and telecommunicating and conducts online training whenever possible and is developing more energy efficient office spaces. Plans have been drawn to switch to alternative fuel sources, reducing waste and recycling & reusing materials.

The Bank maintains attractive surroundings in branch premises by planting trees and maintaining natural landscaping. Special attention is given to avoid distractions to natural environmental cycles, such as felling of trees, when constructing branches. The Bank obtains legal clearance from local authorities for constructions of housing before granting loans.

***Material Social Aspects*** →***Labour Practices and Decent Work*** →

In its adherence to labour laws applicable to its operations, NSB looks well beyond meeting minimum standards in its HR protocols. This true for all relevant activity - recruitment, training and retaining the best talent as well as giving them a work environment that is consistent with our corporate values and business goals.

The Bank's HR Policy provides the Bank employees with guidelines pertaining to our culture, work ethics, acceptable/unacceptable behaviour, norms and standard procedures of the Bank, ensuring operational efficiency and addressing our HR mission. Thus the Bank invites them to be stakeholders in achieving the institution's strategic objectives.

Our HR Vision is to build a work force focused on individual and business needs to achieve organisational excellence and a sustainable competitive advantage. The HR mission proactively supports NSB's business strategy through a relentless focus on organisational excellence, providing and retaining the right people at the right place to meet the needs of the organisation.

The general objectives of the Bank's HR approach are as follows:

- a. To comply with rules and regulations and guidelines of the regulatory bodies;
- b. To develop the Bank to achieve a competitive edge in the banking industry;
- c. To ensure effective utilisation and maximum development of human resources while aligning the individual goals of the employees with the Bank's strategic objectives;
- d. To achieve and maintain a high morale amongst employees and to improve their working conditions and job satisfaction;
- e. To be ethically and socially responsive to the needs of the society.

NSB hires staff with the right attitude and professional skills to enable them to develop a long-term relationship with the Bank. Every new recruit is considered a member of the NSB team and a partner in achieving its overall goals.

In order to promote the Bank's business needs and long-term goals and to develop the capacity of all our employees, we also invest in the training and development of our people. We are a major Sri Lankan employer and we have displayed by example our commitment to equal opportunity in the workplace, self-improvement and provision of meaningful careers.

NSB as a Government entity is responsible for complying with the ILO conventions that are ratified by Sri Lanka. The Bank complies with the International Labour Standards in relation to avoidance of forced labour, providing for freedom of association and the right to organise, collective bargaining, equal remuneration, non-discrimination in employment, adherence to minimum age limits for employment and hours of work, maternity protection, workmen compensation among others and has enshrined such rights and privileges within its policies and procedures.

In balancing such factors as work priorities and exigencies and an evolving social order where the new generation, with their 'connected' lifestyles demanding more flexibility, the Bank encourages all staff to embrace a healthy work-life balance. This is an area that the Bank needs to actively work on with a view to readying itself to meet the needs of the 'future worker'.

***Human Rights*** →

NSB is an equal opportunity employer. Recruitment, hiring, compensation, benefits, transfers, training and development, educational assistance, recreational programmes and promotion of individuals in all job positions are offered without bias in areas such as race, colour, religion, national origin, age, gender, physical disability, except where a bona fide occupational qualification exists.

An individual's disability will not in any way preclude him from being hired, promoted, compensated or trained, if the individual concerned is qualified for the job. The Bank also accommodates employees' religious beliefs and needs in its hiring and employment practices.

The Bank is committed to provide a work and learning environment free of any form of harassment. NSB considers harassment in all forms to be a serious offence and has taken measures to prevent any such incident within its premises involving staff as well as visitors in whatever capacity.

The Bank is committed to provide a safe and healthy work place for all employees. Management and all employees working in the Bank share the responsibility for the success of the safety and health procedures at their respective Branches/Divisions.

NSB upholds the freedom of association of its staff.

### **Society** →

As a Bank that touches the lives of almost all Sri Lankans in some way or the other, we recognise community engagement as a business imperative and the cornerstone of sustainability of our operations. We attempt to make a difference in the lives of the communities we touch.

We operate a countrywide network of delivery channels comprising branches, ATMs, Post Offices, Sub-post offices and School Banking units that reach both urban and rural parts of Sri Lanka. NSB has a wide range of corporate social responsibility initiatives that aims to continuously engage with the local community and strengthen the role of the Bank as a socially responsible corporate entity. We firmly believe that the highest level of community buy-in and acceptance is vital for our sustainability.

The Bank's specific focus areas of social responsibility include education. A necessary and effective internal control mechanism has been established to prevent bribery and corruption in the Bank's operations. Our Risk Management function too has been strengthened covering all major categories of risks in order to minimise the risk of bribery, corruption and frauds. Liaison officers have been appointed in all branches and divisions who report directly to the Head of Risk and Compliance Officer for their respective activities only in respect of Risk and Compliance.

We offer a wide range of products and services that cater to the needs of customers ranging from infants to senior citizens. In this regard, *Ithurum Ayojana Kawa* savings scheme warrants special mention since it is a product that is targeted at the low income segment, where there is potential for savings but reluctant to transact with formal banking sector.

### **Product Responsibility** →

With the advancement of Information and Communication Technology and the consequent ease of availability of information, consumers have become highly 'literate' and prefer to make informed decisions when it comes to purchase of products and services. The growing popularity and influence of social media and public interest groups have opened up many avenues for dissatisfied customers to air their grievances or seek legal action if product information had been misleading.

A vast majority of customers are not sufficiently financially literate and as such often perceive financial products and services to be complicated. Hence, the Bank takes great care in providing accurate and relevant information in a manner that can be easily understood by even a layman. Our marketing communications guidelines ensure that all applicable laws, directions, codes of conduct and ethical norms are strictly followed in all forms of public communications, including advertising, promotion and sponsorship of products and services.

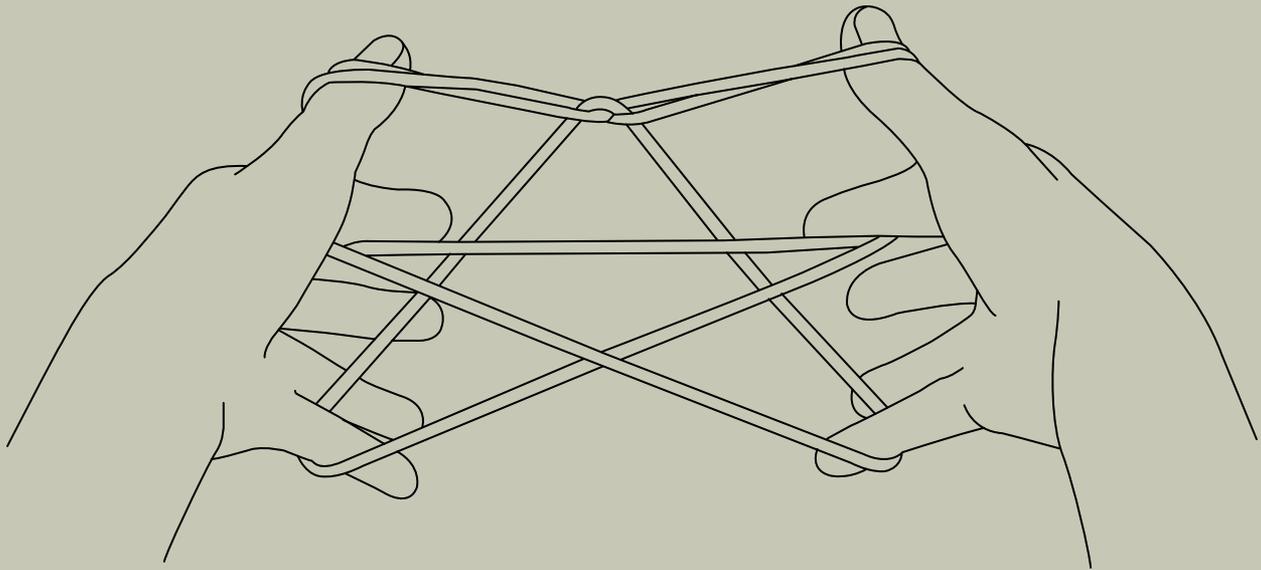
In the absence of issues relating to safety standards and environmental concerns, product responsibility for us entails offer of products and services that provide the maximum possible benefits to the customer whilst the manner and delivery of the offer will not be misleading in anyway. We are also aware of the consequences – financial as well as otherwise – of a breach in customer privacy which can lead to fines, penalties and even to the loss of reputation. Hence, we have given highest priority to customer privacy and maintain secure systems and procedures which include an oath of confidentiality taken by employees.





# *Management Discussion and Analysis*

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## Internal Capital Formation →

### Financial Capital →

The Bank recorded its best-ever performance for the year ended 31st December 2014, regaining its strong market position in the industry. The current year's performance reflected the successful implementation of the business strategies identified in the Bank's 2014-2016 business plan.

A summary of the financial performance for the year 2014 is given below:

	2014 Rs. Million	2013 Rs. Million	Growth Rs. Million	Growth %
Gross Income	77,890	65,573	12,317	18.78
Total operating income	25,178	11,399	13,779	120.88
Impairment provision	3,476	1,380	2,096	151.88
Expenses	9,194	7,116	2,078	29.20
VAT and NBT	2,036	624	1,412	226.28
<b>Profit before tax</b>	<b>10,472</b>	<b>2,278</b>	<b>8,193</b>	<b>359.50</b>
Tax	3,605	1,095	2,510	229.22
<b>Profit after tax</b>	<b>6,867</b>	<b>1,184</b>	<b>5,683</b>	<b>479.98</b>

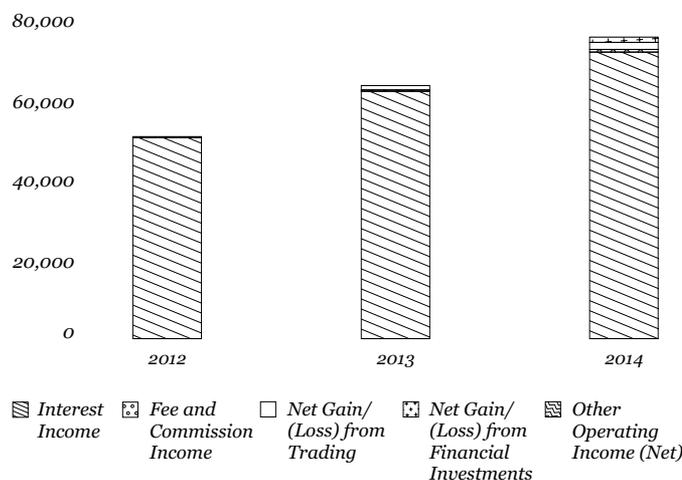
### Income →

The Bank's gross income for the year increased by 19%, from Rs. 65,573 Million for the year 2013 to Rs. 77,890 Million in 2014, details of which are given below:

	2014		2013	
	Rs. Million	Mix (%)	Rs. Million	Mix (%)
Interest Income	74,023	95.03	64,248	97.98
Fee and commission income	356	0.46	228	0.35
Net Gain/loss on trading	1,905	2.45	857	1.31
Net Gain/Loss on financial investments	1,349	1.73	-	-
Other operating income	258	0.33	240	0.37
<b>Total gross income</b>	<b>77,890</b>	<b>100.00</b>	<b>65,573</b>	<b>100.00</b>

### Gross Income and Composition

[Rs. Million]



Interest income represented 95% of the Bank's gross income. Overall, interest income increased by Rs. 9,775 Million or 15% over 2013, as a result of increase of interest income from investments in Government Securities due to investment of significant portion of proceeds from the Bank's International Bond issues in Sri Lanka a Development Bonds and in Treasury Bonds until funds are disbursed to intended projects/SOEs and increase of interest income from loans granted to SOEs.

Fee and commission income also increased by 56% from Rs. 228 Million in 2013 to Rs. 356 Million in 2014, mainly due to introduction of an ATM service fee for customers and also due to increase in service fees on services rendered in foreign currencies. Transaction volumes also rose. However, these gains were partially offset by the increase in fees paid to MasterCard and Visa for debit card transactions.

Trading income doubled in 2014 as several sources of income grew - dividend income; profit on sale of a trading bond of which the prices increased during the year through the decline of interest rates and sale of equity shares. Overall, the fair value of the equity portfolio grew in 2014.

The income for the year included Rs. 1,349 Million of gain on Financial Investments, which represented the realised gain on disposal of Air Lanka investments that was fully impaired as of 31st December 2013. Gains on sale of equity shares held under AFS also contributed to the increase in gains from financial investments.

The total operating income of the Bank for the year increased by Rs. 13,779 Million from Rs. 11,399 Million in 2013 to Rs. 25,178 Million mainly due to the 112% increase of net interest income compared to that in the last year. This was the result of the 15% growth of the Bank's interest income from last year and a 3% decline in interest expenses compared to 2013.

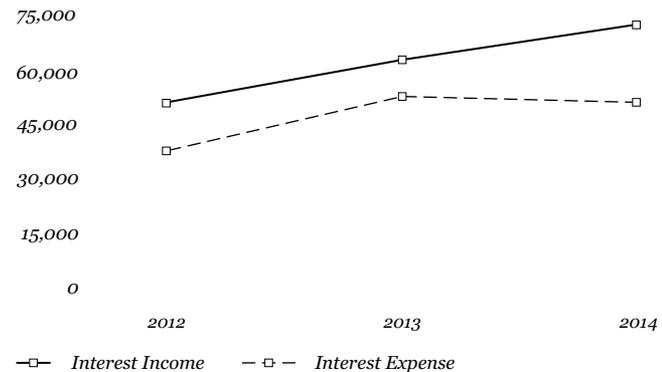
### **Net Interest Income** →

The Bank's main sources of interest income were loans and receivables to other customers and financial investments held-to-maturity. The growth of corporate lending occurred more towards the last quarter of year 2014 while growth in the retail portfolio was dampened by negative growth in pawning advances. Therefore the interest income from loans and receivables to other customers increased marginally by 2.4% from Rs. 21,750 Million in year 2013 to Rs. 22,277 Million in the year 2014. The interest income from financial investments held-to-maturity increased by 25% from Rs. 40,010 Million in the year 2013 to Rs. 49,898 Million in 2014, as explained in the foregoing paragraphs.

In contrast, the interest expenses on Bank borrowings increased by Rs. 6,417 Million compared to the previous year due to the International Bonds issued in September 2013 and September 2014. The interest expenses due to other customers decreased by Rs. 7,916 Million during the year compared to the previous year as a result of reduction in interest rates on customer deposits offsetting the increase in borrowing costs. As a result, the Bank's interest expenses reduced by 3% to Rs. 52,642 Million for the year from Rs. 54,141 Million of year 2013.

### **Interest Income and Interest Expenditure**

[ Rs. Million ]

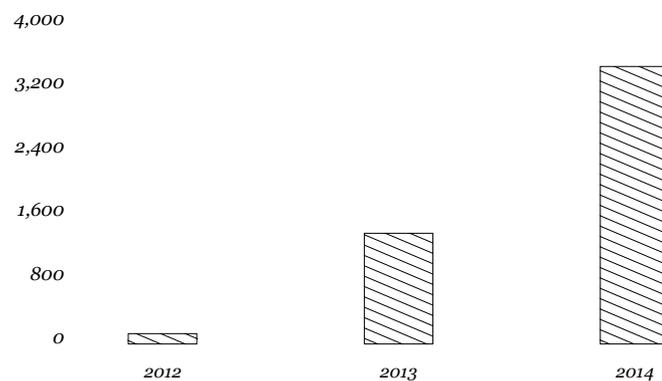


### **Impairment Charge** →

During the year, one of the challenges the Bank faced was the decrease in the market value of gold as all of the collateral value of the Bank's pawning portfolio is in gold jewellery. The falling gold price increased impairment provision by Rs. 2,096 Million. The Bank had to provide Rs. 3,476 Million on impairment of total loans and receivables during the year compared to Rs. 1,380 Million provided last year. Further, the Bank, has waived-off interest on those loans amounting to Rs. 1,444 Million.

### **Impairment Charge**

[ Rs. Million ]



**Operating Expenses** →

Total operating expenses of the Bank increased by 29% to Rs. 9,194 Million in 2014 from Rs. 7,116 Million in 2013. The personnel cost increased with recruitments and the increase in contribution to employee defined benefit plans through actuarial valuation as at 31st December 2014. The main cause of increase in other expenses was the sum of Rs. 1,333 Million of special fee charged to the profit or loss, being the annual charge of a Rs. 8,000 Million special fee paid to General Treasury as a prepayment for six years from 2014 to 2019.

**Taxes** →

Value added taxes and income taxes as percentages of operating profit have decreased from 21.5% to 16% and from 38% to 29% respectively, despite the increase in profit liable to VAT and income tax. This is primarily because the Bank had an unusually high tax bill in 2013, due to a one-off charge of tax arrears in 2011 and 2012.

**Net Profit** →

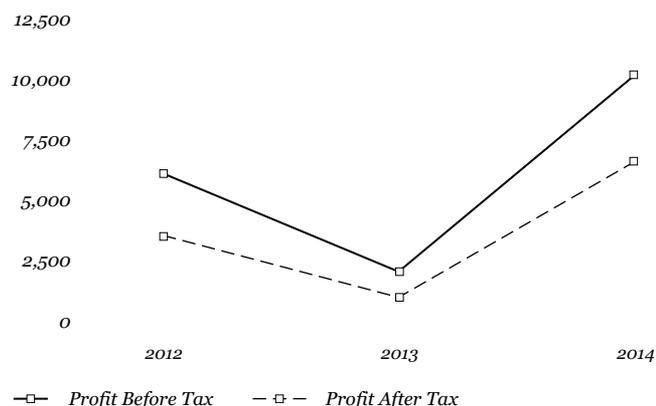
As a result of decrease in interest rates, the Bank earned substantial profits on disposal of financial investments and disposals of trading investments and this helped the Bank record its highest-ever net profit of Rs. 10,472 Million before tax and Rs. 6,867 Million in net profit after tax for the year ended 31st December 2014. The basic earnings per share of the Bank increased to Rs. 21.46 per share for the year compared to Rs. 3.70 per share recorded for the previous year.

**Other Comprehensive Income** →

Further, the Bank had Rs. 1,745 Million of other comprehensive loss (net of taxes) for the year compared to Rs. 284 Million of comprehensive profit (net of taxes) recorded for the previous year. This was the net result of the actuarial valuation of the employee benefits pension plan, net gain/losses on cash flow hedges and the fair value gain on financial assets available-for-sale.

**Profit**

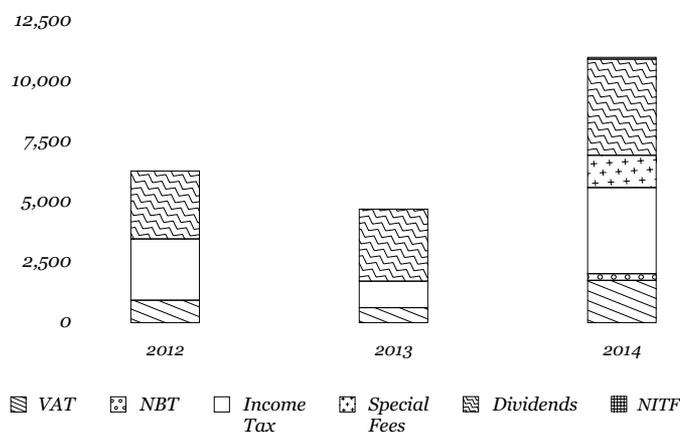
[ Rs. Million ]

**Contribution to the Government** →

Greater profits meant the Bank returned a higher contribution to the General Treasury for the year, amounting to Rs. 1,745 Million of Value Added Tax, Rs. 291 Million of NBT, Rs. 3,606 Million of Income Tax, Special Fee of Rs. 1,333 Million, contribution to National Insurance Trust Fund Rs. 69 Million and Rs. 4,000 Million of dividend for the year ended 31st December 2014.

**Contribution to the Government**

[ Rs. Million ]



**Significant Financial Assistance Received from Government** →

The Bank did not receive financial assistance from the Government.

However, there is a loan scheme for Government employees to purchase property and construct houses at concessionary rates. In the case of these loans, the difference between the existing market interest rate and the concessionary rate is reimbursed to the Bank by the Government on behalf of the beneficiary. This is a facility provided by the Government to Government employees in order to implement their strategies.

In additions the Bank has contributed to the payment of commuted pension fund for retiring Government employees through personal loans. This loan interest is paid by the Government.

**Financial Position** →

As at 31st December 2014, the Bank was much stronger than it had been a year earlier. NSB returned one of its best annual performances ever in terms of deposit mobilisation, cash generation through financial activities and income generation.

	2014 Rs. Million	2013 Rs. Million	Growth %
Total assets	<b>779,466</b>	654,368	19.11
Due to other customers	<b>554,150</b>	502,016	10.39
Borrowings	<b>191,103</b>	120,434	58.68
Other liabilities	<b>10,953</b>	9,700	12.92
Equity and reserves	<b>23,260</b>	22,218	4.69
Total equity and liabilities	<b>779,466</b>	654,368	19.11

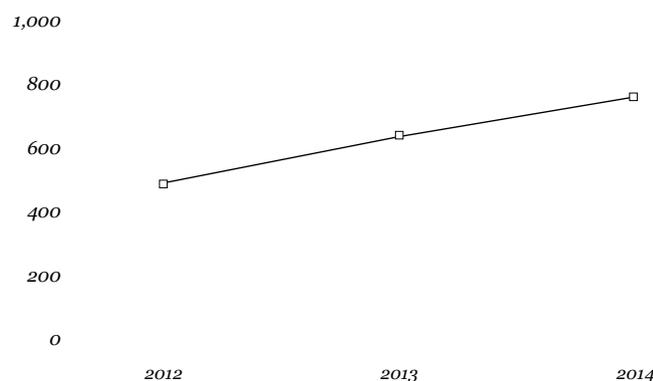
**Assets** →

In 2014, the Bank grew to Rs. 779,466 Million, up from Rs. 654,368 Million in 2013. Overall, NSB outperformed the banking industry as a whole, growing by 19.11% compared to a growth rate of 17.35% for the industry.

	2014 Rs. Million	Mix %	2013 Rs. Million	Mix %
Financial investments held-to-maturity	<b>510,341</b>	<b>65.5</b>	432,465	66.1
Loans and receivables to other customers	<b>216,162</b>	<b>27.7</b>	158,870	24.3
Financial assets held-for-trading	<b>7,431</b>	<b>1.0</b>	13,808	2.1
Financial assets available-for-sale	<b>4,037</b>	<b>0.5</b>	2,926	0.5
Property, plant & equipment and other assets	<b>41,494</b>	<b>5.3</b>	46,299	7.0
<b>Total assets</b>	<b>779,466</b>	<b>100.0</b>	654,368	100.0

**Total Assets**

[ Rs. Billion ]

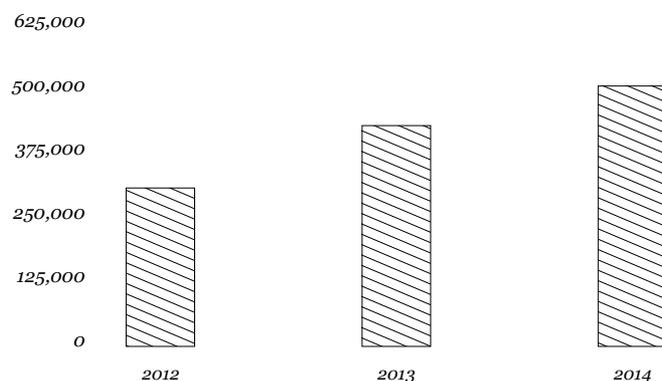


The financial investments held-to-maturity represented 65% of the Bank's total assets as at 31st December 2014, almost the same as the year before (66%). Financial investments held-to-maturity increased by 18% from Rs. 432,465 Million as at 31st December 2013 to Rs. 510,341 Million as at 31st December 2014. The increase was primarily due to US\$ 250 Million raised through International Bonds floated in 2014 and the proceeds were converted into LKR and invested in Treasury Bonds.

As at the end of financial year 2014 derivative financial instrument amounting to Rs. 2,880 Million against Rs. 5,119 Million in the correspondent period in 2013 was there due to the mitigation of exchange rate risk on foreign currency bond issue by entering a swap with Central Bank of Sri Lanka.

### Financial Investments Held-to-Maturity

[ Rs. Million ]



Loans and receivables to other customers increased by 36% from Rs. 158,870 Million to Rs. 216,162 Million. The disbursement of planned loans under International Bond issues and project loan disbursement for infrastructure projects in 2014 mainly contributed to the increase in the corporate loan portfolio. The increase in the retail loan portfolio attributable to increased demand for housing loans, personal loans and auto loans were offset by the negative growth of the pawning portfolio. Loans and receivables from banks as at year end 2014 also decreased by 13% compared with year end 2013 due to reduction of lending rates as a result of high market liquidity.

Notwithstanding the measures taken by the Bank to refine its credit selection process and appraisal capabilities to enhance asset quality, the overall net NPA ratio was above the industry average due to impact from default in pawning advances as a result of decline in gold prices. As a result, the Bank's NPA ratio stood at 7.38% as of 31st December 2014 against 6.6% as at 31st December 2013.

### Liabilities →

The Bank's deposit base grew by 10.4% from Rs. 501,890 Million as of 31st December 2013 to Rs. 554,060 Million of 31st December 2014, matching the industry's growth. The Bank's deposit mix of time deposits to saving deposits changed towards low cost saving deposits at the end of the year 2014 contributing to the better net interest margins. This was mainly due to the narrowing interest spread between savings and time deposits during 2014.

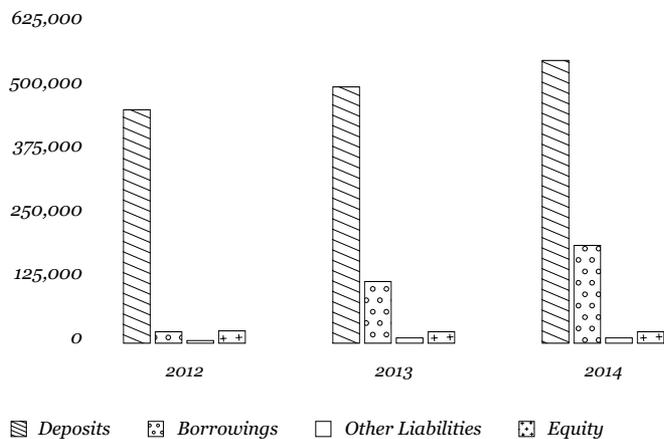
	31st December 2013		Mobilisation		31st December 2014	
	Rs. Million	Mix %	Rs. Million	Growth %	Rs. Million	Mix %
Saving deposits	115,252	24	26,333	23	141,585	26
Time deposits	364,568	76	33,068	9	397,636	74
Interest payable	22,070				14,840	
<b>Total Deposit</b>	<b>501,890</b>		<b>59,401</b>		<b>554,060</b>	

The Bank's other borrowings consisted of Rs. 134,273 Million of US\$ Bonds (31st December 2013 - Rs. 100,148 Million) and Rs. 56,829 Million of securities sold under repurchase agreements (31st December 2013 - Rs. 20,285 Million). US\$ 250 Million worth of 5-year International Bond was issued at 5.15% during the year further to US\$ 750 Million worth of 5-year bond at 8.875% issued in 2013, lowering the weighted average cost of borrowings of the Bank. Repo borrowings at the end of the year increased by 180% compared to year before, mainly due to Rs. 18,576 Million of project loans disbursed in December.

The other liabilities as at 31st December 2014 mainly included Rs. 5,923 Million of Liability on Employee Retirement Benefits (unfunded pension liability, pension fund II, gratuity and retired employee medical liability) determined through actuarial valuation as at 31st December 2014 and taxes payable.

### Funding Structure

[ Rs. Million ]



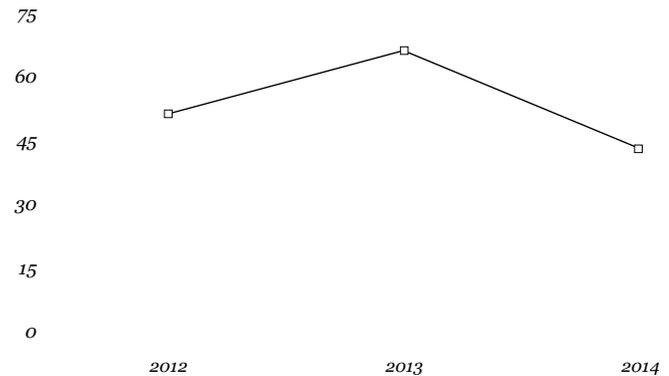
### Equity and Reserves →

After contributing Rs. 4,000 Million to the General Treasury, the sole shareholder of the Bank and other statutory distributions, the equity grew by 4.7% from Rs. 22,217 Million as of 31st December 2013 to Rs. 23,260 Million as at 31st December 2014.

The Bank was able to achieve all its key targets set for 2014 and also was able to record a 3% of net interest margin (2013 - 1.7%), Rs. 21.46 of Earnings per Share (2013 - Rs. 3.70), cost to income ratio of 44.5% (2013 - 67.7%) and liquidity ratio of 91.5% (2013 - 92.7%).

### Cost to Income Ratio

[ % ]



The regulatory capital of the Bank was 20.5% at the core capital and 19.0% at the total capital levels and these ratios were well above the minimum statutory requirements. The capital adequacy ratios improved compared to those of 2013 with the increase in the Bank's net profit during the year 2014.

**Direct Economic Value Generated and Distribution** →***Value Addition and Distribution***

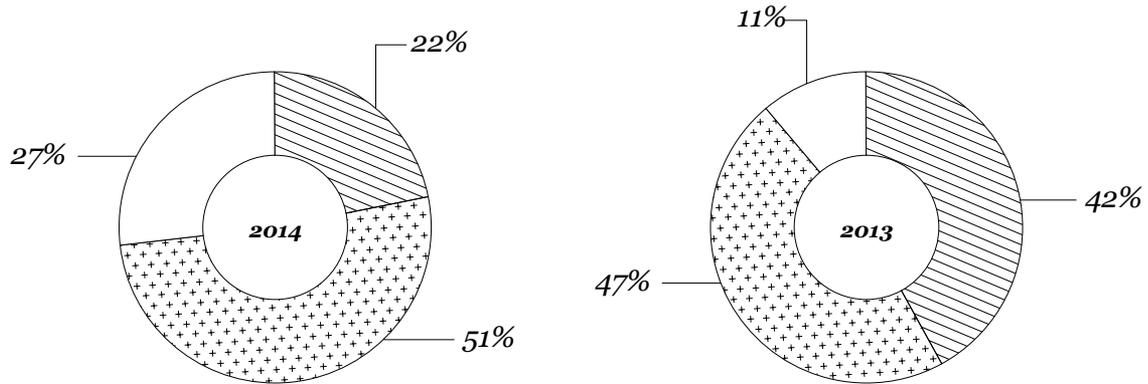
	2014 Rs. Million	2013 Rs. Million
<b>Value Addition</b>		
Income from banking services	74,023	64,248
Cost of services	(52,642)	(54,141)
Value added by banking services	21,380	10,107
Non-Banking income	3,798	1,292
(Provisions)/reversal	(3,476)	(1,380)
	21,702	10,019
<b>Distribution to Employees</b>		
Personnel costs	4,797	4,209
<b>To Government:</b>		
Income tax	3,606	1,095
Value added tax	1,745	624
NBT on financial services	291	-
Contribution to the consolidated fund	4,000	3,000
Special fee paid to the Government	1,333	-
Contribution to National Insurance Trust Fund	69	12
	11,043	4,731
<b>Retained for Expansion and Growth:</b>		
Earnings	5,558	745
Depreciation	304	334
	5,862	1,079
	21,702	10,019

***Sources and Distribution of Income***

	2014 Rs. Million	2013 Rs. Million
<b>Source of Income</b>		
Interest	74,023	64,248
Fee and commission	356	228
Other income	3,512	1,097
<b>Total</b>	77,890	65,573
<b>Utilisation of Income</b>		
Employees - Salaries and other payments to staff	4,797	4,209
Depositors Interest	52,642	54,141
Impairment for loans and other losses	3,476	1,380
Other expenses	4,467	2,518
	65,383	62,248
<b>Net Income before Government Taxes and Levies</b>	12,508	3,326
<b>Government</b>		
VAT, NBT and income taxes	5,642	1,719
Consolidated Fund	4,000	3,000
Special fee paid to the Government	1,333	-
Contribution to National Insurance Trust Fund	69	12
	11,043	4,731
<b>To Reserves</b>	1,465	(1,406)
<b>Total</b>	77,890	65,573

### Distribution of Value Addition

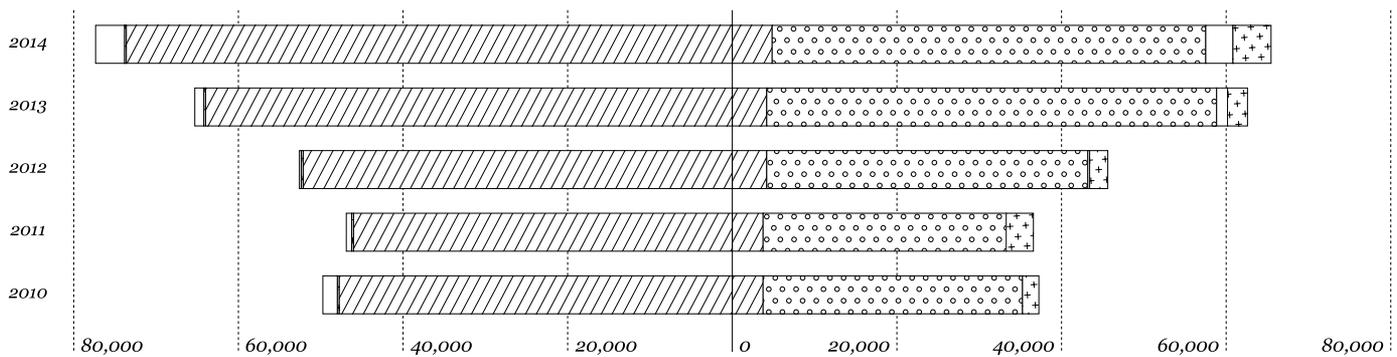
[ % ]



▨ Distribution to Employees    ⊕ To Government    □ Retained for Expansion and Growth

### Sources and Utilisation of Income

[ Rs. Million ]



Interest    ▨ Employees - Salaries and Other Payments  
 Fee and Commission    ⊕ Depositors/Suppliers Interest  
 Other Income    □ Impairment for Loans and Other Losses  
                                  ⊕ Other Expenses

**Economic Value Added (EVA)**

Economic value addition indicates the excess value created over the required return of the total investment by the share holders.

<i>For the year ended</i>	2014 Rs. Million	2013 Rs. Million
<b>Invested Equity</b>		
Shareholders' funds	23,260	22,217
Add: Cumulative provision for impairment charges	3,925	2,006
	<b>27,185</b>	<b>24,223</b>
<b>Earnings</b>		
Profit after taxation	6,867	1,184
Add: Impairment and provisions	3,476	1,380
	<b>10,342</b>	<b>2,564</b>
Cost of equity based on 12 months weighted average Treasury Bill rate plus 2% for the risk premium (%)	8.60	12.69
Cost of Average Equity	2,337	3,074
Economic value addition	<b>8,005</b>	<b>(510)</b>

**NSB Group** →***NSB Fund Management Company***

The Bank's sole and fully-owned subsidiary, NSB Fund Management Company Ltd., is one of 15 dedicated primary dealers in Government Securities appointed by the Central Bank of Sri Lanka. During the year, the Company obtained license from the Securities and Exchange Commission of Sri Lanka to function as a Stock Dealer/Stock Broker for Debt Securities and the Trading Membership for Debt Securities of the Colombo Stock Exchange, under the diversification programme of the Central Bank for Primary Dealers.

In addition, the Company provides such services to its Parent, NSB as bidding at primary auctions and settlement of funds and securities, handling fund transfers through RTGS, acceptance and delivery of Government Securities from counterparties for NSB and repositioning them in the Central Depository System (CDS) and providing custodian services to the Trustee-Fund Management activities of the Bank.

The value of the Government Securities portfolio held by the Company as at 31st December 2014 was Rs. 7,494 Million. The Company reported a net profit of Rs. 202 Million for the year compared to Rs. 344 Million recorded in 2013. Net assets of the Company as at 31st December 2014 was Rs. 1,915 Million including retained earning and special risk reserve amounting to Rs. 1,765 Million.

***Group Performance***

The Group also recorded highest ever net profit of Rs. 10,764 Million before tax during this year (2013 - Rs. 2,669 Million). This is an increase of 303% against previous year. The Group ascertained a profit of Rs. 7,054 (2013 - Rs. 1,528) after paying taxes showing a growth of 362%.

### **Institutional Capital** →

Institutional capital is largely intangible in nature and comprises aspects of a non-financial nature such as experience and operational knowledge, brand and reputation, internal systems and internal ethical standards that the Bank uses to create value. Unlike financial capital, a value cannot be placed on these components, except to note that the absence of any one of these factors would make our continued operation impossible.

### **Organisational Knowledge** →

Our organisational knowledge is based on a very special heritage. We have been helping Sri Lankans save for more than 180 years, making us Sri Lanka's oldest financial institution. In the past four decades, we have also evolved into a provider of innovative savings products for students, children, youth, women and senior citizens. Our current senior administrators too, are experienced: on average, all of our top executives have worked in our industry for more than 20 years.

### **NSB Brand and its Value** →

The Bank's brand is well known and deeply trusted by Sri Lankans. Brand Finance Lanka rates it among the country's top ten brands. It is the leading savings brand - NSB's 18 Million accounts are shared among Sri Lanka's 21 Million people. It's also the leader in mortgages, offering three to ten day loan disbursements. Whether they want to save or borrow, Sri Lankans turn to us first.

NSB ranked in the fifth place of Sri Lanka's Most Valuable Brands unveiled by Brands Finance at LBD's Brands Annual 2015.

### **Internal Systems and Procedures** **Unique to NSB** →

NSB is a systems innovator. We are one of only a few banks in South Asia that has developed its own proprietary IT applications for all key banking operations. Our low cost IT system links main post offices in the island to a common standard of controls and procedures. We are the only Bank in Sri Lanka that uses a POS system for collection of deposits at the customer's doorstep.

### **Business Ethics and Integrity** →

The conduct of ethical business is a core principal of our work at NSB. We try to live by a set of fundamental, traditional values that we have distilled into a set of clear principles. We review our internal standards, codes and control mechanisms regularly and upgrade them as necessary.

### **Corporate Culture** →

From the most remote hill station post office to our boardroom in Colombo, the staff of NSB are deeply loyal to the Bank. We encourage personal responsibility and collective decision-making. We also share a common feeling about the importance of our mission. Finally, executives see team building as a key Bank priority. They make a consistent effort to build strong teams through the promotion of welfare societies within the divisions and by Bank's retirees. We encourage other team-building activities as well, such as the NSB Sports Club, Buddhist Society, *Kala Kaway* (Arts Circle) and Christians Society.

## **External Capital Formation** →

In the end, the success of a business is measured by the value it delivers to its stakeholders. The bar is set doubly high in the case of the National Savings Bank, an institution chartered and funded by the Government to promote the common good.

The value created by NSB for stakeholders through activities, relationships and linkages lead to the formation of capital external to NSB. They reside within our stakeholders, but NSB has access to and makes use of these and its own internal capital in driving its business. Our discussion will now focus on NSB's external capital formation, the material ones being, investor capital, customer capital, employee capital and social and environmental capital.

## **Investor Capital** →

Although the Bank is a Government-owned and Government-funded institution, beyond its support and the support of our depositors, we continue to seek debt funding from institutional investors, mainly overseas, from time to time for expanding our business activities. As a result, 17% of our total funding as at 31st December 2014 had come from these debt holders, compared to 3% comprising of shareholders' equity.

Holders of NSB Bonds include some of the most respected institutional investors in the world. Our USD 750 Million Bond issue in September 2013 was subscribed by a number of important global investors, including Pimco, JP Morgan Investment Management Inc. – New York, UBS Global Asset Management (Americas) Inc. – Chicago, Aberdeen Asset Management PLC - London, Danske Bank A/S – Copenhagen, and Lord, Abbett & Co. LLC of Jersey City.

In September 2014, we returned to the market with a five-year USD 250 Million Bond offering that matures in September 2019. This offering, took advantage of the favourable rate environment to lock in a 5.15% rate. As with our 2013 issue, it was heavily oversubscribed. Final order book reached USD 2.1 Billion, 8.5 times the value of the Bond issue which enabled us to achieve 35 basis point yield compression, and brought the overall yield down to 5.15%.

Another source of pride for us was the diversity of investor interest. Asian investors took 37% of the issue, Europeans took 29% and the US took 34%. The bulk of sales, 80%, were to fund managers, with the remainder split between private banks (11%), public banks (8%) and insurance companies.

The transaction is an indication of the growing respect global investors have for Sri Lanka in general and the NSB in particular: the 5.15% yield was the lowest ever achieved by a non-governmental Sri Lankan issuer, and was priced at just a sliver less than the last sovereign issue – 2.5 bps off the sovereign yield of 5.125%.

Finally, the growing breadth and internationalisation of our business is likely to make our investors' assets even more secure by diversifying our investments and our revenue streams.

### ***Customer Capital*** →

There is much justification for the word 'National' to feature in the name of the National Savings Bank – for the scope and scale of its enterprise truly embraces the entire nation and its people.

We present the many measures by which the Bank has been able to deliver value to its customers and build customer capital.

The number of active accounts of the Bank grew in 2014 by 2.36%, to 18,347,819 from 17,924,301 – a remarkable figure when we consider that the total population of Sri Lanka is approximately 21 Million.

In view of NSB's strong credit rating and Government deposit guarantee, it is perhaps no surprise that the value of deposits increased 11.91%, to Rs. 539,220 Million in 2014 from Rs. 479,820 Million at the end of 2013 (excluding interest payable). Particularly impressive was the growth in savings account value, 22.85%, a substantial climb to Rs. 141,585 Million from Rs. 115,252 Million. The value of time deposit accounts also grew, to Rs. 397,636 Million from Rs. 364,568 Million – a more substantial number in absolute value, though less in terms of percentage (9.07%).

Loans and receivables too increased by 36% from Rs. 158,870 Million to Rs. 216,162 Million. Average value per loan also grew in 2014 in four of the five largest loan categories. Personal loans grew by 37.23%, to Rs. 248,523 from Rs. 181,100. Project loans grew as well, by 132%, to Rs. 1,891 Million from Rs. 814 Million. Housing and property purchase loans recorded gains too, rising 1.73%, to Rs. 765,380 from Rs. 752,353. Vehicle loans, however, declined substantially, to Rs. 83,055.40 from Rs. 978,628/-, a 91.51% decline, consequent to the Bank extending vehicle loans to three-wheelers and motor cycles.

Debit card issuance continued in 2014. The Bank issued a total of 168,440 debit cards during the year, compared to 191,211 in 2013, a reflection not so much of declining customer enthusiasm but the growing maturity of the Sri Lankan card market. Master debit cards remained the favourite product – 135,926 cards compared to 32,514 Visa cards. Total debit cards and proprietors cards issued stood at 1,108,481 and 282,178 respectively as at 31st December 2014.

### ***Strengthening Domestic Industry*** →

During the year, the Bank was able to fulfil a long felt need of its customers. Expanding its reach and facilitation beyond the limits of its 'housing loan' segment, the Bank launched the '*Diriya*' loan scheme to serve the upcoming small scale entrepreneurs of its customer base. During the year, the concentration was more on capacity building by way of skills, material and creating awareness across the branch network while gradually building up the portfolio. The entire branch network is now geared to implement this scheme vigorously keeping in line with the awakened economic expectations of the country. The scheme deviates from the conventional credit evaluation methodology of relying on a regular income base to a non-regular income base comprising the future cash flows of an enterprise.

To further develop the economy of rural Sri Lanka, the NSB continued to make microfinancing available to people engaged in village enterprises most likely to promote economic growth, including cottage industry manufacturers, entrepreneurs and the self-employed. Funds are lent at affordable interest rates and include convenient repayment schedules and reasonable grace periods.

**Women** →

'*Sthree*', a savings account designed specifically for women, also grew in popularity this year. This account is facilitated with number of additional features as reduced interest on pawning. In a first for Sri Lanka, the Bank also created a business loan specifically for women. It is noteworthy that this is the first time in the history of this country that a loan scheme of this nature has been implemented to create a dedicated set of women entrepreneurs in the country.

The Bank offered special promotions throughout the year to encourage women to take advantage of these opportunities.

Throughout the year, women who have *Sthree* accounts were offered gifts when they passed a special milestone, such as a cash prizes on their wedding and *Prarthana* savings certificates in the event of the birth of a child.

Why all the effort? NSB believes that women are natural leaders when it comes to saving and looking after themselves, their families and society.

**Students** →

In 2014, NSB launched a new product for students – the NSB '*Buddhi*' higher education loan. This instrument allows individuals pursuing higher education at either local or foreign universities or other relevant institutions to obtain loans of up to Rs. 10 Million. During the year under review, the Bank disbursed Rs. 136.8 Million on 295 loans taken under this product.

**Children** →

As the Bank is committed to the future well-being of Sri Lanka and its people, it naturally follows that we have a special interest in the upliftment and development of the children of our land.

Every year, the Bank conducts a series of seminars for grade 5 scholarship students Island-wide, facilitated by well-known personalities of the country with the aim of helping school children develop their academic skills, personalities and attitudes. This programme has been implemented continuously since 2008.

As part of its social responsibility, the Bank also recognises the academic successes of the students who sit for the Grade 5 scholarship examination. The top fifteen scorers in each district and those who secured the highest national ranks at the scholarship examination were bestowed with scholarships, by the Bank. Other students who gained merit results were recognised and awarded for their achievements at the respective NSB branches in their localities.

Under its '*Nena Guna Thilina*' Book project, the Bank supported the reading habit amongst schoolchildren in remote areas of the country. Since most of the schools lack libraries and as the existing ones are ill equipped, the Bank provided assistance to start new libraries or supplement the existing resource base.

To encourage the growth of the school bank network, the Bank now offers cash rewards to schools that collect deposits from students. The school banks are an innovative educational project designed to encourage financial literacy and good savings habits: their management and operation are carried out by the students themselves.

### **Senior Citizens** →

Our '*Divi Surekum*' annuity scheme was introduced on 4th August 2014, in response to a call by the Central Bank of Sri Lanka to strengthen the financial security of Sri Lanka's senior citizens.

Open to savers between 35 and 64 years of age, '*Divi Surekum*' is a flexible pension plan that enables NSB customers to provide for a regular income once they pass 60 years of age. Both resident and non-resident Sri Lankan citizens can avail themselves of this scheme either through monthly contributions or a lump sum payment. Benefits extend beyond the life of the account holders. For example, the plan includes a life insurance scheme for dependent children. The insurance cover provides – benefit in the event of an accidental death, – cover for permanent disability, – for natural death, hospital coverage - and critical illness coverage – to 10 critical illnesses.

### **Non-Resident Sri Lankans** →

One economically important group of Sri Lankans that has been traditionally underserved by the Banks, is non-resident Sri Lankans who repatriate substantial finances to the country. With a view to changing this scenario and in order to enable ease of remittance, the Bank took several initiatives.

Through the sponsorship of special events and community gatherings of migrant Sri Lankan workers the Bank endeavoured to build awareness of its presence, products and services amongst this population. We increased the available channels by signing up with more exchange houses in existing as well as new markets, thus enhancing accessibility to the Bank's services. We also deployed our own staff in some of the exchange houses. Other measures extended included – introduction of branded NRFC/RFC minor accounts offering value added services, strengthening relationships with exchange houses, embassies and cargo agents, creating awareness among family members of migrant workers and

prospective migrant workers through meetings organised by AGA offices, participating in training programmes conducted by the SLBFE, building relationships with foreign employment recruitment agencies and advertising in local and overseas printed, electronic and digital media. Concurrently, the Bank is in the process of upgrading its internal systems and procedures – web services, management information system, system for counter operations etc. – to enhance the level of customer service.

### **Corporate Credit** →

The corporate loan portfolio grew significantly on the strength of funding infrastructure projects of the country. The year was significant in that the Bank was able to make commitments for lending in foreign currency for private sector projects as well as for State sector projects while increasing the USD denominated portfolio by over USD 50 Million or over four fold to reach USD 70 Million approximately. In an environment of very limited credit growth coupled with excess liquidity throughout the year, the corporate lending portfolio witnessed a concentration around State-owned enterprises. The terms of these facilities made a positive contribution to the bottom line of the Bank with minimum or near zero credit risk as the most of the facilities were granted to State Owned Enterprises with Government guarantee. The market conditions made it possible for many of the clients to pre-settle loans by means of refinancing at lower costs through loans, raising funds in the debt market etc. Nevertheless the portfolio grew to a level of Rs. 79 Billion from Rs. 18 Billion in 2013.

Of course, microenterprises are not the only source of economic growth in Sri Lanka. To help the entire country grow, the Bank is now offering project finance support as well – loans and other credit facilities that help promote, establish, expand, and/or modernise industrial, agricultural and other kinds of commercial ventures.

### **NSB as a Trusted Member of the International Financial Community** →

Sri Lanka's economic activities are becoming increasingly international and as they change, so do the concerns of the NSB. One measure of our increasingly global outlook is our work in setting up remittance relationships with Delma Exchange and Lulu Exchange in UAE, Industrial Bank and Kookmin Bank in Korea and the Al Zaman Exchange and Islamic Exchange Co. in Qatar.

Another mark of our growing sophistication is the decision of the Central Bank of Sri Lanka to grant us greater latitude in the kinds of accounts we are allowed to maintain. The Central Bank now allows the Bank to open and maintain a variety of accounts for its customers, including Foreign Exchange Earners' Accounts (FEEA), Securities Investments Accounts (SIA), Resident Non-National Foreign Currency Accounts (RNNFCA), Resident Guest Foreign Currency Accounts (RGFCA), Non-Resident Rupee Accounts (NRRRA), Foreign Currency Accounts for International Service Providers and their Employees (FCAISPE), Non-Resident Non-National Foreign Currency Accounts (NRNNFCA), Non-Resident Block Accounts (NRBA) and Migrant Block Accounts (MBA).

In addition, the Central Bank agreed to allow NSB to serve outward remittances in foreign currency for educational, health and other purposes when requested – by third-party customers who do not have accounts in foreign currencies. The Bank is also now permitted to enter into foreign currency derivative agreements and operate a foreign currency dealing facility.

To help prospective customers overseas, the Bank has introduced web-based account opening facilities. At the same time, NSB introduced web service with Valutrans, a service that automatically credits remittance transactions

to beneficiaries' accounts. A fast and secure channel for remittances, Valutrans is likely to grow increasingly popular in 2015, particularly after the Bank extends this service to Xpress Money, Al Fardan Exchange – Qatar and the UAE Exchange.

A new Inward Remittance Handling system to speed up the remittance process and to automate the counter operations was also developed in 2014. Both systems are expected to be implemented during the year 2015.

### **NSB as a Trusted Financial Advisor** →

As the world learned a new space during the Western financial crisis, a financial institution's most precious asset is trust. In that respect, NSB has a stronger Balance Sheet than many of larger institutions:

- The Bank's research unit co-ordinated an island-wide customer survey to measure public attitudes towards savings and towards NSB. Scholars from the University of Kelaniya experienced in customer research, canvassed customers at 236 NSB branches.
- Very few customers have complaints about their service with NSB. In 2014, our Call Centre logged 1,466 complaints out of 499,595 calls, or less than 0.3%.
- No incidents of non-compliance with regulations or voluntary codes concerning product and service information and labelling were recorded, nor were any complaints made regarding breaches of customer privacy or losses of customer data. Nor did we pay any significant fines for non-compliance with laws and regulations concerning the provisions and use of products and services.

- The Bank has a range of savings and lending products. Going beyond the disclosure requirements of the Central Bank, it is the Bank's policy that all the data relevant to these products that would help customers in their decisions i.e., interest rates (nominal as well as effective), maturity periods, collateral requirements etc. are clearly displayed in all forms of communications as well as in each branch. The Call Centre too works on a 24 x 7 basis and is geared to provide information on all products and services.
- As a financial intermediary, the Bank does not have any banned or disrupted products on offer in its products and services portfolio.

### **2015 and Beyond** →

Over the years, we have accomplished a lot, but much more remains on our to-do list. As part of our current strategic plan, a large number of initiatives have been identified for implementation in the near future. At the same time, the Bank will devote time and commit resources for research and development to understand the changing customer needs and aspirations, particularly in the context of changing customer demographics and developments in information and communication technology. Broadly, the initiatives will relate to augmenting our products and services offering, enhancing our reach, benchmarking our service standards and streamlining internal systems and procedures, all with the final aim of providing unparalleled convenience to the customer.

In terms of product and service offerings, these initiatives, *inter alia*, will include new product development, product rationalisation, product enrichment and product branding. Cognisant of the growing influence of information and communication technology on day-to-day lives of customers and their changing buying patterns, the Bank will develop technology based new products and services to be made available primarily on alternative channels. Plans are afoot to create awareness and build relationships with Sri Lankans

working abroad and their families back at home that will help us build long lasting relationships. Through these new products and services and relationships, the Bank envisages enhancing its appeal as a one-stop shop for customers, thereby helping to penetrate more deeply into new market segments.

Apart from the expansion of our local delivery network further by adding branches, student savings centres and ATMs among others and offering extended banking hours, plans have been drawn up to expand globally into new markets for remittance services through the appointment of our own representatives or through agency arrangements and the like that will further enhance our reach.

Initiatives for improving our service standards include development of physical infrastructure further by better utilising the Bank's own properties, undertaking research and development in relation to market developments and changing customer needs, upgrading skill levels of staff at branches and their service standards, implementing the proposed IT strategy to fully institutionalise the core-banking system and promote optimum utilisation of available system capabilities.

Internal systems and procedures will be further streamlined by developing branch level staff skills, deploying dedicated and competent treasury management staff, rapid roll out of the portfolio management system, offer of performance based rewards and market-based remuneration, development of the governance framework, formulation and implementation of asset management policy and improving supplies management system among other like measures.

### **Employee Capital** →

When our customers talk about the National Savings Bank, we hear time and again how much they like and appreciate that special ‘family feeling’ they get when they walk through the doors of one of our branches or work with one of our loan officers.

That is not the result of a marketing strategy. Instead, it is a fringe benefit of our long-time commitment to our employees and a testament to how well our employees buy into the NSB ethos. In fact, next to serving our customers, we believe that one of the most important ways we create value at the National Savings Bank is by giving thousands of Sri Lankans the opportunity to work in a safe, non-discriminatory environment that provides them with career advancement opportunities, health care and a livelihood for their families.

Today, we are trying to build on this foundation of commitment to our employees by evolving it to remain contemporary and valid well into a new century. Besides serving our customers and investors better, this enhanced approach gives all our employees more incentives and opportunities to excel. In this way, we hope to continue to offer better and more relationship based service to our customers, our investors, and all those we consider to be the extended NSB family.

### **Employee Profile** →

To keep up with our growing business, we expanded our staff cadre significantly in 2014. A total of 560 new recruits joined the NSB family during the year, of whom 410 were women. Only 114 retired and 6 left to pursue other opportunities.

Over 3,400 people now work full-time for NSB, including 3,026 permanent employees and 381 contract employees. An additional 971 workers serve the Bank through an outsourced service provider.

Nearly 90% of employees are covered by a collective bargaining agreement. Trade unions operating within the Bank include the Ceylon Bank Employees’ Union, Sri Lanka Independent Bank Employees’ Union, *Jathika Sevaka Sangamaya*, Executive Officers’ Association and All Ceylon Bank Employees’ Union.

Depending on work exigencies, the Bank makes operational changes from time to time. Although, minimum notice period regarding such operational changes has not been specified in the collective agreement, employee representatives i.e., trade union officials have the opportunity of having discussions with management on changes.

Employees have also formed their own religious and welfare societies. In addition, there is a Sports Club and a ‘*Kala Kawaya*’ (Arts Circle).

Most new hires in 2014 were either at Banking Assistant - or Officer Trainee – levels. Despite all this growth, the Bank is still hierarchically a relatively flat organisation. Over half of all employees are banking assistants (51%) and most of the others serve as supervisors (25.71%), junior managers (13.74%) or as middle and upper management (4.47%).

From an investors’ point of view, one of the key initiatives of the Bank this year in relation to staff was its continued effort to further professionalise our operations. Our key hires – represented different disciplines as Risk, Finance IT and Legal.

At the same time, we continue to send senior managers abroad for additional managerial and functional training in areas such as risk, investment and operations.

NSB also appointed 11 Regional Managers to supervise the operations in each of 11 regions. They started in a new region as Regional Managers to share their expertise with staff and customers in a region other than where they have been located earlier.

We consciously follow a process of service rotation that ensures senior managers do not stagnate in any given posting for longer than 5 years. Given the nature of our business within the sensitive financial industry, such a measure goes a long way to mitigate unwarranted risk of fraud and malpractice.

### **Compensation and Benefits** →

In a fast-growing, low-unemployment economy such as Sri Lanka's, which is also just a few hours flight time away from some of the world's most dynamic economies, the fact that only six of 3,400 employees left the Bank during the year for reasons other than retirement suggests that NSB offers a compelling value proposition to its entire staff. Why? We believe that the competitive pay, benefits and a non-discriminatory working environment are the three main factors that have enabled us to attract and retain talented employees.

### **Compensation** →

Wages at the National Savings Bank are on par with the wages of other Government-owned banks. Most wages are set by collective agreements signed between the Bank and the representatives of the trade unions who represent the employees. Employees are also entitled to an annual bonus that is equal to two times gross monthly salary, plus a special bonus awarded if the Bank achieves a pre-stated target.

### **Benefits** →

Permanent employees enjoy a number of benefits from the Bank, including healthy meals for Head Office staff at a subsidised canteen and the use of holiday bungalows at a discount rate. More importantly, the benefits to employees include a comprehensive health plan, disability coverage, a pension plan and training.

### **Health** →

Employees have access to an in-house medical centre at the NSB Head Office that runs by a leading private hospital and managed by the Bank's Welfare Division. Twice a month, the Bank arranges for specialists to visit the in-house medical centre for employee consultations. Employees at the Head Office also have access to an in-house gym to help them keep fit and a library to strengthen their minds and broaden their knowledge-base.

Welfare officers also sponsor seminars and lectures for employees on health-related topics. Conducted by professional human resource experts, past lectures have included such subjects as stress management, eye care and the prevention of cardiovascular disease.

Employees and their spouses and dependants are also entitled to reimbursement of medical expenses, including the costs of treatment rendered by a medical practitioner, hospitalisation, dental treatment (including dentures), spectacles and medicine (including ongoing prescriptions). We also offer financial support for maternity (births) and critical illnesses.

In addition to ordinary medical coverage, all permanent employees are also covered by the Bank's Compensation Benefit Scheme, under which the Bank will compensate dependants of an employee up to a maximum of Rs. 1 Million in case of death, permanent disability or partial disability of that employee.

Women are also entitled to up to 84 days of paid maternity leave each for up to three confinements and 42 days for each subsequent baby.

**Pensions** →

Employees hired before 1st October 1995 are eligible for a non-contributory pension scheme established in 1980. A total of 975 existing employees are enrolled in this scheme. Employees joining on or after 2nd October 1995, also entitle for new pension scheme which is non-contributory. However the employees have to contribute to W & OP Fund under this scheme – Benefits vest after 10 years of service. Pensions amount to 10% of salary after 10 years of service, rising to 74% of salary after 40 years of service. Employees who leave before reaching the 10-year milestone are entitled to a one-time gratuity. So far 1,998 employees have joined this pension scheme.

During the year under review, we also computerised the Pensioners Medical Assistance Scheme with a view to making it easier for pensioners to use it and monitor their medical assistance benefits.

**Training** →

NSB invested over Rs. 20 Million in foreign and domestic training for employees during the year 2014.

The Bank's employees have taken advantage of a variety of opportunities extended to them, including foreign training programmes, short-term programmes, seminars, and workshops, as well as long-term courses, diplomas and degrees. In 2014, virtually all employees outside the executive suite participated in training programmes.

Participants logged a total of over 25,000 hours training in-house and regionally. Eighteen employees logged in nearly 500 hours of foreign training, while nearly 300 employees at all levels of the organisation participated in short-term training programmes, seminars and workshops. More than 200 people, from banking assistants to executive-level managers, took advantage of the Bank's offer to support their pursuit of long-term courses and degrees. Middle management was especially active in preparing themselves for new challenges.

To further encourage self-improvement, the Bank also offered honoraria to employees who excelled in banking examinations such as the Certificate in Banking and Finance and Diploma in Banking and Finance Examinations of the Institute of Bankers of Sri Lanka.

**Non-Discrimination** →

NSB is committed to operating an inclusive, non-discriminatory workplace. No complaints about discrimination of any kind were filed in 2014, nor were any corrective actions needed. The Bank does not consider gender when it grants promotions, assigns responsibilities or sets salaries and other financial and non-financial benefits.

**Few Grievances** →

Finally, we are proud of the fact that although more than 4,000 people now work for NSB, there were no cases of grievances reported during the year on such grounds as discrimination or any other form of human rights violations. As of 31st December 2014, there were eight Labour Tribunal actions filed by ex-employees and pending against the Bank. All these were seeking reinstatement following dismissal on fraud charges.

As a policy, the Bank does not recruit anyone below the age of 18 for employment in the Bank and as such, there is no possibility for incidence of child labour in the Bank.

Given the work ethic and operational framework at the Bank, there is no occasion for forced or compulsory labour to occur.

The Bank allows maternity leave for its employees and is proud to note that our 'return to work ratio' after maternity leave is 100%.

### **Celebrating the Family** →

NSB endeavours at all times to support the success of its employees' families. An annual Achievers Day is held that includes a presentation of awards for children of employees with the best results in the Grade 5 Scholarship Examination, Ordinary Level and Advanced Level Examinations and outstanding performance in sports and other extracurricular activities. Outstanding children receive prizes in cash or kind. We sponsor special events too for our families, including an *Avurudu Pola* conducted twice a year, New Year celebratory ceremonies, *Vesak Bhakthi Gee* and a Christmas programme of Carol singing.

Long-time employees were also recognised in 2014, as they are every year. Annual ceremonies are held for employees who have reached 25- and 35-year service milestones. They are recognised with Gold coins and a salary raise as a reward for their loyal service.

A transportation allowance is paid to employees at the time of their marriage and gratuities to their dependants in the event of their death.

### **Future Plans** →

As with so many aspects of the Bank operations, our HR policies and systems are another area in which we are working to raise our systems to an international standard. These initiatives are expected to further strengthen recruitment, effective deployment, development and retention of best talent. In this regard, the Bank will appoint a Committee to review all existing HR policies and procedures, leading to implementation of a computerised HRD system/HIMS to improve efficiency and effectiveness of the overall human resource function.

These efforts to modernise our talent base are ongoing, of course, particularly as we hope to achieve it without sweeping away the special homey warmth that is such an important part of NSB's personality. We firmly believe that the traditional warm ways of Sri Lankan hospitality that we have always offered our customers can co-exist in absolute harmony with 21st Century customer service protocols – and that is the optimal balance we seek in our efforts to modernise.

Plans have been drawn up to develop a qualifications based annual recruitment system and a purpose driven transfer scheme and succession plan to empower and enhance performance at all workplaces. The present HR outsourcing policy will also be reviewed with a focus on the future of outsourced employees presently working at the Bank.

We hope to introduce formal performance-based appraisals and promotions for Grade I Officers and above, along with an enhanced incentive scheme. We would like to improve our training programmes too, with a special focus on skill development and on the building of a more consistent corporate culture.

Several initiatives have also been planned for further shaping and enhancing our desired corporate identity and culture. This initiative will look at behavioural traits including – dress code, etiquettes, use of mobile phones, customer care, ethics and NSB's enshrined qualities in action.

## **Social and Environmental Capital** →

Over the past decade or so, the international business community has turned away from the idea that the success of a business should be measured solely by changes in shareholder value. Many companies are trying to look more holistically at the impact they have on all their stakeholders.

In this regard, NSB may be considered far ahead of the pack, given that as an institution we have been focused entirely on serving the public good for over a century and a half. However, in order to better clarify the value we bring to Sri Lankan society, we have changed how we report on our non-financial impacts.

### **Environmental Capital** →

Given that we are not a manufacturing business, our environmental impact is limited. To reduce our carbon footprint further, however, we now use CFL energy saving lamps in all our branches. New VRV-type air-conditioning systems have also been introduced in all the new branch buildings to reduce power consumption and increase the comfort of customers and staff.

In our lending, we have also made an effort to fund environmentally friendly projects such as *Weras Ganga* Developing Project:

In order to minimise the associated risk in agricultural loans the Bank adopted the following strategies:

1. The Bank evaluates the credit worthiness of the customers.
2. The Bank obtains collateral for granted loans.
3. The Bank diversified its credit portfolio to manage the concentration on agricultural loans.

As an institution, we are concerned about climate change, but our activities are not directly exposed to its risks in terms of its direct impact on our business. Our biggest direct exposure is through our loans and pawning advances given for agricultural purposes.

In addition, the Bank uses electricity and fuel on a day-to-day basis in its operations. Electricity is primarily used for lighting, powering and air conditioning of the Bank's Head Office, branches, call centre, holiday bungalows and Disaster Recovery Centre. The Bank also used 24 petrol and 27 diesel vehicles during the year. These vehicles had done 329,579 km and 625,251 km respectively during the year costing Rs. 13,902,908/- for fuel.

### **Social Capital** →

Banking, in the final analysis, is an intensely social business, a way in which resources are transferred in time and space to where they can find most profitable use. As an agent for Sri Lanka's greater good, we take pride in the impact of our core business. At the same time, however, we acknowledge that this necessary condition is not sufficient.

To act as a catalyst of Sri Lankan development, we also undertook a variety of other initiatives in 2014 that resulted in large and small gains to our country's social capital.

### ***Children's Education and Social Services***

One of the projects we were proud to be associated with in 2014 was the *Nena Guna Thilina* Presidential Book Project, to which we donated Rs. 1,000,000/- and managed a voluntary project dedicated to promoting reading for school children in remote areas of the country. Since most of these schools have no libraries, staffers donated to each school 250-300 books of educational value suitable for children up to 14 years of age. These donations enabled schools to either start a new library or supplement their existing resources.

For the sixth year, NSB conducted its island-wide *Hapan* Scholarship Seminars to help grade five students with *Hapan* savings accounts excel in their Grade 5 Government Examinations. The seminars were facilitated by Sri Lankan celebrities who helped schoolchildren develop their academic skills, personality and attitudes. During the year, we sponsored 50 such '*Mathulowa Dinumata Nena Guna Wadamu*' Seminars.

We also recognised the academic achievements of students who had the greatest success in their Grade 5 Examination.

The annual island-wide seminar programme organised by *Navayugaya* magazine for the benefit of schoolchildren with the participation of recognised resource personnel was sponsored by the Bank.

### ***Community Outreach***

Our branch network has worked hard to preserve local community values. We have done this through our support of a variety of activities, including community circles, such as senior citizen clubs and *Ayojana Kawa*, which promotes saving with the NSB and obtaining credit facilities at a concessionary rate.

The Bank also engaged different communities with specially tailored products, such as the *Ithuru Mithuru* savings account and *Diriya* loans. Our operations too were tailored to local needs. For example, the working capital needs of the wood trader community in Moratuwa were met through pawning. We also tried to take full advantage of the unique ability of local postmasters and their families to promote and mobilise our corporate social responsibility programmes.

We also tried to help groups of people with special physical needs too, donating Rs. 200,000/- to sponsor the Sri Lanka National Volleyball Federation for Disabled Championship Tournament, for example.

Nor were our war veterans forgotten. In 2014, Bank donated Rs. 5,000,000/- towards Brave Hearts - *Abhimansala*, an effort by the Army Benevolent Fund to provide housing in luxury complexes for our disabled war heroes.

### ***Institutional Outreach***

As Sri Lanka recovers from its long years of strife, rebuilding social capital is a key aspect of NSB's mission – not just between individuals or individuals and our institution, but by reaching out to individuals through other national institutions. We did this through several special promotions that targeted a number of important organisations and events. We sponsored different events in related organisations which organised for the welfare function of employees.

### ***Migrant Worker Outreach***

We consider Sri Lankans as our core customer wherever they happen to work. To assist those who are contemplating leaving the island for foreign employment, the Bank conducted numerous training programmes to educate them on remitting money. In 2014, Bank officers conducted 438 programmes and taught over 17,000 prospective expatriates how to remit their hard-earned wages to the Motherland safely, securely and at low cost.

We also taught the families of absent workers how to maintain good financial discipline in their homes and save money for their future needs. Bank officers conducted these programmes with the assistance of local AGA offices, focusing especially on communities where a large number of workers have gone overseas in the Kurunegala, Kandy, Kegalle and Ratnapura Districts.

### ***Infrastructure***

The Bank in the course of its business does not merely concentrate on making profits, but focus on the long-term development of the entire country. As a result, the Bank was able to shoulder several high value long-term projects where many of its peers were not in a position to support. In this regard, the much needed and important road network

from faraway places such as Point Pedro in Jaffna, Bibila, Mahiyanganaya in Uva, Kirinda at deep down South, Seeduwa, Udugampola from Western Province were funded by the Bank yielding benefits to the entire Nation.

Furthermore, the Bank's sphere of activities extends beyond material benefits. NSB has extended its co-operation to preserve our mother earth by funding projects that will minimise soil erosion and inundation within Colombo District. The implementation of the *Weras Ganga* project was funded by NSB to protect the environment and propagate natural bird habitats and fauna of the capital of Sri Lanka to improve the living condition of its city dwellers.

Total amount committed is Rs. 14.2 Billion and released Rs. 1.6 Billion.

### ***Medical Outreach***

The Bank supported HelpAge Sri Lanka, a charity organisation that conducts mobile medical camps for medically vulnerable senior Sri Lankans. The project focuses mainly on underprivileged elders in rural areas whom HelpAge serves through such activities as giving them spectacles or arranging for cataract operations.

### ***Religious Donations***

Believing that the Bank can make a difference by helping build people with strong religious convictions, the Bank makes donations to deserving organisations for use in religious activities. These include national level initiatives on religious festivals, events at local organisations such as temples and foundations in memory of respected Sri Lankans.



# *Stewardship*

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**1****Mr. Aswin De Silva****Chairman**

Mr. Aswin De Silva's, diverse banking experience expanding well over a decade includes several senior managerial positions at American Express in Sri Lanka and Singapore. These include areas of Finance, Credit, Corporate Finance, Advisory and Corporate Banking. He also worked as the Country Manager at Amex Travel related services, in Sri Lanka and the Maldives.

Mr. De Silva is also the recipient of the prestigious Chairman's award for quality at Amex. Mr. De Silva has also served at Associated Motorways (Pvt) Ltd. as the Group Finance Director and as General Manager/CEO at Ceylinco Savings Bank. Immediately preceding his appointment at NSB, he served as the Head of Business Intelligence at NRMA at Sydney, Australia.

He is a fellow member of The Institute of Chartered Accountants of Sri Lanka, Fellow member of the Institute of Management Accountants UK and FCPA (Australia).

**2****Mr. Mahinda Siriwardana****Director**

Mr. Siriwardana is the Director General to the Department of Fiscal Policy at the Ministry of Finance & Planning and is involved in activities related to Tax Policy, Government Revenue and Overall Macro – Fiscal Management.

He holds a Bachelor of Arts (BA) Degree in Economics from the University of Kelaniya and a Master of Arts (MA) in Economics and a Postgraduate Diploma in Economic Development from the Vanderbilt University, USA.

He was also involved in coordinating with public, private and international agencies including the International Monetary Fund, World Bank and International Rating Agencies, on matters relating to fiscal policy as well as overall macro economy. A career Central Banker with over 20 years of experience, Mr. Siriwardana has served as an Additional Director of the Economic Research Department of the Central Bank of Sri Lanka. He has also served on many Director Boards including that of Bank of Ceylon and Commercial Bank and at present serves on the Board of Directors of Sri Lanka Ports Authority (SLPA) and Post Graduate Institute of Management (PIM).

**3****Mr. D.L.P.R. Abeyaratne****Director**

Mr. Abeyaratne, Sri Lanka Administrative Service - Special Grade, holds a Bachelor of Commerce (Special) Degree and a Master of Arts in Sociology, both from the University of Kelaniya. He has completed Second Master's Degree (M Com.). Mr. Abeyaratne is the

Post Master General of Sri Lanka since 2nd February 2012. He brings to the Board, 20 years of experience serving in the Sri Lanka Administrative Service. He held the position of Divisional Secretary, Minuwangoda from 2005-2008; Director General of the National Gem and Jewellery Authority from 2009-2010, Senior Assistant Secretary, Ministry of Tourism and Senior Assistant Secretary to the Ministry of

Economic Development in 2010. He is also a Visiting Lecturer at the Institute of Human Resource Advancement, University of Colombo and Social/Gender and Resettlement Specialist, Conflict-Affected Region Emergency Project (ADB). He serves on the Board of NSB Fund Management Company. He served as Acting Chairman of NSB during the period from 23rd May 2012 to 5th August 2012.



**4** **Mr. Bradley Emerson**  
*Director*

Mr. Emerson is the Regional Director Middle East, South Asia and North Africa of CIMB.

Mr. Emerson worked with Commercial Bank as Senior Manager Operations, Nations Trust Bank as Head of Retail Banking and Pan Asia Bank as Deputy CEO.

Mr. Emerson received the Achievers Award in 2004 from PIM in recognition of outstanding achievements.

He was judged as one of the seven Bank's Notable Contributors for Commercial Bank in 1997.

He is a fellow member of the Institute of Bankers of Sri Lanka and holds an MBA from the University of Sri Jayewardenepura and an Advanced Diploma in Management Accounting from the Institute of Management Accountants -UK.

**5** **Mr. Suranga Naulage**  
*Director*

Mr. Naulage was appointed to the Board on 9th February 2015. He joined the Bank in 1979. He is a former Assistant Secretary on Industrial Relations to the Ministry of Finance and a former Member of National Labour Advisory Council. Mr. Naulage has served in the capacity of a Director at the National Institute of Labour Studies, Jobs Net Ltd. and on the Programme on Project Finance & Fund Management under the Ministry of Productivity.

He holds a B.Com Special Degree from the University of Kelaniya and Certificate in Banking & Finance from Institute of Bankers of Sri Lanka.

**6** **Mr. Ajith Pathirana**  
*Director*

Mr. Pathirana is the Secretary of the Bar Association of Sri Lanka (BASL). He had been a senior Committee Member of BASL and held Chairmanship on many committees of the BASL. Presently, he holds membership in Commonwealth Bar Association. Mr. Pathirana is an alternate counsellor of Law Asia and also member of the Council for Legal Education.

Mr. Pathirana is an Attorney-at-Law who possesses experience of more than 25 years. He is also an Unofficial Magistrate, a Justice of the Peace and a practitioner in Criminal Law and has appeared in many prominent cases in courts throughout the Country.

**Mr. S.D.N. Perera**  
*General Manager/CEO*

Mr. S.D.N. Perera is appointed as the 16th General Manager/CEO of National Savings Bank w.e.f. 12th March 2015. Prior to his appointment, he has been serving as the Acting General Manager/CEO and he has been serving the Bank covering all functional areas in his career for nearly three decades.

Mr. Perera is a holder of a B.Com Special Degree and a Diploma in Bank Management. He is also a Certified Information Systems Auditor (CISA) of USA. He was also the President of the Information Systems Audit and Control Association of the USA Chapter and was the founder member of the Institute of Internal Auditors of USA-Sri Lanka Chapter. He has been presenting papers at various forums on a wide range of disciplines.

Mr. Perera was also a Director of 'Rajarata Sanwardana Bank' and 'Regional Development Bank' for over 10 years.

**Ms. Y.F. Deen**  
*Secretary to the Board*

Yasmin Fathima Deen is an Attorney-at-Law, Registered Company Secretary and Notary Public with 30 years' experience in the Bank as a Legal Officer and worked as the Company Secretary for NSB Fund Management Company from the time of its incorporation in 1999. Appointed as the Secretary to the Board of Directors with effect from 1st February 2013.





**1****S.D.N. Perera***General Manager/CEO**B.Com (Spl), CISA, Dip. in  
Bank Management**(Appointed w.e.f.  
12th March 2015)***2****K.B. Wijeyaratne***Deputy General Manager  
(Finance & Planning)**B.Sc. (Business Admin) Spl.  
FCA, SAAT, FCMA***3****J.K. Gamanayake***Deputy General Manager  
(Branch Operations and  
Marketing)**B.Sc., Dip. in Marketing (UK),  
MBA (Colombo), FSLIM, MCIM  
(UK), AMIB (SL), Chartered  
Marketer'***H.M. Hennayake Bandara***General Manager/CEO**(Retired w.e.f. 20th June 2014)***T.M.K. Bandara***Additional General Manager**(Retired w.e.f. 13th April 2014)***4****K. Raveendran***Deputy General Manager  
(Audit)**B.Sc. (Spl), FCA, FCMA***5****R.M. Gunathilaka***Head of Risk Management**B. Dev. Studies (Spl), MBA  
(PIM), FCIMA (UK)***6****Ms. C.S. Jesudian***Deputy General Manager  
(Credit)**B.Sc. (Spl), MBA (Col),  
Dip. in Treasury & Risk Mgt.  
(IBSL)*

- 1**  
**K.K.V.L.W. Karunatillake**  
Asst. General Manager (Recoveries)  
B. Com. (Spl), Dip. in Bank Mgt., MBA, Dip. in HRM
- 2**  
**Ms. B.P.J. Gunasekera**  
Asst. General Manager (Asset Mgt.)  
B.Sc. (Hons), Postgraduate Dip. in Business & Financial Administration, (ICASL) Postgraduate Executive Dip. in Bank Management (IBSL), MFE (Colombo)
- 3**  
**P.S. Wasanthatillake**  
Asst. General Manager (IT – Planning & Supporting)  
B.Sc. (General), M.Sc. (Computer Science), Dip. in Advanced Programming Techniques
- 4**  
**Ms. K.P.D.M. de Silva**  
Asst. General Manager (Postal Banking)  
BA (Spl), AMIB, Dip. in Credit Mgt.
- 5**  
**W. Piyaratne**  
Asst. General Manager (Audit)  
B.Com. (Spl), Dip. in Credit Mgt., AM - IBSL
- 6**  
**J.M. Seneviratne Banda**  
Asst. General Manager (Operations 2)  
BA (Spl)
- 7**  
**P.A. Abeysooriya**  
Asst. General Manager (IT – Security & System)  
B.Sc. (Gen), M.Sc. in Computer Science  
Dip. in Advanced Programming Techniques (IDM)
- 8**  
**Ms. S.W. Gunasekera**  
Asst. General Manager (Support Services)  
B.Com. (Spl), AMIB, MAAT, Dip. in Credit Mgt.



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9

**J.A.A.S.L. Somaratne**

Asst. General Manager  
(IT – Applications & Development)

B.Sc. (General), M.Sc. in Computer Science, Dip. in Advanced Programming Techniques

10

**M.P.A.W. Peiris**

Asst. General Manager  
(Intl. Banking)

B.Sc. (Gen), AMIB (SL),

Dip. in Credit Management

Postgraduate Executive Dip. in Bank Mgt., (IBSL)

National Dip. in Training & Development (SLITAD)

11

**Ms. G.V.A.D.D. Silva**

Asst. General Manager  
(Finance)

B.Sc. (Spl) (Business Administration)

MBA in Finance, FCA

12

**E.M.M.G. Ekanayake**

Asst. General Manager  
(Operations 1)

B.Sc. (Spl) (Business Administration),

Postgraduate Dip. in Management

14

**Ms. M.Y. Gunasekera**

Asst. General Manager  
(HRD)

B.Sc., Postgraduate Cert. in Elements of Computing, Postgraduate Cert. in Data Processing

13

**Ms. Y.F. Deen**

Secretary to the Board of Directors

Attorney-at-Law  
Registered Company Secretary

15

**A.C. Gamage**

Asst. General Manager  
(Credit)

B.Sc. (Gen), MBA  
Dip. in Credit Management



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**Heads of Divisions**

1

**S.T.S. De Silva**

Head of IT

2

**Ms. M.B.D. De Silva**

Head of Legal

**Senior Managers****Regional Managers**

1

**Ms. B.K.G.B.M. Karunaratne**

Regional Manager (Central)

2

**A.L.A. Haleem**

Regional Manager (Eastern)

3

**V.V. Craison**

Regional Manager (North)

4

**Ms. H.M.S.L. Fernando**Regional Manager  
(North – Western)

5

**T.M.D.G.D. de Alwis**

Regional Manager (Southern)

6

**M.T.A.J.F. Gomis**

Regional Manager (Uva)

7

**Ms. M.S.S. Fernando**

Regional Manager (Western 1)

8

**Ms. E.D. Seetha**

Regional Manager (Western 2)

9

**Ms. H.R. Silva**

Regional Manager (Western 3)

**Branch Operations**

1

**S.H.M. Mubarak**

Senior Manager – City

2

**Ms. D.D. Wickramasinghe**Senior Manager –  
Galle

3

**R.A.N.N. Wijesinghe**

Senior Manager – Homagama

4

**S.F. Caesarius**

Senior Manager – Jaffna

5

**P.T.A. Perera**

Senior Manager – Kalutara

6

**K.M. Piyaratne**

Senior Manager – Kandy

7

**Ms. N.P.D.S.S. Nanayakkara**Senior Manager - Kegalle  
(Retired w.e.f. 9th March 2015)

8

**W.G.R. Fonseka**

Senior Manager – Kirulapone

9

**J.A.U. Gamage**

Senior Manager – Kurunegala

10

**K.D. Nimal**Senior Manager –  
Maharagama

11

**P.H. Andrahennadi**

Senior Manager – Matara

12

**Ms. T.C. Ranjanie**

Senior Manager – Moratuwa

13

**K. Kamalanathan**

Senior Manager – Negombo

14

**Ms. H.R. Karunamuni**

Senior Manager – Panadura

15

**Ms. W.P.U.A. de Silva**

Senior Manager – Wellawatta

**Asset Management**

1

**J.K. Wijesinghe**

Senior Manager

**Audit**

1

**D.N.J.K. Gamage**Senior Manager – Audit and  
Vigilance

**Branch  
Management****1**  
**V. Arulanantham**Senior Manager –  
Branch Inspection**2**  
**M.L. Dayaratne**Senior Manager –  
Development**Credit****1**  
**T.L.A. Wijeratne**

Senior Manager – Recoveries

**2**  
**M.M. Jayasiri**Senior Manager –  
Credit Risk Management  
(Retired w.e.f. 1st April 2015)**3**  
**Ms. K.G. Damayanthi**

Senior Manager – Credit

**4**  
**W. Wijetunga**

Senior Manager – Credit

**5**  
**A.B.C.R. Wijayapala**

Senior Manager – Pawning

**6**  
**Mrs. R.C. Samarasinghe**

Senior Manager – Credit

**Finance and  
Planning****1**  
**Ms. S.A.B.M.  
Bandaranayake**Senior Manager –  
Superannuation**2**  
**Ms. M.A. Gomes**  
Senior Manager – Planning**Human Resource  
Development****1**  
**K.S. Weerasena**  
Senior Manager – Training**2**  
**Ms. M.N.A. Fernando**  
Senior Manager – Personnel**International  
Banking****1**  
**P.K.G.B. Perera**Senior Manager –  
International Banking**IT and Support  
Services****1**  
**K.M.W.M. Karunaratne**  
Senior Manager – Premises**2**  
**G.M.S.P. Fernando**  
Senior Manager – IT**3**  
**C.W. Pathirana**  
Senior Manager – Supplies**Legal, Risk and  
Compliance****1**  
**Ms. A.C. Edirisinghe**  
(Retired on 1st February 2015)  
Senior Legal Officer**2**  
**Ms. I.K.L. Sasi  
Mahendren**  
Compliance Officer**3**  
**Ms. R.P.A.M.P.  
Rajanayake**Senior Manager – Risk  
Management**Marketing****1**  
**H.M.G.P.J. Herath**  
Senior Manager – Marketing**NSB Fund  
Management  
Company****1**  
**W.M.R.B. Weerakoon**  
Senior Manager

*A good governance system focuses on highest standard of business ethics, well-constructed policies and procedures and productive monitoring systems within the organisation*

Corporate governance is a fundamental tool in the current corporate environment. It is a framework that directs, regulates and controls an entity whilst ensuring maximum value to its stakeholders. A good governance system focuses on highest standard of business ethics, well-constructed policies and procedures and productive monitoring systems within the organisation. However, the essence of corporate governance is accountability to all its stakeholders.

The corporate governance framework initiates at the apex and circulates to bottom levels of the entity to ensure that every operation is conducted conforming to best practices. Board of Directors is central to corporate governance. Therefore, foremost emphasis is placed on the role and responsibilities of the Board of Directors towards safeguarding accountability, fairness and transparency in the organisation.

Corporate governance directly impacts the performance and profitability of an organisation. Good governance promotes transparency and helps to evade mistakes, corruptions, mismanagement and misuse of resources. It helps to identify issues at the beginning and avoids potential massive disasters to the entity. Good governance increases investor confidence resulting in increase in share prices and the ability to raise capital effectively and efficiently. It also minimises the reputational risk and helps to develop a stronger brand for the entity in the market.

### **Governance at NSB** →

NSB considers corporate governance as an integral part of the Bank. The concept of good governance is integrated to business processes and is promoted across the management hierarchy. NSB family believes in core values such as integrity and fairness in discharging its duties towards all stakeholders. The staff members at NSB are committed in providing their services with highest professional standards and business ethics.

NSB performs within an integrated corporate governance framework formulated on legal and regulatory requirements, core values of the Bank, and the best practices of good governance in the banking sector. The Corporate Governance Framework at NSB is based on following principles:

- Assuming responsibility and accountability in managing affairs of NSB at all levels.
- Ensuring the oversight of specific responsibilities assigned to the Board through Board appointed sub-committees.
- Determining the best structures of management for the Bank to achieve its business objectives.
- Striking a balance between business and the true spirit of 'National Savings' and delegating Key Management Personnel appropriately.
- Evaluating business activities and prudent risk management policies of the Bank to create a safe and sound environment.
- Infusing and accommodating new ideas and maintaining cordial relationships at Board and Senior Management levels.
- Having an active role in discussions with the relevant regulatory bodies on the implementation and compliance of governance regulations.
- Overseeing internal control systems including internal audit, compliance and risk management functions independent of its business lines.
- Adhering to all requirements of the NSB Act, Laws and Directions of Regulators.
- Keeping social responsibility in mind when carrying out its core activities.

NSB being a state-owned entity is highly regulated and governed by the provisions of Acts such as Banking Act, Finance Act, Financial Transaction Act, NSB Act and other Regulations issued by the Central Bank of Sri Lanka (CBSL). The Compliance Division of the Bank is committed on ensuring that the Bank adheres to all provisions and

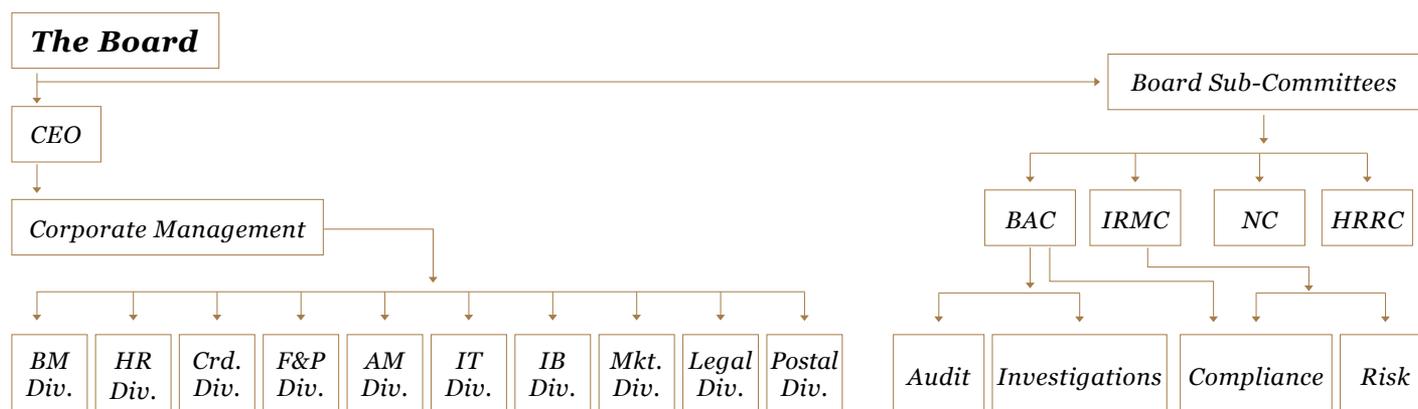
guidelines thereof applicable to the Bank. The Division is duly updated of the changing compliance environment and follows up with relevant divisions/branches in the Bank to ensure that the new directions are properly communicated among relevant staff members. The Bank's Financial Statements are duly audited by the Auditor General and tabled at the Parliament as well as published in the media within the stipulated time frame to ensure transparency and reliability. Apart from Annual Government Audit and External Compliance Audit, the Internal Audit Division also assesses the Compliance Division by conducting special reviews.

The Board of Directors is central to corporate governance at NSB. The Board sets the direction for Corporate Governance at NSB and promotes the Governance framework in the Bank. It is appointed by the Ministry of Finance and Planning and Board consists of highly qualified, experienced and eligible individuals to discharge services for the Bank. The Board is vested with general supervision, control and administration of the Bank's operations and it also serves as

the ultimate decision-making body of the Bank. The Board consists of seven members, of which six members are Non-Executive Directors to ensure autonomy in decision-making.

The Board has also delegated some of its functions to Board Sub-Committees keeping in line with the Directions on Corporate Governance. These sub-committees namely the Board Audit Committee (BAC), Integrated Risk Management Committee (IRMC), Human Resources and Remuneration Committee (HRRC) and Nomination Committee (NC) are given the authority to make recommendations to the Board on matters under their purview. The Board Audit Committee (BAC) and Integrated Risk Management Committee assist the Board to review and make decisions on the adequacy and integrity of internal controls, review of financial information and their integrity, principal risk elements of the industry and precise risk factors and corporate governance of the Bank. The Board has also retained the critical areas of operations under its purview without delegating to the operational level as per corporate governance practices. The authority and responsibilities of the Chairperson/Chairman and the Chief Executive Officer are separate as per the CBSL Directions.

### The Corporate Governance Organisational Chart →



BM – Branch Management  
HR – Human Resources

Crd. – Credit  
F&P – Finance & Planning

AM – Asset Management  
IT – Information Technology

IB – International Banking  
Mkt. – Marketing

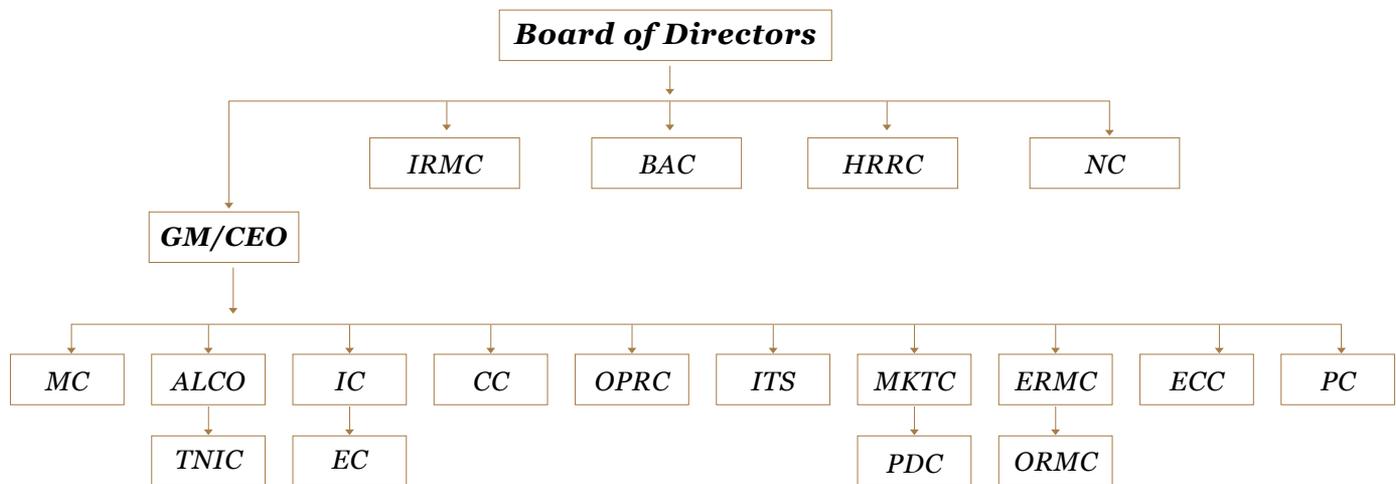
PO – Postal Banking

The Board of Directors of NSB who oversees and assumes overall responsibilities and accountability of the Bank by setting high level strategic directions, overseeing the risk management function etc. has delegated the implementation of strategies to the CEO who exercises executive authority through the corporate management team which he heads and to which he provides leadership and direction.

The compliance framework of the Bank is guided by the Compliance Charter which was reviewed and approved by the Board in January 2013. The salient features included at the review comprised of introduction of an Executive Compliance Committee (ECC), role and responsibilities of Head of Risk, Role of Compliance Officer, redefined responsibilities of Senior Management etc.

### The Management Committees →

The Management Committee structure of the Bank is given below:



IRMC – Integrated Risk Management Committee

BAC – Board Audit Committee

HRRC – Human Resource and Remuneration Committee

NC – Nomination Committee

MC – Management Committee

ALCO – Asset and Liability Management Committee

IC – Investment Committee

CC – Credit Committee

OPRC – Operational Performance Review Committee

ITS – IT Steering Committee

MKTC – Marketing Committee

ERMC – Executive Risk Management Committee

ECC – Executive Compliance Committee

TNIC – Tender and New Investment Committee

EC – Equity Committee

PDC – Product Development Committee

ORMC – Operational Risk Management Committee

PC – Procurement Committee

The committees shown above provide effective management practices while complying with corporate governance practices. The Board Sub-Committees are headed by Board approved Chairmen (enlisted) while Board Secretary act as Secretary to all Board Sub-Committees.

The General Manager/CEO heads all operational committees which are operated as per charters approved by the Board of Directors. The Board Sub-Committees meet as per statutory requirements while operational committees meet as per the respective charters.

### ***Attendance of the Board Members for Board Meetings during the Year 2014*** →

Name of Director	Date of Appointment	Eligible to Attend	Attended
Ms. Weragoda Arachchige Nalani	Appointed on 30th May 2013	30	30
Mr. Sumanadasa Tilak Abeygunawardana - Working Director	Appointed on 30th August 2007 Resigned on 7th May 2010 Reappointed on 17th June 2010 Resigned on 18th May 2012 Reappointed on 6th August 2012	30	27
Mr. Disanayake Lekamwasamge Priyantha Rohana Abeyaratne	Appointed on 9th February 2012 Acting Chairman from 23rd May 2012 to 5th August 2012 Continuing as a Director	30	28
Mr. Naida Panikkilage Lionel Pathmabandu Fernando	Appointed on 6th August 2012	30	29
Mr. Wijesinghe Wellappili Don Sumith Wijesinghe	Appointed on 6th August 2012	30	27
Mr. Hema Madiwela - Director	Appointed on 29th November 2007 Resigned on 7th May 2010 Reappointed on 25th August 2010 Resigned on 18th May 2012 Reappointed on 26th April 2013	30	28
Mr. S.R. Atygalle - Director (Ex officio)	Appointed on 31st January 2006 (Acting Chairman from 31st January 2009 to 7th May 2010) Reappointed on 23rd April 2013 as a Director	30	25

**2015 at a Glance** →

Presently NSB is under a new Board of Directors. Following table depicts the Board composition at present.

Name	Position
Mr. Aswin De Silva	Chairman
Mr. Mahinda Siriwardana	Director
Mr. D.L.P.R. Abeyaratne	Director
Mr. Bradley Emerson	Director
Mr. Suranga Naullage	Director
Mr. Ajith Pathirana	Director

Scope, functions and attendance during the year 2014 are given below for the Board appointed sub-committees in accordance with the Banking Act Direction No. 12 of 2007:

**1. Board Audit Committee (BAC)** →**Scope of the Board Audit Committee (BAC)** →

The scope of the Board Audit Committee is principally to assist the Board of Directors in fulfilling its oversight responsibilities which are to: maintain the integrity of the Bank's Financial Statements; review financial information of the Bank in its Annual Report, accounts and quarterly reports prepared for disclosure, and to review significant financial reporting judgments contained in them.

In reviewing the Bank's Annual Report and accounts and quarterly reports before submission to the Board, the committee focuses their attention particularly on major judgemental areas, any changes in accounting policies and practices, significant adjustments arising from the audit, the going concern assumption and the compliance with relevant accounting standards and other legal requirements.

The Committee also assists the Board in assessing the risk management system of the Bank thus ensuring that the Bank has a comprehensive policy on risk management; and monitoring the effectiveness of the Bank's risk management system.

It would also assess the Bank's compliance with legal and regulatory requirements by reviewing the effectiveness of the system of monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any instances of non-compliance.

The Board Audit Committee Report is given on page 109.

**2. Human Resources and Remuneration Committee (HRRC)** →**Scope of the HRRC** →

Human Resources and Remuneration Committee (HRRC) formed under the Banking Act Direction No. 12 of 2007 is responsible for determining the remuneration policy including salaries, allowances and other financial payments relating to Chief Executive Officer and Key Management Personnel of the Bank, other than the remuneration determined by the collective agreements.

Developing and reviewing HR development strategies on behalf of the Bank and maintaining a consultative role with the other Board Sub-Committees and operational committees on all human resource issues, including matters relating to all staff, are among the primary responsibilities vested in the HRRC.

The Human Resources and Remuneration Committee Report is given on page 112.

### **3. Nomination Committee (NC)** →

#### **Scope of the Nomination Committee** →

The Nomination Committee reports to the Board in respect of its activities and decisions and the Committee should comprise at least three Independent Directors as members.

The Committee sets the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.

Nomination Committee is also responsible for providing general oversight of policies and processes that ensure the Bank's compliance with appointments and nominations required by regulators in addition to monitoring, evaluating and making decisions on behalf of the Board with respect to policies and strategic matters related to nominating staff members.

The Nomination Committee Report is given on page 114.

### **4. Integrated Risk Management Committee (IRMC)** →

#### **Scope of the Integrated Risk Management Committee** →

IRMC assesses all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank through appropriate risk indicators and management information.

The Committee is responsible for ensuring that the Integrated Risk Management Framework for the Bank is implemented according to plan and assesses all aspects of risk management including the updating of business continuity plans.

The IRMC reviews the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.

The Committee is to take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.

IRMC ensures submission of a risk assessment report to the Board seeking the Board's views, concurrence and/or specific directions on a regular basis.

The Committee has established a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer is selected from Key Management Personnel to carry out the compliance function and report to the Committee periodically.

The Integrated Risk Management Committee Report is given on page 113.

**Board Appointed Committee Attendance** →

The number of meetings to be held as per statutory requirements, meetings conducted and individual attendance of committee members for the year 2014 are shown below:

Name	Directorship Status	Board Audit Committee	Nomination Committee	Integrated Risk Management Committee	Human Resource Remuneration Committee
Total minimum number of meetings to be held during the year as per statutory requirements		4	2	4	4
Total number of meetings held during the year		9	1	8	5
Ms. Weragoda Arachchige Nalani - Chairperson (from 30th May 2013)	Chairperson HRRC & NC Non-Independent Non-Executive	N/A	1 From 13th February 2014	N/A	5
Mr. S.T. Abeygunawardana (Reappointed on 6th August 2012)	Working Director Non-Independent Non-Executive	N/A	1	N/A	N/A
Mr. Hema Madiwela (Reappointed on 26th April 2013)	Independent Non-Executive Director	9	N/A	N/A	5
Mr. S.R. Attygalle (Reappointed on 23rd April 2013)	Independent Non-Executive Director	9	1 Chairman up to 12th February 2014 From 13th February 2014	N/A	3
Mr. D.L.P.R. Abeyaratne (From 9th February 2012)	Non-Independent Non-Executive Director (Chairman IRMC)	N/A	N/A	8	N/A
Mr. Lionel P. Fernando (From 6th August 2012)	Non-Independent Non-Executive Director (Chairman BAC)	9	N/A	8	N/A
Mr. Sumith Wijesinghe (From 6th August 2012)	Independent Non-Executive Director	6 From 13th February 2014	N/A Up to 12th February 2014	4	N/A

NA = Not Applicable    o = Required to be present but not attended

The Nomination Committee was not held as per the Direction in its charter during the year 2014.

**Compliance at NSB** →

NSB has an effective process to ensure compliance with applicable laws and regulations pertaining to the banking industry, including Banking Act Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks. The Board of Directors approved the compliance policy of the Bank in 2010 when the salient features were aligned with the BASEL Principles on compliance function and also identified the need of having an Independent Internal Compliance Function. In 2012, the Bank reviewed the compliance policy and introduced new areas and updated existing areas according to the CBSL Guidelines and Directions which was implemented on 10th January 2013.

The compliance function is reported to the Integrated Risk Management Committee and to the Board. Reports are also submitted to the Audit Committee confirming compliance with the Bank's compliance requirements. These reports are also circulated to the Board of Directors for their information.

The Bank has obtained External Auditors' Report on Internal Control over Financial Reporting and a Report on the Bank's compliance with the Corporate Governance Directions issued by the CBSL for the year 2013. This further improved the Bank's corporate governance approach.

**Bank's Compliance with Direction No. 12 of 2007, Issued by the CBSL on the Subject 'Corporate Governance for Licensed Specialised Banks in Sri Lanka'** →

No. 12 of 2007 Corporate Governance Report to be published in terms of Banking Act Direction and subsequent.

The Bank's adherence to the above Direction is set out as follows:

**3 (1) The Responsibilities of the Board**

3 (1) (i)	The Board shall strengthen the safety and soundness of the Bank, by ensuring the following:	
3 (1) (i) (a)	Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank.	Complied with.
3 (1) (i) (b)	Approve the overall business strategy of the Bank, the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years.	The Board approved three-year strategic plan (2014–2016) is implemented. This covers business strategy, directions and measurable goals. Complied with.

3 (1) (i) (c)	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	In addition to the prevailing policies such as IRM Policy, the policies for operations (Treasury, Investments, Outsourcing, HR, Compliance, Audit Charter, etc.). The Operational Risk Policy, Credit Policy, Related Party Transaction Policy and Internal Information Disclosure Policy, Credit Risk Policy & Market Risk & Liquidity Risk Management Policy were introduced during the year 2013 and 2014 and other risk identification measures (Stress Tests, KPI&KRI and Risk Reports etc.) were introduced to ensure identification of principal risks and risks at operational levels. Further the ICAAP document was submitted to CBSL.
		Complied with.
3 (1) (i) (d)	Approve implementation of a policy of communication with all stakeholders, including depositors, borrowers, creditors, shareholders.	Complied with.
3 (1) (i) (e)	Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	Complied with.
3 (1) (i) (f)	Identify and designate Key Management Personnel, as defined in the International Accounting Standards.	Complied with.
3 (1) (i) (g)	Define the areas of authority and key responsibilities for Directors themselves and for Key Management Personnel (KMP).	Complied with.
3 (1) (i) (h)	Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel (KMP) that is consistent with Board policy.	Complied with.
3 (1) (i) (i)	Periodically assess the effectiveness of the Board of Directors' own governance practices, including: the selection, nomination and election of Directors and Key Management Personnel; the management of conflicts of interests; and the determination of weaknesses and implementation of changes, where necessary.	The Bank is wholly-owned by the Government of Sri Lanka and the Directors are appointed by the Minister in charge of Finance and Planning. Quarterly declarations in respect of related parties and their interests are obtained from Directors to monitor conflict, if any. This process has now been extended to KMPs through Related Party Transaction Policy. The implementation is in progress.
		Complied with.

3 (1) (i) (j)	Ensure that the Bank has an appropriate succession plan for Key Management Personnel.	Succession Plan for Key Management Personnel was submitted to the Nomination Committee and the Committee decided to submit the Plan for Board approval.
3 (1) (i) (k)	Meet regularly, on a need basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied with.
3 (1) (i) (l)	Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	Complied with.
3 (1) (i) (m)	Exercise due diligence in the hiring and oversight of External Auditors.	The Auditor General is the External Auditor to the Bank. Complied with.
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3 (5) of these Directions.	Under the provisions of Section 11 (1) of the NSB Act No. 30 of 1971 as amended by Act No. 28 of 1995, the Chairman is appointed by the Minister of Finance. Chairman's and CEO's functions and responsibilities have been defined and approved by the Board. Complied with.
3 (1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	The Board has held 30 meetings during the year on the following basis. Complied with.
3 (1) (iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied with.

3 (1) (v)	The Board procedures shall ensure that Notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable Notice may be given.	Complied with.
3 (1) (vi)	The Board procedures shall ensure that a Director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director.	No such instance within the specific period. Complied with.
3 (1) (vii)	The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988.	Complied with.
3 (1) (viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Complied with.
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Directors could inspect minutes on reasonable notice. Complied with.
3 (1) (x)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties.  The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board meetings.	Complied with.
3 (1) (xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.  The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank.	On the request of the Directors such services are being provided. However, during the year 2014 such requirement did not arise.  Complied with.

3 (1) (xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties.	Complied with.
3 (1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	Complied with.
3 (1) (xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of CBSL of the situation of the Bank prior to taking any decision or action.	No such situation has arisen during the year. Complied with.
3 (1) (xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied with.
3 (1) (xvi)	The Board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Corporate Governance Report is given on pages 83 to 108 in the Annual Report. Complied with.
3 (1) (xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Complied with.
<b>3 (2)</b>	<b>Board's Composition</b>	
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied with.
3 (2) (ii) (a)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years.	Complied with.
3 (2) (ii) (b)	A Director who has completed nine years as at 1st January 2008, or who completes such term at any time prior to 31st December 2008, may continue for a further maximum period of 3 years commencing 1st January 2009.	Not applicable.

3 (2) (iii)	An employee of a bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	As per the NSB Act, the Minister selects five out of seven Directors. The other two Directors according to the NSB Act are Treasury Secretary or his Nominee and Postmaster General or his Nominee. Therefore, no such situation arises. Complied with.
3 (2) (iv)	The Board shall have at least three Independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher.	Directors are appointed by the Minister in terms of the NSB Act. Out of seven Directors, three are Independent and six are Non-Executive. Please refer to Directors details on pages 74 and 75 of Annual Report of Board of Directors. Complied with.
3 (2) (v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director.	The NSB Act does not refer provisions to appoint alternate Directors. Complied with.
3 (2) (vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	All Directors appointed by the Minister are from various disciplines such as Accountancy, Law, Marketing and Business Administration and professionals with necessary experiences. Complied with.
3 (2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one-half of the number of Directors present at such meeting are Non-Executive Directors.	As per the NSB Act the quorum of the Board is 4 which is more than one-half of the Directors who are Non-Executive Directors. Complied with.
3 (2) (viii)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank.	Please refer page 157.
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Appointments of Directors are done by the Minister of Finance as per the NSB Act. No provision in the NSB Act to appoint and fill casual vacancies in the Board. Complied with.

3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the First General Meeting after their appointment.	Not Applicable. Appointments of Directors are done by the Minister of Finance as per the NSB Act.
3 (2) (xi)	If a Director resigns or is removed from office, the Board shall: announce the Director's resignation or removal and the reasons for such removal or resignation; and issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Not Applicable. Appointment and removal of Directors are done by the Minister of Finance as per the NSB Act.
3 (2) (xii)	A Director or an employee of a bank shall not be appointed, elected or nominated as a Director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank.	Senior Deputy General Manager, an employee of the Bank was a Director of RDB (Regional Development Bank) representing the shareholding of the NSB. Complied with.
<b>3 (3)</b>	<b>Criteria to Assess the Fitness and Propriety of Directors</b>	
3 (3) (i) a & b	The age of a person who serves as a Director shall not exceed 70 years.	Complied with.
3 (3) (ii)	A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.	Complied with.
<b>3 (4)</b>	<b>Management Functions Delegated by the Board</b>	
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Complied with.
3 (4) (ii)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	The Board has not delegated such authority which hinders or reduces the ability of the Board as a whole to discharge its functions. Complied with.
3 (4) (iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Delegation arrangements currently in place and reviewed by the Board on a need basis/on requests made by the management.

<b>3 (5)</b>	<b>The Chairman and Chief Executive Officer</b>	
3 (5) (i)	The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by the same individual.	The roles of Chairperson/Chairman and the CEO are performed by two separate individuals. Complied with.
3 (5) (ii)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well.	Chairperson/Chairman is a Non-Executive Director. Chairperson/Chairman is not independent since Chairperson is in the Board of the NSB Fund Management Ltd., a fully-owned subsidiary of NSB. Complied with.
3 (5) (iii)	The Board shall disclose in its Corporate Governance Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship.	Profile of the Board and General Manager/CEO are available on pages 74 and 75. Complied with.
3 (5) (iv)	The Chairman shall provide leadership to the Board; ensure that the Board works effectively and discharges its responsibilities; and ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied with.
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting.	The Secretary to the Board, under the guidance of Chairperson/Chairman draws-up the agenda and the papers are submitted by the management through the General Manager/CEO. Complied with.
3 (5) (vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	Complied with.
3 (5) (vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	Evaluation of the role of the Chairperson and the overall assessment of the Board's performance are incorporated in the Director's Self-Evaluation Process. Complied with.
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	Not relevant since there is no Executive Director. Complied with.

3 (5) (ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied with.
3 (5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	The shareholder (Treasury) is represented in the Board by the Treasury Representative. Complied with.
3 (5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Complied with.
<b>3 (6)</b>	<b>Board Appointed Committees</b>	
3 (6) (i)	Each bank shall have at least four Board Committees as set out in Directions 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions. Each committee shall report directly to the Board. All committees shall appoint a Secretary.	All four committees are in place. Board Secretary acts as Secretary to all four committees. Board Audit Committee, Integrated Risk Management Committee, Human Resources and Remuneration Committee and Nomination Committee directly submit reports to the Board. Complied with.
3 (6) (ii)	The following rules shall apply in relation to the Audit Committee:	
(a)	The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Board Audit Committee Chairman is Non-Executive but Non-Independent due to his appointment as a Director of the NSB Fund Management Company Ltd. (this appointment is authorised by CBSL) a fully-owned subsidiary of the Bank. The Chairman for the BAC for 2014, is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka, who has experience in the banking sector. Complied with.
(b)	All members of the Committee shall be Non-Executive Directors.	Complied with.

(c)	<p>The Committee shall make recommendations on matters in connection with:</p> <ul style="list-style-type: none"> <li>(i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;</li> <li>(ii) the implementation of the Central Bank Guidelines issued to Auditors from time to time;</li> <li>(iii) the application of the relevant accounting standards; and</li> <li>(iv) the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.</li> </ul>	<p>By statutes the Auditor General is the External Auditor of the Bank.</p> <p>Not Applicable.</p>
(d)	<p>The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.</p>	<p>Since the Auditor General is the External Auditor, the independence and objectivity are maintained. Effectiveness of the audit process is discussed with the Superintendent of the Government Audit at Board Audit Committee meetings.</p> <p>Complied with.</p>
(e)	<p>The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services.</p>	<p>Not relevant as the Auditor General is appointed as per the Constitution. No such service has been obtained during the year.</p> <p>Complied with.</p>
(f)	<p>The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit.</p>	<p>The Auditor General has a permanent office at the Bank and the Superintendent of the Government Audit attends Board Audit Committee meetings regularly and participates in deciding the scope of the Audit.</p> <p>Complied with.</p>
(g)	<p>The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure and the significant financial reporting judgments contained therein.</p>	<p>Complied with.</p>

(h)	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters.	The Auditor General has a permanent office at the Bank and the Superintendent of the Government Audit attends all Board Audit Committee meetings by invitation.  Complied with.
(i)	The Committee shall review the External Auditor's Management Letter and the managements response thereto.	Reviewed the Auditor General's Report issued under the Section 13 (7) (a) during the year and the management response thereon.  Complied with.
(j)	<p>The Committee shall take the following steps with regard to the internal audit function of the Bank:</p> <p>i. Review the adequacy of the scope, functions and resources of the Internal Audit Department and satisfy itself that the department has the necessary authority to carry out its work;</p> <p>ii. Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;</p> <p>iii. Review any appraisal or assessment of the performance of the Head and Senior Staff members of the Internal Audit Department;</p> <p>iv. Recommend any appointment or termination of the Head, Senior Staff members and outsourced service providers to the internal audit function;</p> <p>v. Ensure that the committee is appraised of resignations of senior staff members of the Internal Audit Department;</p>	<p>The Committee has reviewed the scope and functions under Audit Plan. Please refer Committee Report.  Complied with.</p> <p>The Committee has reviewed audit programme and results and actions on recommendations. Please refer Committee Report on page 109.  Complied with.</p> <p>The performance appraisal of Head of Audit (DGM Audit) for the year 2014 had been carried out in 1st quarter of 2015. Performance of the Senior Staff members of Audit Division is assessed by the Head of Internal Audit and reported to the BAC for review.  Complied with.</p> <p>A comprehensive System Audit is being carried out by a firm of Chartered Accountants during the year under review.  Complied with.</p> <p>No such situation has arisen during the year.  Complied with.</p>

vi. Ensure that the Internal Audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.	During the year, the internal audit function independently perform impartial proficient and due professional care. Head of Internal Audit is a Fellow Member of ICASL and the staff is well-experienced and conversant with banking operations. Head of Internal Audit reports to the BAC directly. Complied with.
(k) The Committee shall consider the major findings of internal investigations and management's responses thereto.	Committee has reviewed major findings and management responses thereto. Please refer Committee Report on pages 109 to 111. Complied with.
(l) The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings.	Complied with.
(m) The Committee shall have:  i. Explicit authority to investigate into any matter within its terms of reference;  ii. The resources which it need to do so;  iii. Full access to information; and  iv. Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	As per the BAC Charter the Committee has been empowered to investigate any matter, access to information, authority to obtain professional advice, resources to carry out its functions etc. Refer Committee Report on page 109.  Complied with.
(n) The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Committee has met 9 times during the year and decisions are recorded. Complied with.
(o) The Board shall disclose in an informative way:  i. details of the activities of the Audit Committee;  ii. the number of Audit Committee meetings held in the year; and  iii. details of attendance of each individual Director at such meetings.	Scope of Board Audit Committee is given on page 87. Number of meetings held during the year was 9. Details of attendance of Directors are given on page 86. Complied with.

(p)	The Secretary of the Committee shall record and keep detailed minutes of the committee meetings	The Board Secretary acts as Secretary and detailed minutes are maintained.  Complied with.
(q)	The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditor.	The existing Whistle-Blower Policy is being reviewed by DGM Audit and is expected to submit the same to BAC.  A process is in place for investigation/deals with improprieties in financial reporting/frauds by Internal Audit which reports to Human Resources Division (HRD) for disciplinary actions and finally reports to BAC.  Complied with.
3 (6) (iii)	The following rules shall apply in relation to the Human Resources and Remuneration Committee:	
(a)	The Committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank.	Remuneration of the Directors is decided by the Ministry.  Remuneration of the CEO and KMPs are decided by the collective agreement.
(b)	The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.	The goals for Directors are not documented as they are appointed by the Minister.  Goals and targets for KMPs are documented through the Action plan for achieving targets for their respective Divisions.  Complied with.
(c)	The Committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Evaluation of performance of CEO is handled by Chairperson/ Chairman while General Manager/CEO evaluates performance of KMPs.  Complied with.
(d)	The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	Complied with.

3 (6) (iv)	The following rules shall apply in relation to the Nomination Committee:	The Directors are appointed by the Subject Minister as per the NSB Act.
(a)	The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.	Section 11 - The Minister shall nominate one of the Directors of the Board to be its Chairman. Section 26 - The Board shall appoint a fit and proper person to be the General Manager of the Bank who shall be the Chief Executive Officer of the Bank. Appointment of KMPs is made by the Board of Directors. Complied with.
(b)	The Committee shall consider and recommend (or not recommend) the re-election of current Directors.	Not Applicable.
(c)	The Committee shall set the criteria for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.	The criteria eligibility to be considered for CEO and KMPs are as per the approval of the Board of Directors. Complied with.
(d)	The Committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the statutes.	Declaration from Directors, CEO and KMPs has been submitted to Director Bank Supervision. The declarations will be obtained through the committee in the future. Complied with.
(e)	The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	Directors are appointed by Subject Minister as mentioned previously. The general practice is that a fit and proper person among senior DGMM is considered as the successor for the post of CEO. The Committee would get involved in the process in the future. Complied with.
(f)	The Committee shall be Chaired by an Independent Director. The CEO may be present at meetings by invitation.	Present Chairman of Nomination Committee is Non-Independent only due to the reason that he is the Chairman of NSBFMC which is a fully-owned subsidiary of the NSB. Complied with.

3 (6) (v)	The following rules shall apply in relation to the Integrated Risk Management Committee:	
(a)	The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories.	Complied with.
(b)	The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis.	Risk Management Division (RMD) assesses the credit, market, operational risks and submits reports to the Committee on a quarterly basis. RMD review risk through product and Sectors, Stress Testing, Liquidity Ratios, KPI, KRI, Loss Event Data etc. and report to IRMC/Board periodically.  Complied with.
(c)	The Committee shall review the adequacy and effectiveness of all management level committees.	Complied with.
(d)	The Committee shall take prompt corrective action to mitigate the effects of specific risks.	The risk indicators have shown as alarming level.  Complied with.
(e)	The Committee shall meet at least quarterly to assess all aspects of risk management including updated Business Continuity Plans (BCP).	The Committee had met 8 times during the year.  Complied with.
(f)	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.	Presently all disciplinary actions are handled by the Human Resources and Development Division. No necessities have arisen during the year.  Complied with.
(g)	The Committee shall submit a Risk Assessment Report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	The RMD submits Risk Review Reports of IRMC directly to the Board meeting held subsequently.  Complied with.
(h)	The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the committee periodically.	Complied with.

**3 (7) Related Party Transactions**

3 (7) (i) & (ii)	The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person.	Complied with.
3 (7) (iii)	The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the Bank carrying on the same business.	Related Party Transactions (if any) carried out with related parties in the normal course of business are disclosed in Note 39 to the Financial Statements 'Related Party Disclosures' on page 239. Complied with.
3 (7) (iv)	A bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation.	Accommodations granted to the Directors are governed by the NSB Act and Section 20 of the Banking Act. The Bank has not granted any accommodations to Directors as per the disclosures made at Board meeting. Complied with.
3 (7) (v)	(a) Where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.	No such instance. Complied with.
3 (7) (vi)	A bank shall not grant any accommodation or 'more favourable treatment' other than on the basis of a scheme applicable to the employees of such bank.	No such instance. Complied with.
3 (7) (vii)	No accommodation granted by a bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	No such instance. Complied with.

**3 (8) Disclosures**

3 (8) (i)	The Board shall ensure that:	
(a)	Annual Audited Financial Statements and Quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that;	Complied with.
(b)	such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with.
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
(a)	A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Refer page 153 on Annual Report of the Board of Directors. Complied with.
(b)	A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Refer page 153 on Annual Report of the Board of Directors and Directors' Statement on Internal Control Over Financial Reporting on page 162. Complied with.
(c)	The External Auditor's Certification on the effectiveness of the internal control mechanism referred to in Direction 3 (8) (ii) (b) above, in respect of any statements prepared or published after 31st December 2008.	Refer Independent Assurance Report on Internal Controls on page 164. Complied with.
(d)	Details of Directors:	
(i)	including names, fitness and propriety,	Profiles of the Directors are given on pages 74 and 75.
(ii)	transactions with the Bank, and	Refer Note 39 (d) to the Financial Statements on page 241.
(iii)	the total of fees/remuneration paid by the Bank.	Refer Note 39 (d) to the Financial Statements on page 241. Complied with

(e)	Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	The net accommodations granted as a percentage of Bank's regulatory capital are given in Note 39 (e) to the Financial Statements on page 241.  Complied with.
(f)	The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration.	Details are given in Note 39 (d) to the Financial Statements on page 241.  Complied with.
(g)	The External Auditor's Certification of the compliance with these Directions in the annual corporate governance reports published after 2008	External Auditor's Certification was obtained and set out on page 164 on Independent Assurance Report.  Complied with.
(h)	A report setting out details of the compliance with -  (i) prudential requirements, regulations, laws; (ii) internal controls; and (iii) measures taken to rectify any material non-compliance.	Please refer Statement on Directors' Responsibility for financial reporting on page 160.  Complied with.
(i)	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision of CBSL if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	Monetary Board has not directed any disclosures to be made public during the year.
<b>3 (9)</b>	<b>Transitional and Other General Provisions</b>	The Bank has complied with the transitional provisions.  Complied with.

**Compliance Requirement of the Corporate Governance Direction No. 12 of 2007** →

The Auditor General has performed procedures in accordance with the principles set out in Sri Lanka Standards on Related Services 4400 applicable to agreed upon procedures engagements issued by The Institute of Chartered Accountants of Sri Lanka, to meet the compliance requirement of the Direction No. 12 of 2007 on Corporate

Governance issued by the Central Bank of Sri Lanka. His findings given in his Report dated 30th April 2015, were not materially different to the matters disclosed above and did not identify any significant inconsistencies to those reported above by the Board.



**Y.F. Deen**  
*Secretary to the Board*



**Aswin de Silva**  
*Chairman*

30th April 2015  
Colombo

The Board Audit Committee (BAC) of the Bank was constituted in accordance with the provisions of the Public Enterprises Guidelines for Good Governance. Central Bank of Sri Lanka (CBSL) under the Banking Act Direction No. 12 of 2007 on 'Corporate Governance for Licensed Specialised Banks' has also directed each Bank to form four Board appointed Committees including the Board Audit Committee and has stipulated the rules applicable to Board Audit Committee under Section 3 (6) (ii) of the said Direction.

The Committee comprises of three Non-Executive Directors of the Bank, who are all independent. The following Directors served on the Committee during the year 2014:

Mr. Lionel P. Fernando - Chairman of the Committee  
(13th January 2015)  
Mr. S.R. Attygalle - Member (Up to 24th February 2015)  
Mr. Hema Madiwela - Member (Up to 27th January 2015)  
Mr. Sumith Wijesinghe - Member (Up to 2nd February 2015)

Following Directors were appointed to the Board Audit Committee since 12th March 2015:

Mr. Bradley Emerson - Chairman  
Mr. Mahinda Siriwardana - Member

### Meetings and Attendance →

During the financial year ended 31st December 2014, nine (09) Committee meetings were held. The details of the dates of the meetings held and the attendance of the Committee members are given below:

	Members of the Committee			
	Mr. Lionel P. Fernando	Mr. S.R. Attygalle	Mr. Hema Madiwela	Mr. Sumith Wijesinghe
13th February 2014	✓	✓	✓	-
25th February 2014	✓	✓	✓	✓
24th April 2014	✓	✓	✓	Excused
22nd May 2014	✓	✓	✓	✓
18th July 2014	✓	Excused	✓	✓
22nd September 2014	✓	✓	✓	✓
7th November 2014	✓	✓	✓	✓
13th November 2014	✓	✓	✓	✓
9th December 2014	✓	✓	✓	Excused

✓ - Attended

The Secretary to the Board of Directors functioned as the Secretary to the Committee. The members of the senior management who were invited also attended the Committee meetings during the year. The Superintendent of the Government Audit attended the meetings regularly, as an observer.

### **Internal Audit Manual** →

The Internal Audit Manual of the Bank summarises the operations of the internal audit function and delineates the policies, standards and procedures which will generally govern the internal audit function.

### **Board Audit Committee Charter** →

The Committee functioned within the terms of reference stipulated in the Board Audit Committee Charter. In terms of the Charter, the scope of the Committee was to assist the Board of Directors in fulfilling its oversight responsibilities for:

- (a) The integrity of the Bank's Financial Statements;
- (b) The effectiveness of the Bank's risk management function;
- (c) The performance of the Bank's external audit function;
- (d) The performance of the Bank's internal audit function.

The Charter also stipulates the functions and responsibilities, and the authority of the Committee. The Charter Checklist was used to assist the Committee to assess its compliance to the Charter in performing Committee's functions and discharging its responsibilities. The completed Charter Checklist was submitted to the Board of Directors for review.

### **Internal Audit Charter** →

The Internal Audit Charter is used in order to assist the internal audit to discharge its duties effectively and independently. The Charter includes the scope, functions, responsibilities, authorities, reporting procedure and independence and objectivity of the internal audit.

### **Activities during the Year** →

The Committee attended to the following activities during the year 2014:

1. Reviewed the Charter Checklist to assess the compliance to the Charter in performing Committee's functions and discharging its responsibilities for the year 2013.
2. Discussed and completed the Self-Assessment Guide of the Board Audit Committee for 2013.
3. Reviewed the Financial Statements of the Bank for the year ended 31st December 2013, and the quarters ended, 31st March, 30th June, and 30th September 2014 before publication and recommended to submit the same to the Board of Directors.
4. Periodically reviewed the performance of the Audit and Vigilance Division as against the Audit Plan approved for the implementation in 2014.
5. Approved the Report on the Board Audit Committee activities to be included in the Annual Report for the year 2013.
6. Reviewed the performance appraisal of senior audit staff members of the Audit and Vigilance Division.
7. Reviewed the internal audit findings of the branch audits, Head Office divisional audits and the information system audits. The Committee considered the internal audit reports, the deficiencies observed therein, responses by the Heads of Divisions and branches and corrective actions taken to rectify the deficiencies observed.
8. Reviewed the Report of the Auditor General issued in terms of the Section 13 (7) (a) of the Finance Act No. 38 of 1971 on the accounts of National Savings Bank for the year ended 31st December 2012 and the management response thereon.
9. Reviewed the findings pertaining to the Audit and Vigilance Division in the Central Bank of Sri Lanka Statutory Examination Report and the action taken thereon.

10. Reviewed the summary of internal investigations on the fraudulent and irregular activities and management action thereon.
11. Reviewed and discussed the findings of the information system audit carried out by the outsourced consultant.
12. Reviewed the resource requirement of the internal audit division including the manpower requirement and the staff matters of the Audit and Vigilance Division.

### ***External Audit*** →

By statute, the Auditor General is the External Auditor of the Bank. The Superintendent of Government Audit is invited to attend to the Committee meetings as an observer. The External Auditor was invited to discuss the findings of the External Auditor during the Committee meetings. The Committee ensured the provision of all information and documents required by the External Auditor for the purpose of audit.

### ***Reporting*** →

The Committee directly reported to the Board of Directors about its activities along with the minutes of the meetings.

The Committee is of the view that the terms of reference of the Committee were complied within all material aspects.



**Bradley Emerson**  
*Chairman - Board Audit Committee/Director*

26th March 2015  
Colombo

Human Resource and Remuneration Committee (HRRC) constituted in terms of the provisions of Section 3 (6) (i) and (iii) of Banking Act Direction No. 12 of 2007 issued by the Monetary Board of the CBSL under Section 76 J (1) of the Banking Act No. 30 of 1988, as amended. The Committee reports directly to the Board of Directors (Board). During the year, the Committee comprised of three Non-Executive Directors of whom one Director was Independent as set out below:

Ms. W.A. Nalani	NIND/NED	Chairperson	Until 19.01.2015
Mr. S.R. Attygalle	NIND/NED	Member	Until 24.02.2015
Mr. H. Madiwela	IND/NED	Member	Until 27.01.2015

The HRRC has been reconstituted with two Non-Executive Directors as follows with effect from 12th March 2015.

Mr. Aswin De Silva	NIND/NED	Chairman
Mr. D.L.P.R. Abeyaratne	NIND/NED	Member

*NIND - Non-Independent, NED - Non-Executive Director, IND - Independant*

The Secretary to the Board functions as the Secretary to the Committee. General Manager/CEO presents at all meetings by invitation of the Committee except when matters relating to General Manager/CEO are discussed.

The Committee is responsible for determining the remuneration policy relating to the Key Management Personnel of the Bank other than the remunerations determined by the Collective Agreements.

The Committee reviews all significant Human Resource Policies, initiatives, salary structures and terms and conditions relating to staff at senior executive level. In this process, necessary information and recommendations are obtained from the General Manager/CEO and the Senior Management of the Bank.

During the financial year ended 31st December 2014, five HRRC meetings were held and the following activities were carried out:

1. Reviewed the proposal for Recruitment of Assistant Legal Officers of Grade IV and recommended the same to the Board with proposed amendments to the cadre and the designations therein.
2. Reviewed the Performance Bonus Payment criteria used in the Bank.
3. Evaluated the recruitment for the Post of Deputy General Manager of Human Resources Development and recommended to the Board of Directors with amendments.
4. Reviewed the Charter of HRRC and recommended it to the Board of Directors subject to amendments.
5. The Committee reviewed the Absorption of Sales Officers worked on contract basis to the Bank cadre.
6. Reviewed and recommended the Bank's Cadre for 2014 and the Organisational Structure to the Board of Directors.
7. Reviewed the Promotion Schemes for Project Officer of Grades III-II, Assistant Engineer (Electrical) of Grades III-II and recommended them to the Board of Directors.
8. Reviewed the Outsourced Personnel in the Bank.

The attendance of the meetings is given on page 89 of this Annual Report. The proceedings of the Committee meetings have been regularly reported to the Board of Directors.



**Aswin De Silva**  
*Chairman – Human Resources and Remuneration Committee*

26th March 2015  
Colombo

**Composition of Integrated Risk Management Committee (IRMC) of the Bank** →

The IRMC was established by the Board of Directors (Board), in compliance with the Section 3 (6) (i) and (v) of the Direction No. 12 of 2007, issued by the Central Bank of Sri Lanka under powers vested in the Monetary Board in terms of the Banking Act No. 30 of 1988. IRMC of NSB consisted of three Non-Executive Directors, members of the Corporate Management and the Compliance Officer. The Secretary to the Board functions as the Secretary to the Committee. The details of the members are given on pages 158 of this Annual Report.

The terms of reference set out by the Board of Directors, include the following:

- Advise the Board of Directors in fulfilling its responsibilities relating to risk management.
- Implement the Integrated Risk Management Policy approved by the Board of Directors and periodically update the Bank wide Risk Management Framework.
- Ensure that all risks; credit risk, market risk, operational risk and strategic risk faced by the Bank are identified, monitored, and adequately managed;
- Work with Key Management Personnel very closely and make recommendations to the Board of Directors within the framework of the authority and responsibility assigned to the Committee.

**Charter and the Responsibilities of the Risk Management Division** →

The Risk Management Division prepares and collates the materials necessary for the IRMC to deliberate and recommend the decisions on matters falling within its mandate for approval of Board of Directors. These papers

are circulated to members in advance. The process and the methodology through which risks were managed is explained in detail in the Risk Management Report on pages 115 to 149 of this Annual Report.

**IRMC Meetings of the Year** →

IRMC held eight meetings on a quarterly basis during the year 2014. The attendance of members in the Committee is listed on page 89 of this Annual Report. The minutes of the meetings and risk reports were submitted to the Board of Directors regularly.

The Committee reviewed Internal Capital Adequacy Assessment Process (ICAAP) document, Introduction of Internal Information Disclosure, Related Party Transaction and Operational Risk Policies and also reviewed the Outsourcing Policy, Related Party Policies of the Bank. The risk review covers Stress Testing, Risk Appetite and Tolerance, Loss Event Data Examination, Risk Measurement Techniques etc. The Committee also extensively was involved in monitoring and controlling the findings of the statutory examination process. Further IRMC has assessed the Corporate Governance and Regulatory Framework, KYC compliance status, etc. at its meetings and was satisfied that the actions taken in respect of managing risks of Bank.



**D.L.P.R. Abeyaratne**  
Chairman – Integrated Risk Management Committee

26th March 2015  
Colombo

Nomination Committee (NC) was established by the Board in compliance with the provisions of Section 3 (6) (i) of the Direction No. 12 of 2007 issued by the Monetary Board of the Central Bank under Section 76 j (i) of the Banking Act No. 30 of 1988 as amended. The Nomination Committee reports directly to the Board and it is governed by the rules given in Section 3 (6) (iv) of the above stated Directions. The Nomination Committee comprised of three Non-Executive Directors during 2014 and currently two Non-Executive Directors serve in the Committee.

Mr. Aswin De Silva	NIND/NED Chairman	from 12.03.2015
Mr. D.L.P.R. Abeyaratne	NIND/NED Member	from 12.03.2015
Ms. W.A. Nalani	NIND/NED Chairperson	Up to 19.01.2015
Mr. S.R. Attygalle	NIND/NED Member	Up to 24.02.2015
Mr. S.T. Abeygunawardena	NIND/WD Member	Up to 27.01.2015

*NIND – Non-Independent NED – Non-Executive Director WD – Working Director*

Secretary to the Board of Directors functions as the Secretary to the Committee.

The Nomination Committee is responsible for implementing a procedure to select/appoint General Manager/CEO and Key Management Personnel, setting criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotions to the Post of General Manager/CEO and Key Management Positions. Further, the Committee shall ensure that the

Directors, General Manager/CEO and Key Management Personnel are fit and proper persons to hold office specified in the criteria given in Section 3 (3) of Direction under Section 76 j (i) as stated above. The Committee shall also consider and recommend from time to time the requirements of additional/new expertise and succession arrangements for retiring Key Management Personnel.

During the financial year ended 31st December 2014, one Nomination Committee meeting was held on 24th December 2014 and the Succession Plan of the Bank for the years 2015/2016 and 2017 was reviewed by the Committee who advised to amend the Succession Plan.



**Aswin De Silva**  
*Chairman – Nomination Committee*

26th March 2015  
Colombo

The NSB Group consists of National Savings Bank (The Parent Company) and NSB Fund Management Company. The information presented in this Report mainly focus on 'the Bank' (The Parent Company) since it accounts over 99% of the total assets, liabilities, income and expenditure of the Group.

Risk management report discusses the risk management framework of the Bank and the risk factors which may cause actual future results differ from expected results. The factors discussed in this report address critical risk aspects but cannot consider as a complete set of potential risks and uncertainties.

### **Business Condition and Impact** →

NSB is the premier savings bank in the country, owned by the Government of Sri Lanka. The profitability of the Bank's business could be adversely affected by the Government policy changes, general economic condition of the country and changes in the local/global markets.

Considering the potential sources of business risk and the competitive landscape in the financial service market, the Bank devotes substantial management and planning effort to the strategic planning process. In an event of strategic plans do not deliver the anticipated results, the Bank's earnings and the growth will get affected.

Further, factors such as interest rates, inflation, creditworthiness, investor sentiment, volatility of equity prices, liquidity of the financial markets and events disrupting the business operation are some of the factors which affect the Bank's earnings and business position.

Understanding the challenging financial and economic environment, the Bank has recognised the significance of risk management to maintain consistency in profitability and solvency.

### **Risk Management Framework and Governance Structure** →

Bank's strive to inculcate a risk management culture by developing an integrated approach in risk management capable of developing a sustainable and resilient business responsive to the ever-changing business environment.

The Bank is in the process of introducing advancement essential to strengthen the risk management framework to evaluate, monitor and manage the principle risks assumed in conducting its activities. The risk management policies, procedures and systems of the Bank are established in line with the guidelines issued by the CBSL and the international best practices introduced by BASEL.

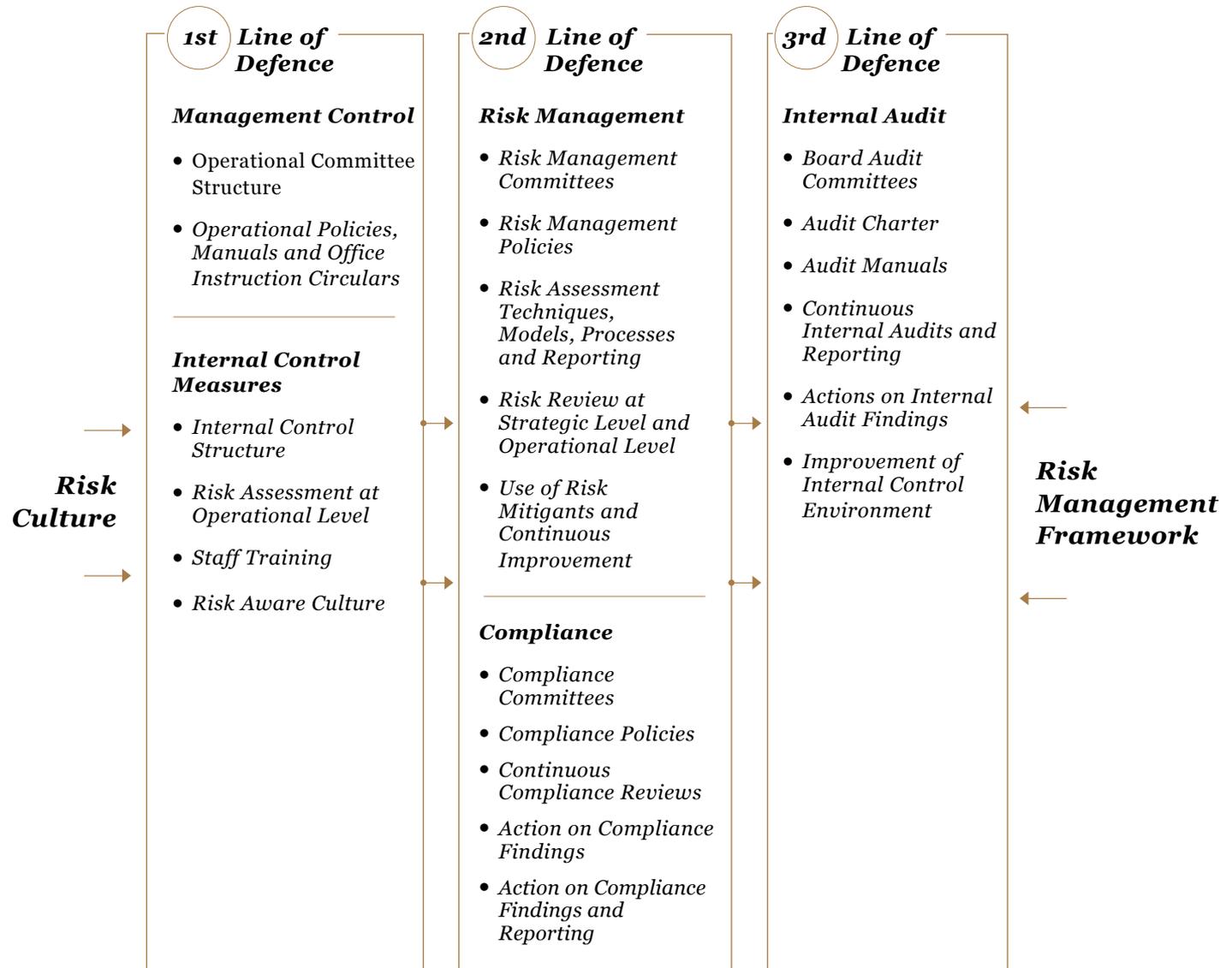
The responsibility of risk management resides at all levels within the Bank. The Bank assigns the responsibility so that risk and return decisions are taken at the most appropriate level, subject to robust and effective reviews in line with the policies and procedures of the Bank.

The risk management framework and the governance structure are based on the three lines of defence model. The Business Heads are responsible for identify and manage risk in the respective business functions, hence the internal control structure and the management controls at operational level acts as the 1st line of defence.

Integrated Risk Management function spearheaded by Head of Risk Management in Risk Management Division (RMD) and the independent compliance function undertaken by the Compliance Division headed by an Independent Compliance Officer act as the 2nd line of defence.

Internal Audit Division headed by the Deputy General Manager - Internal Audit acts as the 3rd line of defence, providing an independent assurance on the accuracy and integrity of the Financial Statements, IT systems, risk management mechanisms and the effectiveness and adequacy of the internal control structure of the Bank.

The risk management governance structure and key responsibilities are discussed below:



**Board of Directors (BOD)** →

Risk management governance structure of the Bank begins with the oversight of the BOD. The overall responsibility to ensure the adequacy of the risk management function within the Bank is vested with the BOD.

The BOD sets the strategic direction through risk management policy framework and procedures and monitors risk using predefined risk appetite limits.

**Integrated Risk Management Committee (IRMC)** →

The Committee assists the BOD in fulfilling the responsibility with respect to risk management and compliance. IRMC monitors the Bank's risk profile against the agreed risk appetite limits and specific risk review reports on a quarterly basis to assist the BOD in discharging its duties in risk management.

The Committee recommends corrective actions to mitigate the effects of specific risks in the case such risks are beyond the risk appetite of the Bank and regulatory and supervisory requirements. IRMC ensures submission of risk assessment reports to the BOD seeking views, concurrence and/or directions on a specific risk issues.

Composition of the Committee consists of members from the BOD and the Corporate Management members appointed by the BOD.

**Board Audit Committee (BAC)** →

The BAC assists the BOD in fulfilling its oversight responsibility to maintain the effectiveness and adequacy of the risk management techniques, internal control structure and the integrity of the Financial Statements of the Bank. The Committee also assists the BOD in assessing the effectiveness of the risk management and compliance functions.

The Committee consists of members from the BOD. The Corporate Management members are invited for deliberations as and when need arises.

**Management Committees** →

Following are the main management committees focus on oversight on key risks

- i. **Corporate Management Committee (CMC)** is responsible for managing the overall affairs of the Bank with due consideration to the risk emanate from internal and external sources.
- ii. **Asset Liability Management Committee (ALCO)** is responsible for management of the Balance Sheet and takes asset allocation and pricing decisions in risk and return perspective focusing the market risk.
- iii. **Investment Committee (IC)** is responsible for review and implementing the Investment Policy Statement and manage the key risk in investment, corporate lending and project finance.
- iv. **Credit Committee (CC)** is responsible for review and implementing the Retail Credit Policy and manages the retail credit risk through reviewing retail credit procedures, portfolios.
- v. **Executive Risk Management Committee (ERMC)** is responsible for managing risk through review and implementing the risk management policies, procedures and systems on Bank-wide basis.
- vi. **Executive Compliance Committee (ECC)** is responsible for managing the compliance risk through implementing the compliance policy and monitoring adherence to the relevant laws, regulatory requirements.
- vii. **IT Steering Committee (ITSC)** manages operational risks driven through systems by review and implementing the IT Policy and monitoring support activities relating to developments, procurement, automations and system/network security.

viii. **Performance Review Committee** reviews quarterly performance of the Bank, mainly considering the financial performance, business operations (credit, branches, international and support services) to take decisions to enhance process efficiency and performance.

ix. **Marketing Committee** is responsible for promoting corporate image and enhancing the brand value of the Bank's products and services.

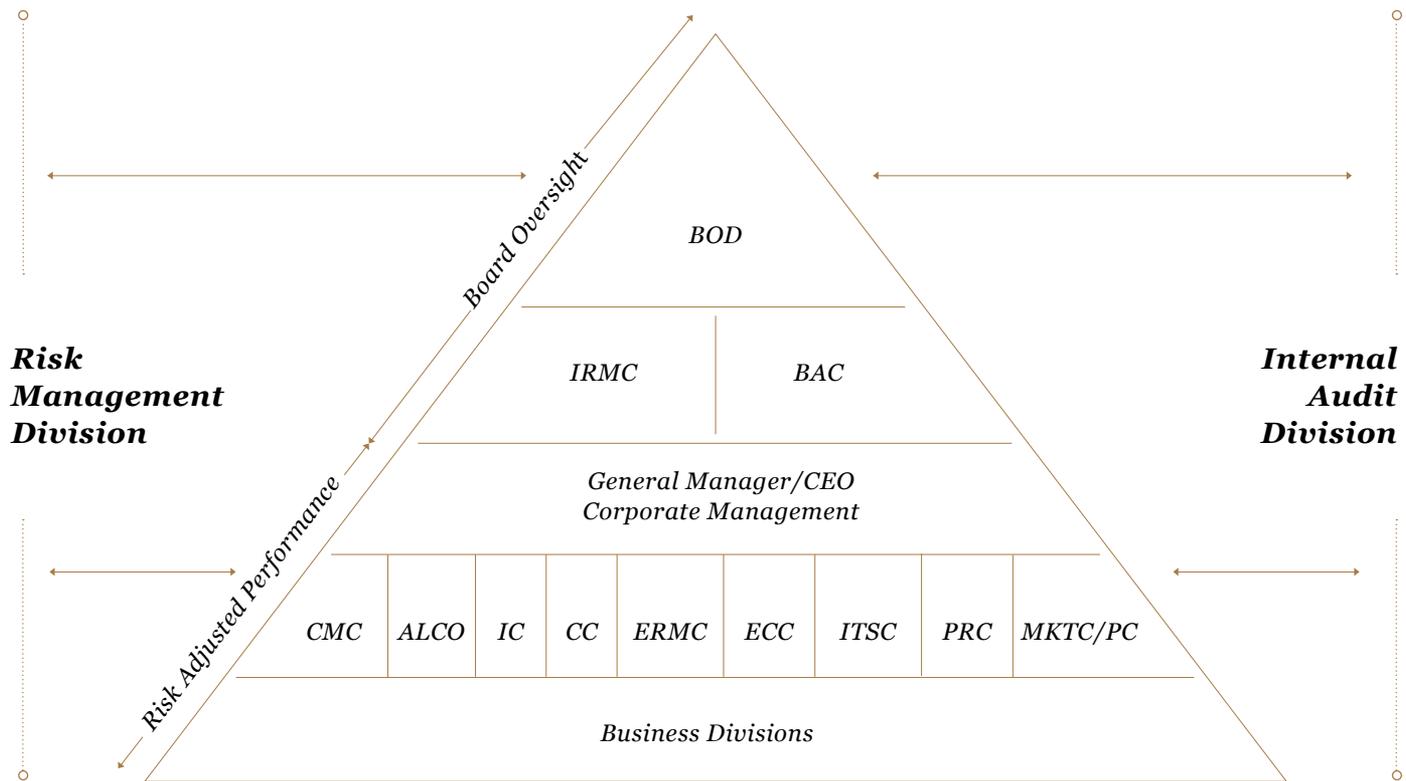


Figure: Risk Management Governance Structure

- |   |   |  |                                    |
|---|---|--|------------------------------------|
| IRMC - Integrated Risk Management Committee | ALCO - Asset Liability Management Committee | ERMC - Executive Risk Management Committee | PRC - Performance Review Committee |
| BAC - Board Audit Committee                 | IC - Investment Committee                   | ECC - Executive Compliance Committee       | MKTC - Marketing Committee         |
| CMC - Corporate Management Committee        | CC - Credit Committee                       | ITSC - IT Steering Committee               | PC - Procurement Committee         |

***Risk Appetite and Tolerance Limit*** →

Risk appetite sets out the level of risk the Bank chooses to take in pursuit of its strategic objectives. To determine the acceptable level of risk, the management analyses the potential volatility in earnings against the financial projection.

The risk appetite framework considers main risk areas i.e., credit, market and operational, to determine the desired level of capital, leverage and liquidity. The Bank's risk appetite and tolerance limits are approved by the BOD on the review and recommendation of the IRMC. This combines a top down view of the capacity to take risk, with a bottom-up view of the business risk profile recommended by the management.

The RMD tracks and reports to the IRMC, the risk profile against the risk appetite and tolerance limits on a quarterly basis. This monitoring against limits triggers to avoid unexpected losses that would result in disproportionate reduction in profitability, capital adequacy and liquidity.

The Bank is within the risk appetite and tolerance limits set for the liquidity, capital adequacy and profitability.

Indicator	Risk Level	Within Risk Appetite Limit
		Within the Maximum Tolerance Limit
		Below Maximum Tolerance Limit
Capital Adequacy Tier I + Tier II		○
Liquidity		○
Profitability		○

The Bank endeavours to develop an Integrated Risk Management Framework to manage different types of risks in an integrated manner by giving more emphasis on the Pillar I risk categories.

***Credit Risk*** →

Credit risk is the risk of losses resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Bank. Credit risk emanates mainly from the wholesale and retail loans and advances. However, credit risk may also arise from downgrading of an entity's rating causing the fair value of Bank's investment in that institutions' financial instruments to fall.

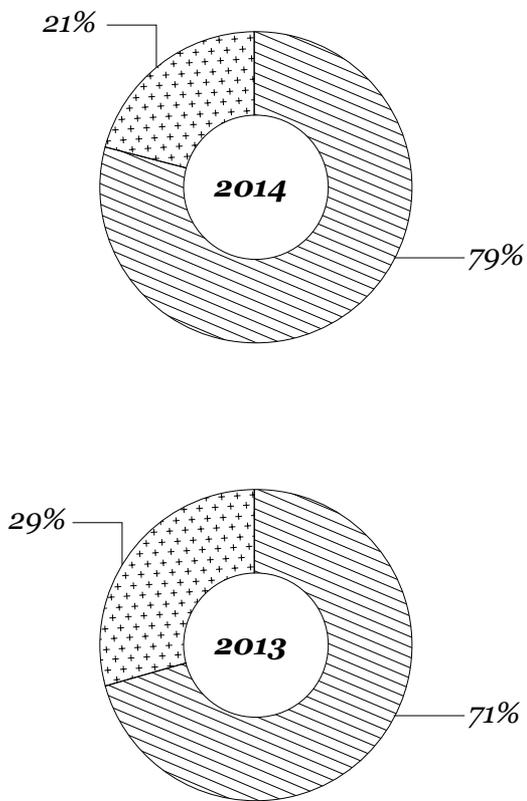
Settlement risk is another form of credit risk, which is the possibility that the Bank may pay the counterparty but fail to receive the corresponding settlement in return. These exposures can arise through activities and relationships such as lending, trading, deposits and settlements.

Credit risk exposures may arise in an event of a customer/ counterparty or a systemic risk affecting the customer/ counterparty to default to meet commitments in relation to any on or Off-Balance Sheet financial transaction.

The On-Balance Sheet credit risk arises mainly from notional value of financial products such as retail/consumer loans, business/corporate loans, loans to banks and financial institutions, loans to state-owned enterprises (SOEs) and loans to the Government. The Off-Balance Sheet credit risk arises from undrawn loan commitments.

**Loans and Advances**

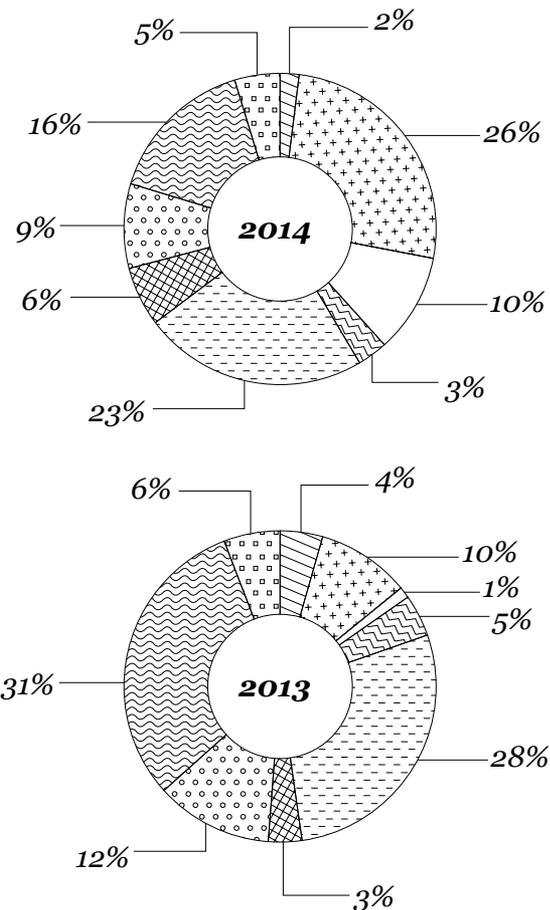
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▨ On-Balance Sheet    ▩ Off-Balance Sheet

**On-Balance Sheet Credit Exposure**

[ % ]



▨ Loans to GOSL    ▩ Loans to SOEs    □ Project Loans  
▨ Loans to Banks    ▩ House and Property Loans    ▨ Personal Loans  
▨ Loans Against Deposits    ▩ Pawning    ▨ Others

The main composition of On-Balance Sheet credit exposure has shifted to SOEs and project loans priced at floating rates from the retail loans, particularly from pawning and house and property loans during the year 2014. This is mainly due to the Bank's role in facilitating the Government development goals by lending to infrastructure projects and strategic approach for reducing pawning.

### **Credit Risk Management and Reporting Framework** →

Within the year under consideration, the Bank's total loans and receivables increased by 33.8% against the previous year. This is mainly due to the strategic initiatives taken to expand lending to infrastructure projects and through diversifying the retail product portfolio under the concept of 'Naya Pokura'.

The Bank operates within well-defined criteria for new credit as well as for the expansion of existing credit within the target markets. The BOD approved Credit Risk Management Policy goes in line with the lending strategy and introduce framework of controls on credit risk taking to ensure a risk and return trade-off. The BOD approved Retail Credit Policy (RCP) governs the retail credit function and the Investment Policy Statement (IPS) governs corporate and project lending.

### ***Limit Setting***

Limit setting is an important element of credit risk management. The Bank abides by the single borrower limits stipulated by CBSL and the risk limits stated in the risk appetite document of the Bank.

Delegated authority limits structure governs the credit approval process, where the BOD delegates the appropriate levels of authority to the CC with respect to retail lending, to the IC with respect to corporate and project lending and to different levels of management.

The limits are reviewed on a periodic basis to reflect the market changes and the business environment.

### ***Credit Administration and Recoveries***

Credit Administration and Recoveries are carried out by separate units attached to the Credit Division. Credit administration is a critical element in maintaining a sound credit risk management function within the Bank. It is an essential part in managing the credit risk as well as the operational risk in credit. Credit administration is a back office function which ensures completeness of the documentation, proper approvals, after disbursement monitoring and maintenance of loan and security documents.

Recovery Unit manages all arrears loans including non-performing loans and advances (NPL). The unit monitors arrears credit and takes necessary action to reduce NPL. The Recovery Unit is also responsible for foreclosure actions and management of vested property with the assistance of the legal division.

### ***Loan Review Mechanism (LRM)***

The Bank's BOD approved LRM established procedures for streamlining the appraisal process and to early identification of the lapses in the credit administration process and possible changes in credit quality, to facilitate pre-emptive action to safeguard the credit quality. The implementation of LRM is one of the responsibilities of the Credit Risk Management Unit of RMD.

The Policy on Valuation and Revaluation of Immovable Property (VRIP) is aligned with CBSL Directions to ensure the maximum revenue protection to the Bank in case of a borrower defaults.

The Credit Risk Management Unit at RMD monitors credit risk at portfolio level and transaction level for individually significant loans to ensure highest asset quality and adequate returns. The Bank is in the verge of procuring rating and scoring models to further strengthen the process and to comply with international best practices.

Stress Testing is used as a tool to identify the unexpected risks in credit and to assess the adequacy of capital. The unit uses risk appetite dash boards and key risk indicators to monitor credit risk against predefined risk appetite limits on a continuous basis. The findings of special risk reviews on specific risk areas are reported to CC, IC, ERMC, IRMC and the BOD on regular intervals.

### **Credit Risk Identification, Assessment and Mitigation** →

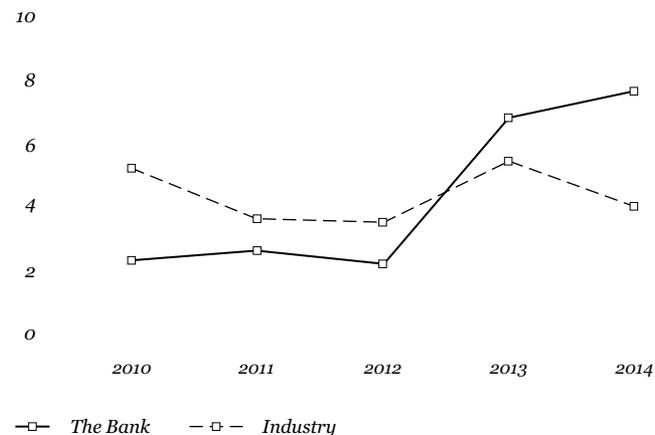
Parameters

Risk Management/Mitigation

#### **Credit Quality**

##### **Gross NPL**

[%]



The Bank's NPL level was higher than the industry during the past two years. In the year 2014, the Bank's Gross NPL ratio stood at 7.8% level.

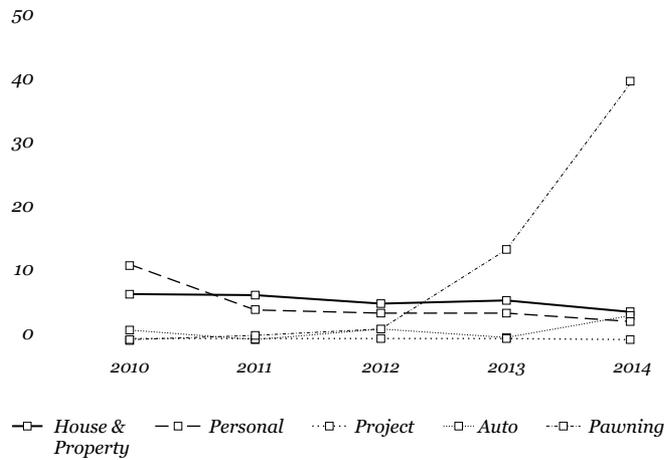
The increase of NPL is mainly due to increase in non-performing pawning advances as a result of declining trend in the market prices of gold.

During the year under consideration, the Bank has an impairment allowance of Rs. 3.9 Billion, which is 24% from the gross non-performing loans.

## Parameters

**Product-wise NPL of the Bank**

[ % ]



## Risk Management/Mitigation

The Bank has taken following actions to reduce/minimise pawning losses:

- Taking aggressive recovery actions such as providing interest concessions and conducting auctions.
- Follow CBSL credit guarantee scheme on pawning advances.

NPL excluding pawning is below the industry level and within the risk appetite level of the Bank.

Gross NPL excluding Pawning	1.62%
Net NPL excluding Pawning	1.18%

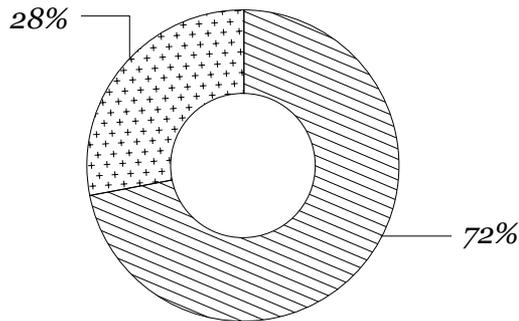
Parameters

Risk Management/Mitigation

**Credit Exposure Based on Level of Collaterals**

**Credit Exposure Based on Level of Security**

[ % ]



▨ Secured Loans    ✕ Unsecured Loans

The Bank holds collateral against the customer/counterparty exposures for credit risk. These collaterals are Treasury guarantees, movable and immovable property and guarantors stipulated in the RCP and the IPS.

From the total portfolio, 72% are secured loans while 28% are unsecured. The unsecured portion consists of loans to SOEs and short-term loans to banks and financial institutions with credit ratings as per the IPS.

Type of Collateral	LTV %	Collateral Mix 2014 %
Cash	80-90	11.64
Sovereign Guarantees	100	36.88
Property	75	30.47
Gold	80	20.54
Others - Vehicles	60-75	0.46

The Bank strikes to maintain Loan to Value Ratio (LTV) at the levels approved at policy level for cash, gold, property and other movable assets.

The Bank's BOD approved VRIP policy and procedures ensure maximum protection to the Bank with respect to loans against the immovable property which secures a fair portion of the retail credit and to ensure compliance with regulatory requirements.

**Concentration Risk** →

Concentration risk is a part of credit risk. It refers to the risk arise from uneven distribution of counterparties in credit or any other business relationship or from concentration in the portfolio of exposure to a business sector or a geographic region.

When number of counterparties engaged in similar activities and have similar economic characteristics can get similarly affected by the changes in economic and other conditions (systemic risk) that could adversely affect their ability to meet contractual obligations.

Concentration risk in credit portfolio may occur directly through obligors or through protection providers' i.e., collateral. In time of stress both obligor concentration and collateral concentration may drive a Bank towards financial distress.

The Credit Risk Management Unit of RMD uses Herfindahl-Hirschman Index (HHI), Concentration Limits and Stress Testing to assess and monitor concentration risk in the credit portfolio of the Bank.

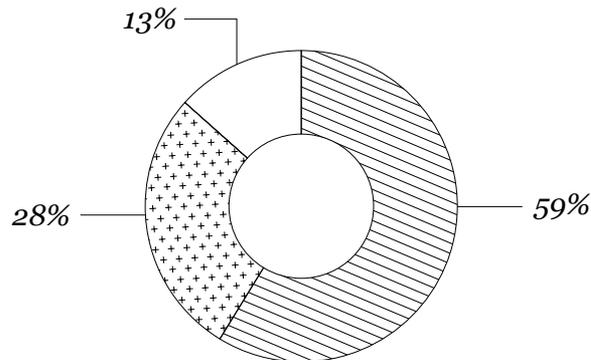
**Concentration Risk Identification and Assessment and Mitigation** →

Parameters

Risk Management/Mitigation

**Name Concentration****Concentration of Loans by Types of Borrowers**

[ % ]



▨ Individual Borrowers    ▣ Government Institutions    □ Private Institutions

Name concentration arises from uneven distribution of counterparties in credit. The Bank seeks to manage its name concentration risk through the diversification to ensure that the concentration of risks with individuals or groups of customers or institutions is at an acceptable level.

59% of the loans and advances are for individual borrowers.

Parameters			Risk Management/Mitigation
<b>Concentration of Customers - Retail Portfolio</b>			
	2014	2013	
Value of Top 50 Customers as a % of Retail Loans and Advances	<b>0.56</b>	0.23	The name concentration in retail loan portfolio is low, where the Top 100 Borrowers are below 1% of the total retail exposure demonstrating the existence of a large portfolio in which each individual loan constitutes an insignificantly small share of the total portfolio exposure.
Value of Top 100 Customers as a % of Retail Loans and Advances	<b>0.88</b>	0.37	
<b>Concentration of Customers - Total Loan Portfolio</b>			
	2014	2013	
Value of Top 5 Customers as a % of Total Loans and Advances	<b>12.13</b>	6.62	The name concentration of overall credit portfolio is at low level but has increased during the year under review as a result of high volume loans granted to SOEs and Corporates. The Bank ensures that all lendings are within the single borrower limits stipulated by CBSL.
Value of Top 10 Customers as a % of Total Loans and Advances	<b>18.24</b>	9.34	

Parameters

Risk Management/Mitigation

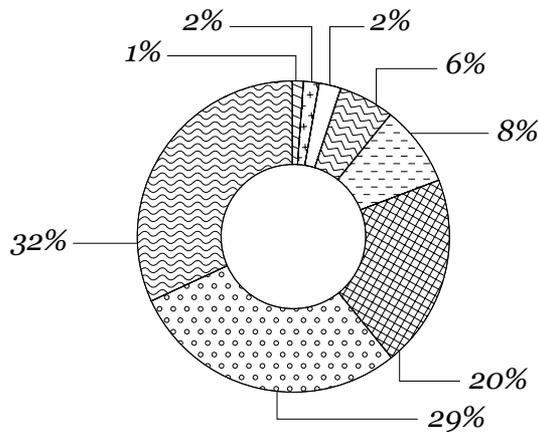
### Sector Concentration

Industry Concentration	2014	2013
HHI	0.2171	0.2089

Sector concentration arises from uneven distribution of exposures to particular sector, industry or a region.

### Concentration of Loans by Industry

[ % ]



- Manufacturing
- Traders
- Financial and Business Services
- Other Services
- Agriculture and Fishing
- Other Sectors
- Construction
- Infrastructure

The Bank monitors concentration risk using Herfindahl-Hirschman Index (HHI).

Considering the present economic scenario, the Bank has an appetite to a medium concentration risk, provided the Bank can achieve reasonable margins and assert the development goals of the Government.

The Bank has a high concentration towards infrastructure sector.

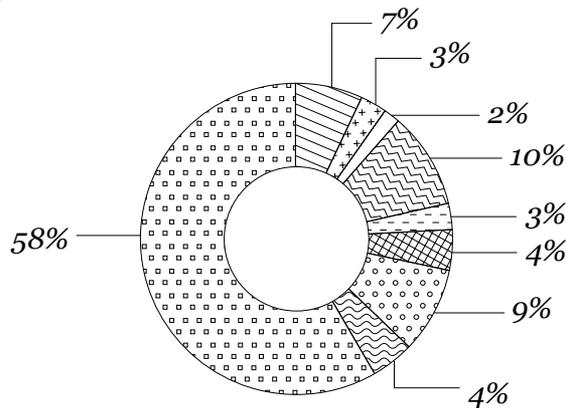
Note: Pawning advances in Note 23. (b) are allocated to different industries based on the purpose of borrowing. Agriculture sector as a % of Total Loans excluding infrastructure sector loans is 12%, which is above the 10% minimum requirement stipulate by CBSL.

Parameters

Risk Management/Mitigation

**Geographical Concentration of Loans**

[%]



- Central
- Eastern
- North Central
- North Western
- Northern
- Sabaragamuwa
- Southern
- Uva
- Western

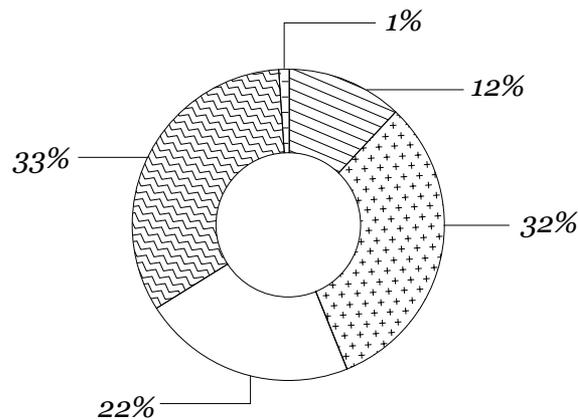
There is a high concentration towards Western Region.

This is mainly due to large loans, project lending and lending to infrastructure projects, which accrue economic benefits to different regions are booked in Head Office Corporate Finance Division.

**Collateral Concentration**

**Secured Loans and Receivables**

[%]



- Cash
- Property
- Gold
- Sovereign Guarantee
- Vehicles

Bank monitors the concentration in collateral on a continuous basis.

From the total loans and receivables 33% are guaranteed by the Government with zero risk weights.

Property backs a considerable portion of credit (32%) and procedures are in place to reevaluate the property according to the Bank's policy and the CBSL guidelines.

Considering the high collateral concentration, the Bank's CRMU monitors the collateral values to maintain LTV at acceptable levels.

Gold-backed lending consists of 22%. The Bank allocated capital under ICAAP for residual risk in pawning due to reduction in gold prices.

**Market Risk** →

Market risk refers to the risk of losses in on and Off-Balance Sheet positions arising from movements in market prices as per the Basel Committee definition. The fluctuations in interest rates, foreign currency, equity prices may cause adverse impact to the profitability and business assets.

The market variations can also cause other forms of financial risk such as credit and liquidity risks. The Bank with the objective of minimising market risk while optimising the returns from its operations have taken appropriate actions to manage market risk as per the CBSL Directions, Board approved policies and procedures and industry best practices under BASEL.

**Market Risk Management and Reporting Framework** →

Market Risk and Liquidity Risk Management (MRLRM) Policy governs the market risk and liquidity risk initiatives in accordance with other operational policies such as Assets and Liability Management and Liquidity Management Policy, IPS, Pricing Policy etc. The MRLRM policy includes the organisational structure, the assessment and measurement methodologies and reporting of the market risk and liquidity risk of the Bank.

The Market Risk Management Unit (MRMU) of the RMD is responsible for overall market risk management and middle office functions. MRMU independently reports the market risk and liquidity risk profile to ALCO, IC, ERMC, IRMC recommending appropriate actions to mitigate/minimise adverse impact on earnings and assets.

**Middle Office Function**

Middle Office (MO) within the MRMU functions independently from the Treasury operations. In the absence of an online deal monitoring system, MO monitors the trading and investment in equity, debt instruments and foreign currency using the limits predefined in the IPS. The findings are directly reported to the ALCO, IC and the

Treasury Front Office through Head of Risk Management. MO submits market risk related reports daily, weekly, monthly and annually stating an independent opinion regarding the Bank's Treasury operations. These reports are generated as per the CBSL Guidelines and the international best practices. Further, ad hoc reports are submitted to relevant authorities when required or in special circumstances.

**Limit Setting and Monitoring**

Risk Appetite Document of the Bank spells out the amount and type of risk the Bank is willing to accept with respect to market risk. The Bank has taken followings into consideration when deciding the risk appetite level for market risk:

- The overall financial position and risk appetite level of the Bank.
- The prevailing economic and market conditions and its impact towards the Bank.

The IPS stipulates the operational level limits for monitoring purposes. This includes portfolio limits, individual stock level limits, transaction limits, dealer limits and loss limits on equity, debt instruments and foreign currency operations according to the risk appetite level of the Bank. MO of the RMD monitors limits to ensure the limits approved by the Board are adhered to and exceptions are reported to Front Office of the AMD and IC.

**Market Risk Identification, Assessment and Mitigation** →**Interest Rate Risk**

The BASEL Committee defines interest rate risk as the exposure of a bank's financial condition to adverse movements in interest rates. Changes in interest rates affect Bank's earnings by changing its net interest income and the level of other interest sensitive income and operating expenses. The changes in interest rates may also affect the underlying value of the Bank's assets, liabilities and Off-Balance Sheet instruments.

Interest rate risk is one of the most significant aspects in the market risk since excessive interest rate risk can pose a significant threat to the earnings and the economic value of equity of the Bank, hence measured in both perspectives.

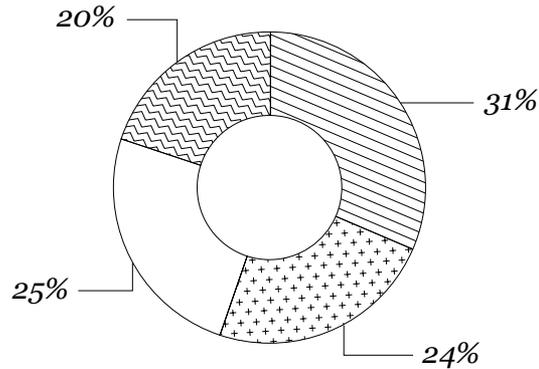
Parameters

Risk Management/Mitigation

**Funding and Investments**

**Maturity Analysis of Loans and Advances & Investments**

[ % ]



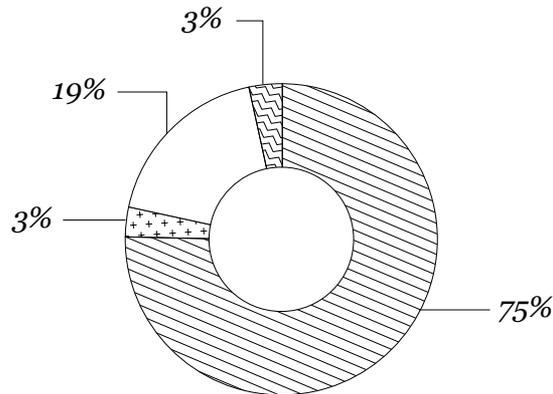
▨ Less than 1 Year   ▩ 1 to 3 Years   □ 3 to 5 Years   ▤ Over 5 Years

The assets are mainly funded through deposits which is 71% of the total liabilities. This has resulted in increased funding of less than 1 year. However, the Bank has taken actions to manage interest rate risk by funding through long-term sources such as international bonds.

In a low interest rate scenario, RMD closely monitors funding & investment mix and the maturity analysis to identify the impact to the Bank's NIM and to recommend risk mitigation actions.

**Maturity Analysis of Funding**

[ % ]

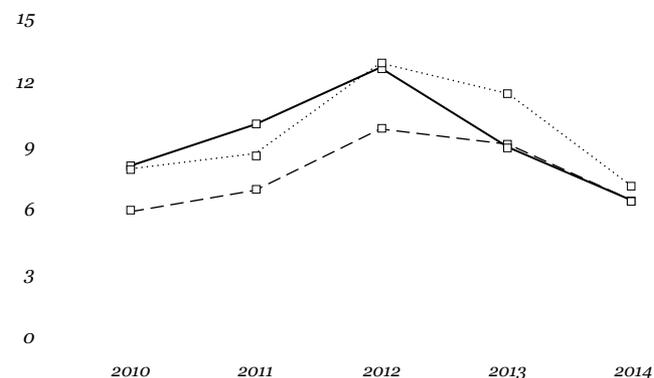


▨ Less than 1 Year   ▩ 1 to 3 Years   □ 3 to 5 Years   ▤ Over 5 Years

## Parameters

**Market Interest Rate Movements**

[ % ]



—□— 364 Days T Bills (Gross)    - □ - AWDR    ···□··· AWFDR

## Risk Management/Mitigation

Interest rates sharply declined during the year 2014.

This improvement is mainly due to fixed-rated Loans and Treasury Bonds.

However, in an interest rate increasing scenario, re-pricing of deposits will adversely impact the Bank.

RMD monitors interest rate trends and conducts stress tests to identify the impact and to take proactive measures.

**Rate Sensitive Gap Analysis**

Description	Up to 3 Months	3-12 Months	1-3 Years	3-5 Years	Over 5 Years
Total Rate Sensitive Assets (Rs. Million)	84,579	165,550	174,528	178,130	143,654
Total Rate Sensitive Liabilities (Rs. Million)	392,746	198,221	18,834	135,452	0
Rate Sensitive Gap (Rs. Million)	(308,167)	(32,671)	155,694	42,678	143,654
Gap as a % of Rate Sensitive Liabilities (%)	-78	-16	827	32	

Interest Rate Risk in the Banking Book (IRRBB) is assessed through re-pricing under the earnings perspective.

The Bank has negative gaps in less than 1 year buckets. This is mainly due to the increasing of investment in Government Securities with a maturity of more than 1 year and granting of long to medium-term loans, where as major portion of deposits mature in less than 12 months.

RMD conducts stress testing on the gaps using adverse rate shocks and assess the adequacy of capital. This was recognised in the ICAAP to allocate additional capital under the IRRBB.

## Parameters

## Risk Management/Mitigation

**Modified Duration Gap**

Interest rate risk is also calculated under the economic perspective through Modified Duration Gap. The results are used to measure the IRRBB and take corrective actions accordingly.

	2014 Years	2013 Years
Weighted-Average Duration of RSAs	2.74	1.59
Weighted-Average Duration of RSLs	1.05	1.09
Modified Duration Gap	1.93	0.72

To be less affected by interest rate swings, the Bank can use two alternative methods:

- i. Converting fixed rate loans into adjustable rate loans
- ii. Reducing duration gap of the Bank

During the year 2014, the Bank moved to offer floating interest rate rather than fixed rate for loans and advances. This would contribute favourably to the Bank's profitability in the medium to long-term and reduces the re-pricing risk.

The duration gap of the Bank stood at 1.93 years and has increased compared to the previous year mainly on account of investing in longer tenor Treasury Bonds and offering of loans in longer tenor.

The Bank can benefit from duration gaps in an interest rates falling scenario. However, RMD monitors and conducts stress tests to identify the impact to the Bank in an interest rate increasing scenario.

**Portfolio Performance - Government Securities**

	2014 Rs. Million	2013 Rs. Million
Capital Gain on Treasury Bills/ Trading Bonds	848.9	138.7
Mark to Market Gain/(Loss) - Trading Portfolio	138	206

Total investments in Treasury Bills and Bonds represent 84% of the deposits of which 0.7% represents the trading portfolio.

The Government Securities trading portfolio is mark-to-market on a daily basis to assess the portfolio value.

During the year 2014, the Bank generated a trading profit of Rs. 710 Million over the previous year.

AMD and IC monitor the mark-to-market analysis on a regular basis to safeguard the portfolio quality. Further, the MO monitors the trading portfolio on a daily basis and report to FO of AMD and ALCO.

## Equity Risk

Equity risk is the risk that the equity investments will depreciate due to stock market dynamics causing decline in profitability. The Bank is conscious of systematic and un-systematic risks of the equity portfolio.

Accordingly, the systematic risk is mitigated by diversification and the unsystematic risk inherent to particular stock is monitored and controlled through comprehensive analysis of company fundamentals and technical charts and effective asset allocation. MRMU carefully analyses both quantitative and qualitative variables which may unfavourably affect to the performance of the equity portfolio and reports to relevant authorities frequently.

At the end 2014, the total investment of the equity portfolio amounted to Rs. 7.3 Billion, which is a reduction of 8% compared to the 2013 year end investment value. Total investment in Equity securities represents 1.0% of the total assets of the Bank.

The Bank has a comprehensive limit structure to monitor and minimise the equity risk in the trading portfolio. Marking to market, Value at Risk (VaR) and Stress testing techniques are used by the Bank to measure the equity risk.

### Parameters

#### Analysis of Stock Market Movements

In 2014, ASPI advanced by 23.4%. The growth of the main index prevailed during the first three quarters of the year and lowered during the last quarter due to uncertainties.

### Risk Management/Mitigation

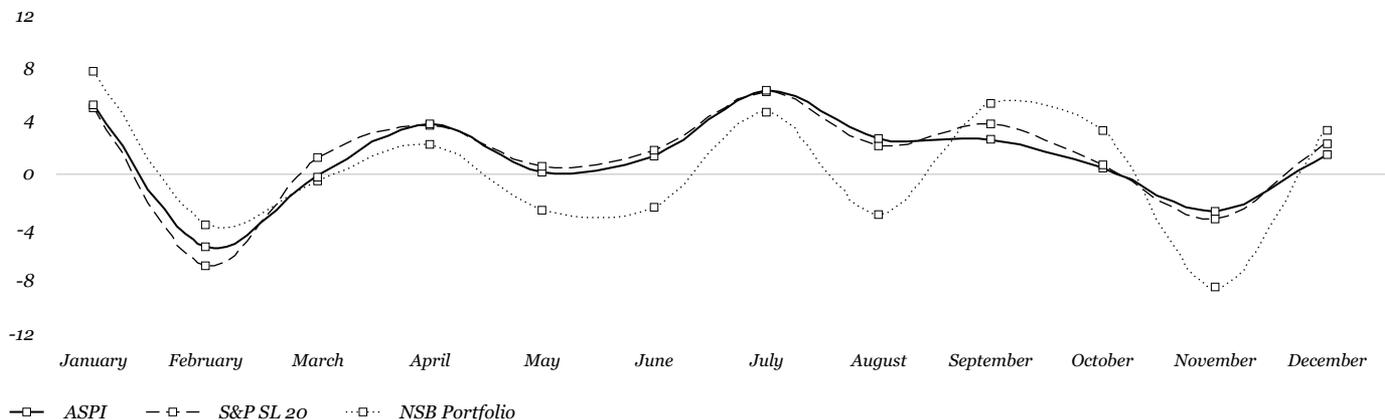
The MRMU/MO monitors the equity market and reports on a continuous basis.

Independent reports are submitted to the Head of Treasury/FO, ALCO and IC on the performance of stocks using predefined alert levels and heat maps.

The Bank recognised a trading profit of Rs. 101 Million in the Year 2014.

## Performance of the Equity Portfolio and Stock Market - 2014

[ % ]



## Parameters

## Risk Management/Mitigation

**Equity VaR**

	Highest in 2014	Lowest in 2014	Average in 2014
Equity VaR* (Rs. Million)	458	0.75	115

\*60 day average of VaR

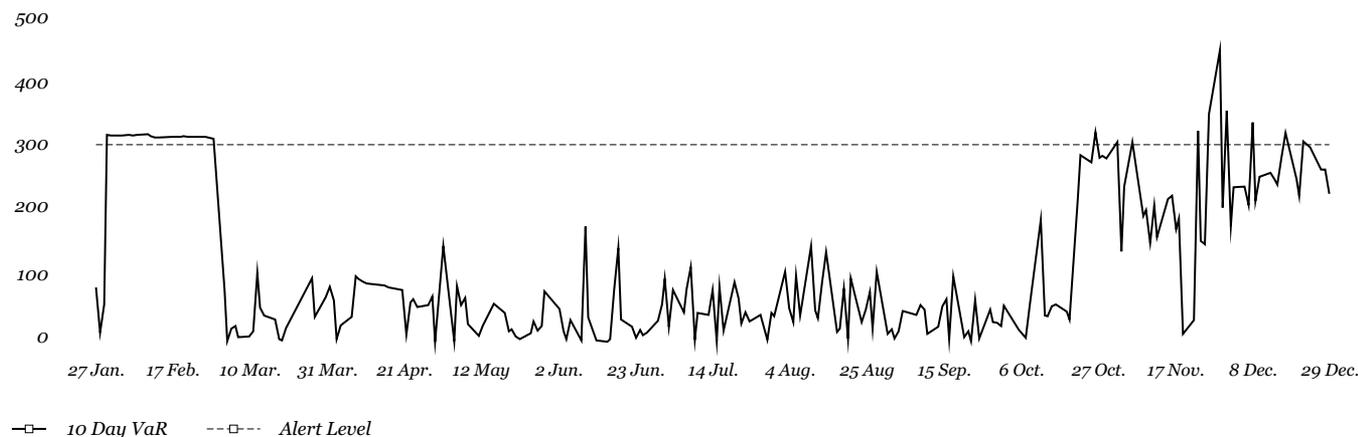
MRMU of RMD calculates Equity VaR on a daily basis to monitor and report the losses in the equity trading book.

The MRMU monitors the number of days the daily VaR is above the predefined alert levels.

During the year under consideration only few instance were reported above alert levels.

**Equity VaR Against Alert Level - 2014**

[ Rs. Million ]



The calculations are carried out as per the guidelines issued by the Basel Committee on Banking Supervision taking 365 days, a 10-day holding period and a 99% confidence level using Exponentially Weighted Moving Average (EWMA). However, this model is not validated or approved by the regulator.

**Foreign Exchange Risk**

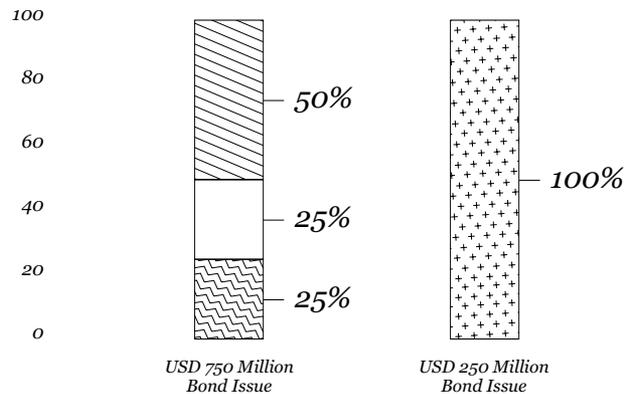
Foreign Exchange (FX) risk is a risk that exists when a financial transaction is denominated in a currency other than that of the reporting currency of the Bank. In general, an adverse movement in exchange rates may decline the value of an asset or liability held in terms of foreign currency.

## Parameters

## Risk Management/Mitigation

**FX Position****FX Hedge for Capital Payment**

[ % ]



SWAP-O/A of Rupee Loans   
 SWAP-O/A of Foreign Currency Loans  
 SLDB-USD   
 SWAP

The Bank accepts Savings and FDs in major currencies.

The Bank hedges the risk by placing the deposits in high-rated banks in more or less same tenor. The Bank is also lending a part of its deposits to corporates and these lendings are made after a due diligence of the counterparties to minimise the credit risk in the process.

The Bank raised USD 750 Million in the year 2013 and USD 250 Million in the year 2014 from an International Bond issue.

The Bank has fully covered the FX risk in capital settlement for both the bonds.

The Bank has already covered 50% of the coupon settlements of the USD 750 Million issue and expects to another 25% from FX lending secured by the sovereign guarantee against FX risk. The balance is managed by the Bank by using hedging techniques.

The proceeds of USD 250 Million bond is hedged using a SWAP for two years and is expected to be utilised by granting USD loans to corporate sector and if materialised, will it self act as a hedge against FX risk.

Considering the above and the current international banking function of the Bank, CBSL granted approval to the Bank for limited FX operations.

**Liquidity Risk** →

Liquidity risk is the risk to a bank's financial condition and soundness arising from its inability to meet contractual obligations, both on and Off-Balance Sheet as and when they fall due without incurring in a material loss. This risk is inherent in all banking operations and can be due to bank specific or market-wide events.

**Liquidity Risk Management and Reporting Framework** →

Asset & Liability and Liquidity Management Policy governs the liquidity management at operational level and Market Risk and Liquidity Risk Management Policy governs the liquidity risk management function of the Bank.

Liquidity management is the responsibility of ALCO and operationalised through AMD. MRMU monitors the liquidity risk of the Bank and reports findings to the ALCO, ERM, IRMC and the Board.

### **Liquidity Risk Identification, Assessment and Mitigation** →

#### Parameters

#### Risk Management/Mitigation

### **Analysis of Liquidity using Statutory Ratios**

#### i. Statutory Liquid Assets Ratio (SLAR)

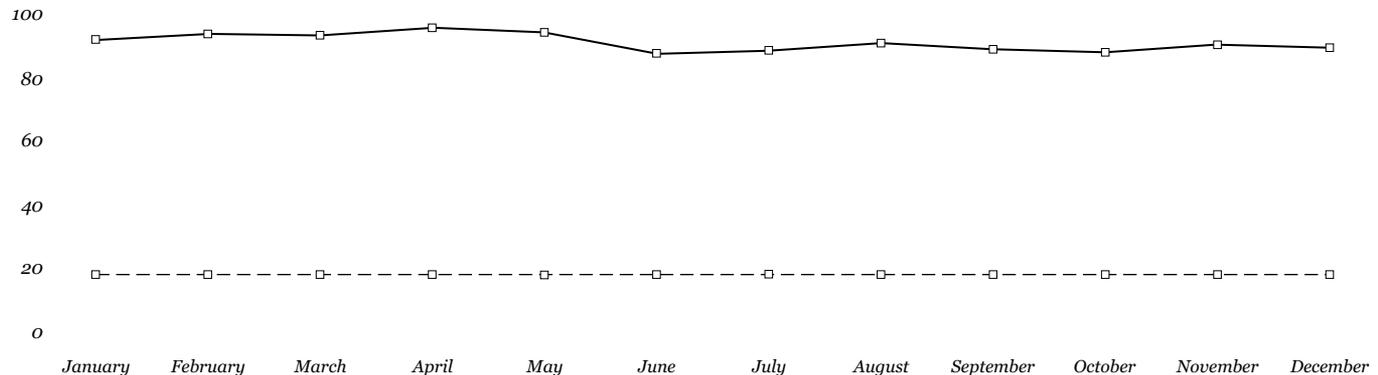
The Bank is in a comfortable position with respect to liquidity, as a result the mandatory requirement to invest 60% of deposits in Government Securities.

The Bank's SLAR is well above the statutory requirement of 20% and the industry average.

SLAR accounted for 91.5% by the end of 2014 against 92.2% recorded in 2013.

### **Stability of Liquidity**

[ % ]



—□— Liquid Asset Ratio of the Bank    - □ - Statutory Requirement

#### ii. Liquidity Coverage Ratio (LCR)

The Bank based on CBSL Guidelines has calculated LCR where the regulatory minimum is to maintain the ratio at 100%. According to the calculations, the Bank's LCR is well above the minimum requirement.

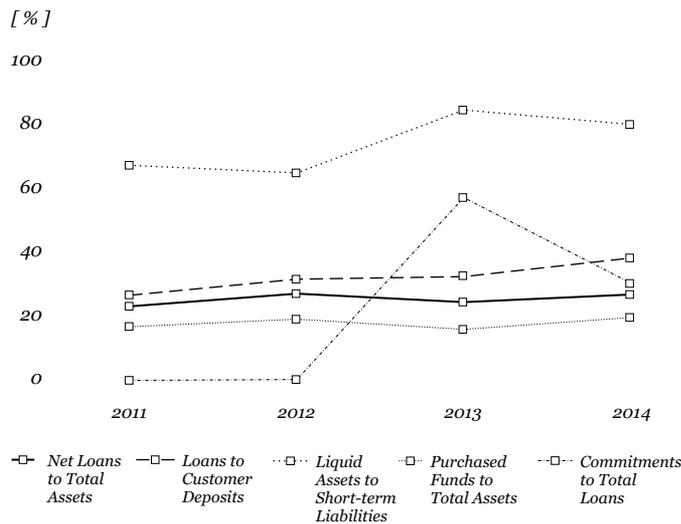
Parameters

Risk Management/Mitigation

### Analysis of Liquidity using Stock and Flow Approach

#### i. Stock Approach

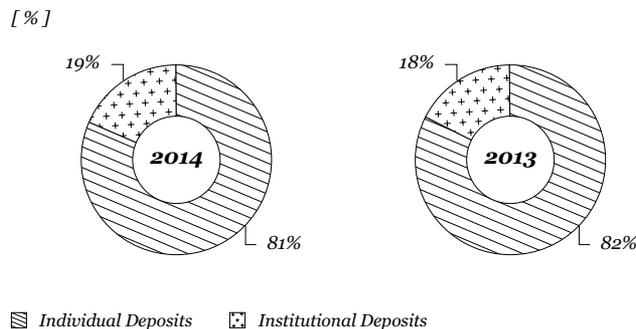
#### Liquidity Ratios Under Stock Approach



Loans to deposit ratio is low compared to industry average even though it is in an increasing trend. The Bank is in a comfortable position according to the stock approach.

#### ii. Flow Approach

#### Retail and Wholesale Deposits



The negative maturity gap in less than one year bucket depicts a high liquidity risk under flow approach.

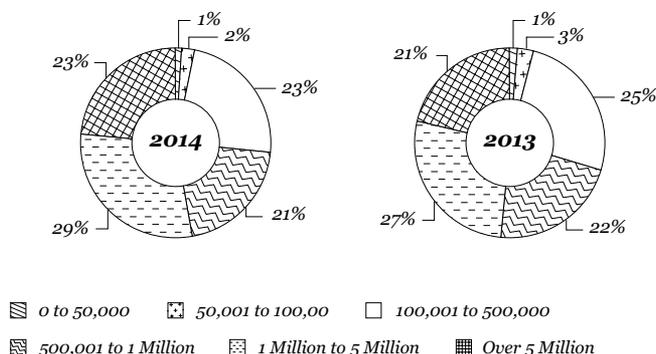
Individual deposits consist of a higher composition from total deposits narrating a low concentration and over Rs. 5 Million single deposits are only 2%. Therefore, probable demand for withdrawals at any point of time is low.

Parameters

Risk Management/Mitigation

**Size-wise Analysis of FDs**

[ % ]



The Bank's high liquid assets (Treasury Bills/Bonds) represent 66% of total assets.

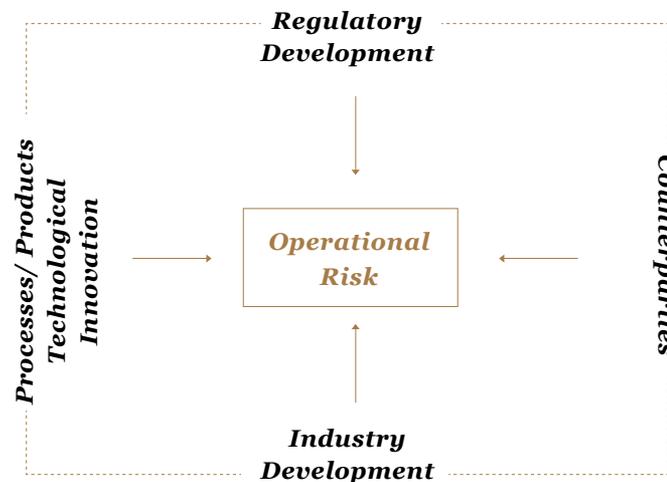
Therefore, liquid risk is within a manageable level.

Further, the Government Guarantees on the deposits acts as a covenant in a severe stress scenario.

**Operational Risk** →

Operational risk is defined by the Basel Committee as 'the risk of loss resulting from inadequate or failed internal processes and systems, human factors or from external events including legal risk but excluding strategic and reputational risk. The operational risk includes all hidden dangers that do not fall under the umbrella of market and credit risks.

Operational risks are inherent in all products and business activities. It is associated with human errors, system failures and inadequate procedure and controls. In other words, it is the risk of loss resulting from the potential that inadequate information system, technological failure, breach in internal controls, fraud, unforeseen catastrophes or other operational problems may result in unexpected losses. When managing the operational risk, identification of the impact of external environmental factors are paramount to foresee the risk management strategies.



Sources of the Operational Risk

## **Operational Risk Management and Reporting Framework** →

Operational risk management is all about awareness and accountability. Greater the awareness on business environment, people, products, processes and technology that support business activities, greater will be the accountability in assessing and managing risk. Therefore, the Bank strives to inculcate a culture where everyone is responsible for operational risk management regardless of their level, role and duties to strengthen internal control environment of the Bank.

At operational level, operational committees, policies and manuals, office instruction circulars and internal control structure direct the operational risk management function. The Bank has a Board approved Operational Risk Management Policy governing the full operational risk management process of the Bank.

The Operational Risk Management Unit of the RMD is responsible for introducing the operational risk identification, assessment and manages practices in line with CBSL Guidelines and internal best practices.

The Bank applies consistent approach to identify and assess key risks and controls across the Bank to ensure the risks are managed within the risk appetite levels and otherwise to take remedial action. Internal loss experiences, risk and control assessment results, expert judgments, internal audit findings and external loss experience obtained from published sources are used to develop Operational Key Risk Indicators (OKRIs) to identify significant operational risk levels to ensure a fair reflection of operational risk.

The findings of the operational risk management process are reported to the relevant committees including IT Steering Committee, ERM, IRMC and the Board.

Further, the Bank undertakes following processes and procedures to manage the operational risk of the Bank.

## ***Fraud Risk Management***

The Bank has zero risk appetite for internal frauds hence take necessary steps to reduce fraud risk to a minimum level. The Fraud Investigation Unit operating under the Audit and Vigilance Division establish and operates a fraud risk framework to identify the overall fraud risk exposure and to establish controls.

On identification of a fraud event, action is taken to minimise the loss using insurance as a risk transfer strategy and preventive actions are taken to improve the controls and to increase staff awareness from the lessons learnt.

## ***Business Continuity Management***

As a financial service provider, the Bank ought to serve the customers regardless of natural disasters, technical failures or any other event which disrupt business. Priority is given for the identification and strengthening the disaster recovery capabilities of the Bank and the business continuity of the IT systems during the year under consideration.

The Business Continuity Plan (BCP) endeavours to ensure that critical services, systems and procedures continue to be available without any disruption.

## ***Outsourcing Management***

The risk arising from outsourcing of business operations are managed based on the Board-approved Outsourcing Policy prepared as per CBSL Guidelines and the Bank's procurement guidelines. A separate Outsourcing Unit is established within the Support Services Division to streamline the functions and reporting.

Comprehensive due diligence exercises to ensure the service providers' capability to perform the activity outsourced. The due diligence covers the expertise and experience of the service provider, technical capability, financial strength, business continuity capabilities and the reputation among the competitors. The outsourcing service providers are bound to comply by the information security standards of the Bank.

### Information Security Management

The laws and regulations relating to Information and Communications Technology (ICT) are evolved to provide a safe banking service to customers in terms of accuracy, control, integrity and confidentiality of the information from the emerging vulnerabilities caused by the usage of Information Technology (IT) which comprises mainly internally developed systems.

Bank has taken steps to comply with the Baseline Security Standards (BSS) through Information Security Committee which reports to IT Steering Committee. The implementation of Information Security Management System under the Board approved Information Security Policy conducts vulnerability assessments, business impact analysis and technological/security enhancements to mitigate and minimise the identified risks.

RMD monitors the Information Security Management Function using progress reviews on a continuous basis.

### Operational Risk Identification, Assessment and Mitigation →

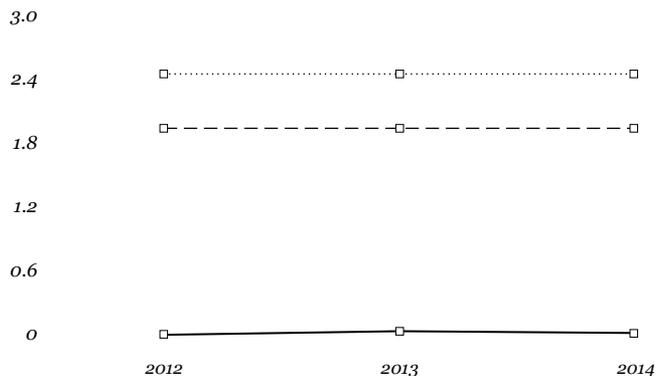
Parameters

Risk Management/Mitigation

#### i. Loss Data Analysis

##### **Risk Tolerance Limit of Actual Loss Events**

[ % ]



—■— Actual    - - - ■ - - Trigger Level    ···■··· Alert Level

Loss events of branches are collected and reported to RMD by Branch Operational Unit and other divisions.

High proportion of operational loss events accounts for low impact. The total frequency of loss events which are less than hundred thousand Rupees is 87% during the year 2014.

A low proportion of operational loss events accounts for high impact. The total frequency of loss events which are above regulatory threshold i.e. above five hundred thousand Rupees is only 3% for the year 2014.

Risk Appetite Document outlines the alert levels to monitor operational loss of the Bank. The actual operational losses are far below the risk levels defined by the Bank.

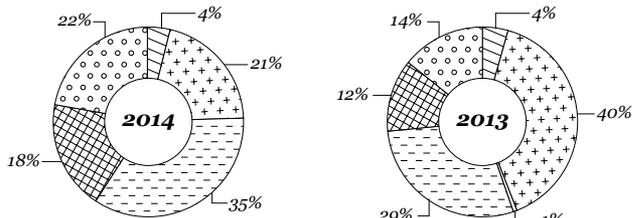
Parameters

Risk Management/Mitigation

## ii. Operational Losses According to BASEL II Categories

### Frequency

[ % ]



The Bank maintains a loss event database, in line with Basel II loss event categorisation.

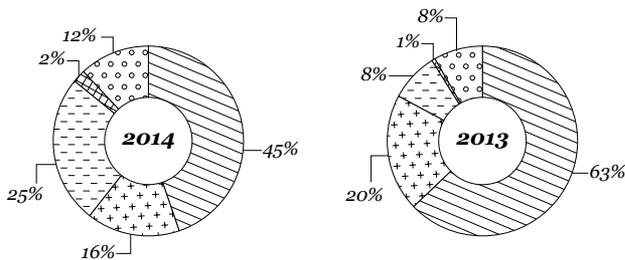
Higher frequency of events (35%) occurs under damages to physical assets of which impact is mitigated through insurance.

The internal fraud (45%) has the highest severity, though the frequency of occurrences is very low.

The RMD analyses the loss events, conducts root cause analysis and recommends improvements to strengthen the control environment further.

### Severity

[ % ]



The findings of the loss event data are reported to the Business Units, Operational Committees, ERM, IRMC and the BOD on regular intervals.

- Internal Frauds
- External Frauds
- Employment Practices & Workplace Safety
- Client, Product and Business Practices
- Damage to Physical Assets
- Business Disruptions and System Failures
- Execution, Delivery and Process Management

Parameters

Risk Management/Mitigation

**iii. Operational Key Risk Indicators (OKRIs)**

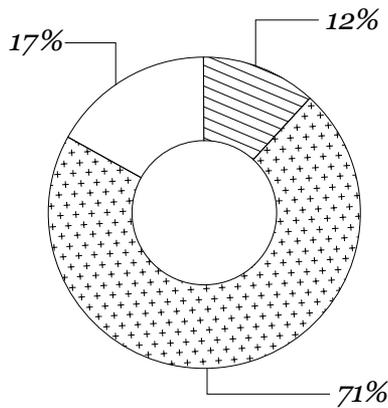
The Bank monitors operational risk using a seven operational risk indices. Each index comprises OKRIs to assess the risk based on predefined threshold limits.

The RMD submits a dash board to ERMC, IRMC and the BOD on a quarterly basis highlighting the changes in operational risk profile under different indices.

**iv. Analysis of Customer Complaints**

**Customer Complaints Analysis**

[ % ]



Bank's customer complaints are received and recorded by the Customer Call Centre.

RMD obtains the date relating to customer complaints on monthly basis to monitor trends through OKRIs and reports the BOD quarterly.

From the composition of complaints, the highest number of complaints are for customer service (71%) which is customary for a service provider.

Senior Management examines complaints and takes necessary corrective and preventive actions.

▨ Business Disruptions    ▩ Defective Customer Service    □ Products Issues

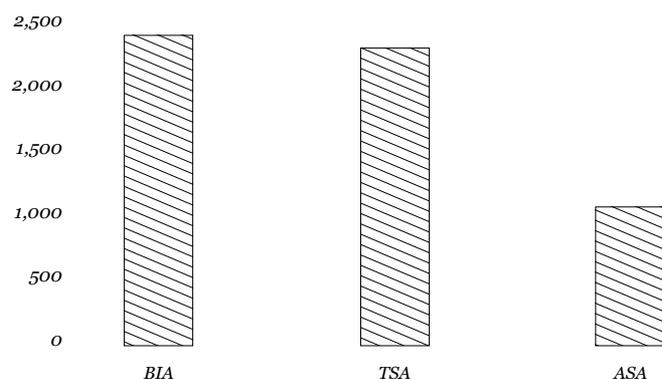
Parameters

Risk Management/Mitigation

## v. Capital Requirement under Advanced Approaches

### Capital Charge - Operational Risk

[ Rs. Million ]



With effect from 1st June 2014, CBSL revised the guidelines and reporting format on computation of operational risk capital charge. Accordingly, the Bank is calculating operational risk capital according to new guidelines and taking actions to reach advanced approaches.

A calculation conducted based on the CBSL Guidelines for The Standardised Approach (TSA) and Alternative Standardised Approach (ASA) revealed that the capital charge is lower from advanced approaches compared to the Basic Indicator Approach (BIA).

The Bank's total gross income under the both TSA and ASA approach consist of retail banking, commercial banking and trading & sales. Commercial Banking represents the highest portion out of the total capital charge under TSA as a high amount of interest income generated from Government Securities (HTM). However, Commercial Banking represents a low capital charge under ASA as the gross loans and advances is comparatively low within the business line.

### Business Line Gross Income as % of total Gross Income

Business Line	Beta Factor %	Capital Charge Mix-TSA %	Capital Charge Mix-ASA %
Corporate Finance	18	0	0
Trading and Sales	18	6	14
Payment and Settlement	18	0	0
Agency Services	15	0	0
Commercial Banking	15	72	16
Retail Banking	12	22	71
Retail Brokerage	12	0	0
Asset Management	12	0	0

**Legal Risk** →

BASEL II defines legal risk as a part of operational risk. It arises due to the legal implications of failed internal systems, people, process or external events.

The responsibility of managing legal risk is vested with the Legal Division. The Risk Management Division monitors the legal risk on a regular basis and the Compliance Division ensures compliance with relevant laws and regulations.

Although the division handles several litigations, there were no major matters that affect operations and reputation of the Bank during the year 2014.

**Strategic Risk** →

At macro level, the universe of strategic risk for a banking industry arises as a result of business strategies made by the entities towards risk-filled business environment factors such as hastened business trends, technological advancement, global economies and political factors.

Bank specific strategic risk may arise internally due to unsuccessful business plan, inability to implement business plan, substandard execution of decisions, inadequate resource allocation and inability of adapting to changes in business environment causing adverse impact on earnings and capital of the Bank.

The overall responsibility of the management of strategic risk rests with the Senior Management and Board of Directors. The Bank has a well-structured Strategic Business Planning and Budgeting process to set the strategic direction and a robust monitoring mechanism is in place to minimise strategic risk.

The strategic risk of the Bank is assessed using a qualitative scorecard approach as a part of ICAAP. The model considers the level of strategic risk from industry, market competition, strategic plan, capital market and overall management.

**Reputational Risk** →

Reputational risk is referred to as potential negative impact on corporate image or earning and capital arising from an adverse perception toward the Bank due to illegal, unethical or non-compliance business practices. Reputation of a financial service provider is a key to attain a competitive edge in challenging business environment.

Being the AAA rated state savings bank with 100% Government Guarantee for its deposits; the Bank takes utmost care to safeguard its reputation. The Bank's management structure and the risk management framework including all the policies, procedures on codes of conduct and related party disclosures provide guidance to corporate management and the staff to execute their duties and responsibilities in an ethical and standard manner to safeguard the reputation of the Bank. The customer complaints and media publications are monitored on regular basis through KORIs to understand the external perception toward the Bank and to take proactive and corrective actions on recognised vulnerabilities.

The overall reputational risk of the Bank is assessed through qualitative scorecard approach as a part of ICAAP by the RMD. The model considers the level of reputational impact relating to operational loss events, business loss events, market perception and corporate management.

### **Compliance Risk** →

Compliance risk arises from failure or inability to comply fully with the rules, orders, laws and regulations applicable to the financial services business locally and internationally. The laws mainly include Prevention of Money Laundering Act (PMLA) No. 5 of 2006, Financial Transaction Reporting Act (FTRA) No. 6 of 2006, Suppression of Terrorist Financing Act No. 25 of 2005 and the directions issued for the Licensed Specialised Banks by CBSL. Non-compliance of their requirements could lead to fines, public reprimands and reputation damages or in extreme cases enforcement of suspension of operation or withdrawal of license to operate.

Understanding the magnitude of the risk involved, the Bank has established the compliance function headed by an Independent Compliance Officer directly reporting to the Board through IRMC.

The compliance function is governed by the Bank's Compliance Policy. This policy is implemented by the Compliance Officer using well-defined systems and procedures on a bank-wide basis through the ECC of the Bank.

The division ensures compliance with the regulations, laws and directions through ensuring the adequacy of Bank's policy framework, compliance testing in business lines and conducting customer due diligence tests.

The Compliance Risk of the Bank is assessed as a part of ICAAP process through scorecard approach giving weights to the critical compliance requirements.

### **Capital Adequacy**

The capital adequacy requirement is a part of regulatory framework governing how financial institutions are managed. It is a measure of solvency and the ability to absorb the unexpected losses with confidence so that the financial institution functions without the threat of liquidation for a foreseeable future.

Capital Adequacy Ratio (CAR), expresses capital as a percentage of risk-weighted assets. Core capital (Tier I) is defined by permanent shareholders equity. Since the Bank has not raised capital through approved subordinated debt instruments, the Tier II capital base is arrived as net of other supplementary capital source and deductions.

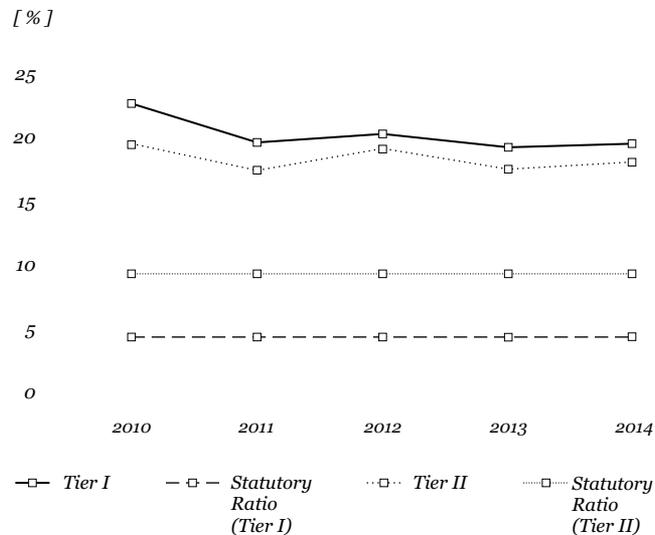
Under BASEL II Pillar I capital calculations, the Bank uses Standardised Approach for Credit Risk, Standardised Measurement Approach for Market Risk and the Basic Indicator Approach for Operational Risk.

As at 31st December 2014, The Bank maintains Tier I CAR of 20.46% and Tier II CAR of 18.98% which are above the regulatory minimum level stipulated by CBSL.

Description	2014 ( Rs. Million)		2013 (Rs. Million)	
Total Eligible Core Capital (Tier I Capital)		23,205		18,880
Total Capital Base		21,527		17,271
Total Risk-Weighted Assets		113,415		93,729
	RWA* Mix %		RWA* Mix %	
Credit Risk	68	77,087	62	57,912
Market Risk	11	12,397	12	11,067
Operational Risk.	21	23,931	26	24,750
Core Capital (Tier I) Ratio (%)		113,415	20.46	20.14
Total Capital Adequacy Ratio (%)		113,415	18.98	18.43

\*RWA - Risk-Weighted Assets

### Capital Adequacy Trend



The risk appetite level for CAR is 15% and leverage is 3% (the level recommended by Basel III during the parallel run period) which is monitored by the IRMC and the Board on quarterly basis.

Both the Tier I and the Total Capital Adequacy Ratio of the Bank has improved during the year 2014 compared to the previous year. The Bank at all time takes actions to maintain the CAR within the risk appetite level.

### **Internal Capital Adequacy Assessment Process (ICAAP)** →

ICAAP is a process by which the management ensures additional capital is provided for banking risks, other than those covered in Pillar I. This ensures the Bank has adequate capital to commensurate the risk it carries.

The capital adequacy assessment is carried out on a proportionate basis, taking into account the size, nature and complexity of the Bank's activities, based on directions given by CBSL. The document was approved by the Board and the Board also reviews it for its ongoing appropriateness both on an annual basis and additionally when considered necessary in the light of significant changes.

The ICAPP process is governed by two principle requirements; the Bank to have an internal capital adequacy process and strategy linked to their capital levels. The Bank expected to hold capital in excess of the regulatory minimum.

ICAAP is integrated with the entire operation of the Bank and its risk profile, where a sound risk management structure is in place to ensure prudential assessment of inherent and residual risks which are not covered under Basel II Pillar I.

Assessment conducted for the year 2014, forecasted approximately 5% impact on capital adequacy level due to Pillar II risks. The residual risk to the pawning portfolio due to adverse variation in gold prices and the interest rate risk in banking book are the main contributors for the incremental capital charge. The Bank's CAR after considering Pillar II risks is above the regulatory minimum.

### **Capital Management** →

The Bank targets to maintain the CAR ahead of regulatory minimum requirement of the CBSL. The capital positions along with the profitability enable the Bank to perform a superior role for its customers and the stakeholders.

The Bank's capital management objectives are to -

- Maintain sufficient capital resources to meet minimum regulatory capital requirement set by CBSL.
- Maintain sufficient capital resources to support the Bank's risk appetite and economic capital requirement.
- Support the credit rating of the Bank.
- Ensure the subsidiary company meets the minimum capital requirement.
- Allocate capital to the business to support achieving strategic objectives to optimise return on economic and regulatory capital.

The Bank strives to maintain the optimum capital since higher capital, restrict the leverage of the Bank which inturns affect the profitability. The ALCO headed by the GM/CEO reviews actual and the forecasted capital to achieve the capital management objectives.

In addition, the RMD analyses the impact of stress scenarios in order to understand and manage projected capital adequacy targets.

### **Stress Testing** →

Stress testing is an integral part of the Bank's risk management process. The Bank's stress testing framework is governed by the Board approved Stress Testing Policy and the Guidelines issued by CBSL.

Stress tests focus on the effect of various potential vulnerabilities on earnings, capital requirements and liquidity of the Bank. It is an integrated test that shows to varying degrees, whether the Bank can withstand unforeseen scenarios

of varying severity under adverse economic, political and physical changes to the environment in which it operates.

The results obtained from stress testing exercise enables understanding of potential problems. They enable managers to see what might go wrong, how it might go wrong and how badly it affects the Bank.

As a part of annual stress testing exercise, the Bank estimates the impact of severe economic downturn on capital level of the Bank. These adverse conditions may impact credit quality, margins, equity, foreign currency exposure and liquidity of the Bank.

The stress tests are conducted at different levels to facilitate understanding of the magnitude of impact due to different stress scenarios. Further, the impact towards the total capital adequacy are categorised in the same test results according to the following table:

Indicator	Total CAR (TI + TII)	Risk Level
Above Risk Appetite Level	More than 15%	
Within the Maximum Tolerance Limit	=>12 - 14.99%	
Below Maximum Tolerance Limit	Less than 12%	

### ***Stress Testing for Credit Risk***

#### Scenario 1 - Defaulting of unsecured borrowers

Description	Base Case CAR (%)	5%	10%	15%
Tier I Impact	20.46	17.46	14.43	11.37
Total Capital Impact	18.98	15.97	12.93	9.87
Risk Level				

#### Scenario 2 - Migration in credit quality

Description	Base Case CAR (%)	Percentage Drop in Credit Quality from the Existing Level		
		10%	20%	30%
Tier I Impact	20.46	20.05	19.66	19.28
Total Capital Impact	18.98	18.60	18.24	17.89
Risk Level				

*\*It is considered that percentage of Corporates, SOE's and Government-related exposures, shift to the subsequent level of rating. eg: 10% exposures in AAA to AA-, 10% exposures in A+ to A-*

#### Scenario 3 - Increase in NPL in Loan Portfolio

Description	Base Case CAR (%)	By 15%	By 25%	By 35%
Tier I Impact	20.46	20.02	19.73	19.43
Total Capital Impact	18.98	18.54	18.25	17.96
Risk Level				

**Stress Test for Market Risk****Scenario 1 - Parallel adverse rate shift (IRRBB)**

Description	Base Case CAR (%)	50 bp	100 bp	200 bp
Tier I Impact	20.46	19.07	17.66	14.77
Total Capital Impact	18.98	17.58	16.16	13.25
Risk Level		○	○	○

**Scenario 2 - Decline in MV of Government Securities - Trading Portfolio**

Description	Base Case CAR (%)	50 bp	100 bp	200 bp
Tier I Impact	20.46	20.44	20.43	20.39
Total Capital Impact	18.98	18.96	18.95	18.91
Risk Level		○	○	○

**Scenario 3 - Adverse changes in stock market prices**

Description	Base Case CAR (%)	15%	20%	25%
Tier I Impact	20.46	20.26	20.18	20.09
Total Capital Impact	18.98	18.76	18.67	18.58
Risk Level		○	○	○

**Scenario 4 - Adverse movements in FX rates (Rupee Appreciation)**

Description	Base Case CAR (%)	5%	10%	15%
Tier I Impact	20.46	20.35	20.25	20.14
Total Capital Impact	18.98	18.87	18.76	18.65
Risk Level		○	○	○

**Scenario 5 - Liquidity: Less than 1 month deposit withdrawal %**

Description	Base Case CAR (%)	25%	50%	100%
Tier I Impact	20.46	22.09	20.85	18.31
Total Capital Impact	18.98	20.43	19.18	16.62
Risk Level		○	○	○



# *Financial Reports*

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## **Financial Calendar**

### **Financial Calendar 2014**

Publication of Interim Financial Statements for the quarter ended 31st March 2014	30th May 2014
Publication of Interim Financial Statements for the quarter ended 30th June 2014	15th August 2014
Publication of Interim Financial Statements for the quarter ended 30th September 2014	7th November 2014
Listing of USD 250 Million Bond in Singapore Stock Exchange	10th September 2014
Publication of Financial Statements (Audited) for the year ended 31st December 2014	31st March 2015

### **Proposed Financial Calendar 2015**

Publication of Interim Financial Statements for the quarter ending 31st March 2015	29th May 2015
Publication of Interim Financial Statements for the quarter ending 30th June 2015	28th August 2015
Publication of Interim Financial Statements for the quarter ending 30th September 2015	27th November 2015
Publication of Financial Statements for the year ending 31st December 2015	30th March 2016

**General** →

The Directors of the National Savings Bank have pleasure in presenting their Annual Report on the affairs of the Bank together with the audited Financial Statements of the Bank and Consolidated Financial Statements for the year ended 31st December 2014. The draft Financial Statements together with the Annual Report were submitted to the Auditor General on 16th February 2015. The audited Financial Statements were authorised to issue on 26th March 2015 by a resolution of the Board of Directors. The Report also includes certain disclosures required to be made under the Banking Act No. 30 of 1988 and amendments thereto and the Direction on Corporate Governance. The Annual Report and Financial Statements, together with the Auditor General's Report will be submitted to the Minister of Finance, on or before 31st May 2015 as per Circular No. PE D/27 of 27th January 2005, issued by the Director General of the Department of Public Enterprises to be placed before the Parliament of Sri Lanka.

National Savings Bank is incorporated in Sri Lanka by National Savings Bank Act No. 30 of 1971 and was granted the status of Licensed Specialised Bank in terms of Banking Act No. 30 of 1988.

The Bank has been assigned AAA (lka) long-term credit rating by the Fitch Rating Lanka (Pvt) Ltd. for 12th consecutive year. It has also been awarded international credit ratings of BB- Stable by Fitch Inc. and B+ Stable by Standard and Poor's Rating services.

**First Integrated Annual Report** →

The Board of Directors takes pleasure in presenting its first integrated Annual Report for the year ended 31st December 2014. We are certain that it gives the strategic picture of the Bank's business that explains how the Bank creates and sustains value over the years and in the future.

**Vision, Mission and Values** →

The Bank's Vision, Mission and Values are given on page 5 of this Annual Report. The Bank maintains high ethical standards in its activities whilst pursuing the objectives stated under 'Vision' and 'Mission'. All permanent employees are being aware about the Code of Conduct of the Bank with the view of reaching the Vision and Mission of the Bank.

**Principal Business Activities** →**Bank** →

The principal business activity of the National Savings Bank is promotion of savings among the people of Sri Lanka and profitable investments of savings so mobilised.

**Subsidiary** →

The principal activity of NSB Fund Management Company Ltd. is dealing in Government Securities as a primary dealer authorised by the Central Bank of Sri Lanka. Details are given in Note 39 (b) to the Financial Statements.

There were no significant changes in the nature of the principal activities of the Bank and the Group.

**Review of Business Performance** →

The Bank's performance for the financial year 2014 and its financial position were reviewed in the Letter from the Chairman (page 17), the General Manager/CEO's Review (page 20) Audited Financial Statements. Managements Discussion and Analysis (pages 49 to 71). These reports form an integral part of this Annual Report.

**Future Developments** →

An overview of the future developments of the Bank is given in the Letter from the Chairman (page 17), the General Manager/CEO's Review (page 20) and Management Discussion and Analysis (pages 49 to 71). These reports form an integral part of the Annual Report.

The Bank has adopted a Strategic Business Plan from 2014 to 2016 and it will strive to achieve the business goals set out in the new Business Plan, which will accelerate the future momentum of NSB.

### **Going Concern** →

The Board of Directors have reviewed and satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Therefore, the Bank continues to adopt the going concern basis in preparing the Financial Statements in compliance with SLFRS/LKAS and in conformity with the GAAP applied consistently.

### **Financial Statements** →

These Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS).

The Financial Statements of the Bank and the Group for the year ended 31st December 2014 are duly certified by the Deputy General Manager – Finance & Planning, and approved and signed by the General Manager/Chief Executive Officer, two Directors including the Chairman of the Bank are given from pages 168 to 263.

### **Directors' Responsibility for Financial Reporting** →

The Directors are responsible for the preparation of the Financial Statements of the Bank and the Group, to reflect a true and fair view of the state of affairs of the Bank as at 31st December 2014 and its profit for the year then ended. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards and the Banking Act No. 30 of 1988 and its amendments. The Statement of Directors Responsibility on Financial Reporting Statement appearing on page 160 of this Annual Report forms an integral part of the Annual Report of the Board of Directors and describes in detail in the Directors' Responsibilities in relation to Financial Statements.

### **Auditors' Report** →

The Auditor General carried out an audit of the Financial Statements of the Bank and the Consolidated Financial Statements of the Group for the year ended 31st December 2014 and their Report on those Financial Statements is given on page 167.

### **Significant Accounting Policies** →

The Significant Accounting Policies adopted in preparation of the Financial Statements are given on pages 177 to 191. The significant changes to accounting policies if any in the preparation of the Financial Statements are also stated therein.

### **Income** →

The total income of the Bank for 2014 was Rs. 77,890 Million (2013 - Rs. 65,573 Million) while the Group's income was Rs. 78,573 Million (2013 - Rs. 66,671 Million). Details of the income are given in Note 3 to the Financial Statements.

### **Financial Performance** →

The Bank has recorded Rs. 10,472 Million of net profit before tax (PBT) and Rs. 6,867 Million of net profit after tax (PAT) for the year ended 31st December 2014 which was an increase by 360% of PBT and 480% of PAT compared to the same periods of last year. The Group PAT also increased by 362% to Rs. 7,054 Million for the year ended 31st December 2014.

Details of appropriation of profit of the Bank are given below:

	2014 Rs. Million	2013 Rs. Million
Profit for the year after payment of all expenses, VAT and NBT	10,472	2,279
Less: Provision for Taxation	3,606	1,095
Net Profit After Taxation	6,867	1,184
Profit available for appropriation	6,867	1,184
Less: Appropriations		
Transfer to the Statutory Reserve Fund	137	24
Contribution to Consolidated Fund/Dividend	4,000	3,000
Contribution to National Insurance Trust Fund	69	12
Transfer to the Retirement Benefit Plans	3,000	-
Transfer to the Investment Fund Account	-	608
Transfer to General Reserve	(340)	(2,460)
	6,867	1,184

### **Provision for Taxation** →

The Income Tax Rate applicable for the Bank on its operation is 28% (2013 - 28%), the Bank's profit is also liable for Value Added Tax on financial services at the rate of 12% (2013 - 12%), National Building Tax at the rate of 2% (2013 - Nil). Further, the Bank is liable to pay Crop Insurance Levy of 1% on its PAT.

The Bank provided deferred tax on all known temporary differences under the liability method in accordance with Sri Lanka Accounting Standard (LKAS 12) - 'Income Taxes'. Information on Income Tax expenditure and Deferred Taxation are given in Notes 13 and 29 respectively on pages 196 and 224.

### **International Bond Issue** →

The Bank issued its second international bond for the value of US \$ 250 Million in September 2014 in order to bring down the weighted average cost of funds. The Bank has been

awarded with B+ stable and BB- stable international Credit Ratings from Standard & Poor and Fitch Ratings respectively as a prerequisite with international bond.

### **Stated Capital** →

The authorised share capital of the Bank is Rs. 10 Billion which is made of one billion ordinary shares of Rs. 10 each. The issued share capital of the Bank as at 31st December 2014 stood at Rs. 3.2 Billion. The Secretary to the Treasury in his official capacity holds the entirety of the issued share capital.

### **Shareholding** →

The Government of Sri Lanka is the sole shareholder of the National Savings Bank.

**Reserves** →

The Bank's reserves as at 31st December 2014 consisted of -

	2014 Rs. Million	2013 Rs. Million
Statutory Reserve Fund	1,874	1,737
Revaluation Reserve	2,065	2,065
Other Reserves	16,121	15,215
	<b>20,060</b>	<b>19,017</b>

Information on changes of reserves is given in the Statement of Changes in Equity on page 172.

**Contribution to the Government** →

The Bank contributed Rs. 11,043 Million (2013 - Rs. 4,731 Million) by way of taxes and levies to the Government during the year 2014. This consisted of Rs. 3,605 Million of Income Tax (2013 - Rs. 1,095 Million), Rs. 1,745 Million of Value Added Tax (2013 - Rs. 624 Million), Rs. 291 Million of Nation Building Tax (2013 - Nil), Rs. 1,333 Million of Special fee (2013 - Nil), Rs. 4,000 Million of contribution to the Consolidated Fund (2013 - Rs. 3,000 Million) and Rs. 69 Million of contribution to National Insurance Trust Fund (2013 - Rs. 12 Million).

**Service Charges to Postmaster General (PMG)** →

In realisation of the services provided through the post office network for banking business, PMG is paid a service charge on a basis agreed with the Bank. Service charges to the PMG for the year 2014 amounted to Rs. 122 Million which has been calculated on the same basis as of 2013.

**Pension Fund** →

A sum of Rs. 791 Million (2013 - Rs. 711 Million) has been provided for in the accounts on account of 4,191 employees who are eligible for the Non-Contributory Pension Schemes. (including retired employees).

**Capital Expenditure** →

The total capital expenditure incurred by the Bank on the acquisition of Property, Plant & Equipment, leasehold property and intangible assets (Including capital work-in-progress) during the year amounted to Rs. 273 Million (2013 - Rs. 340 Million) and Group amounted to Rs. 273 Million (2013 - Rs. 340 Million), the details of which are given in Notes 27 and 28 to the Financial Statements on pages 218 to 223 of this Annual Report.

**Market Value of Free Hold Property** →

The net book value of freehold land and buildings owned by the Bank and the Group as at 31st December 2014 amounted to Rs. 4,353 Million and Rs. 4,353 Million respectively. In accordance with the Bank's policy to revalue its freehold land and buildings in every 3 years. The Bank revalued its freehold land and buildings on 31st December 2013 by professionally qualified independent valuers.

**Events after the Balance Sheet Date** →

No circumstances have arisen since the Reporting date which would require adjustments to, or disclosure in, the accounts.

**Outstanding Litigation** →

In the opinion of the Directors and the Bank's lawyers, outstanding litigation against the Bank disclosed in Note 44 of the Financial Statements will not have a material impact on the financial position of the Bank or on its future operations.

**Statutory Payments** →

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

**Board of Directors** →

The Board of Directors comprises of seven Directors including the Chairman and two Ex Officio Members representing the Ministry of Finance and Planning and the

Postmaster General. The Minister of Finance appoints the Chairman and other four Directors. The Bank's Board of Directors, their appointments and resignations during the year are as follows. The brief profiles of each Director appear on pages 74 and 75 of this Annual Report.

Name of the Director	Period	Status
Aswin De Silva, Chairman	From 09.02.15	NIND/NED
Mahinda Siriwardana (Ex Officio)	From 25.02.15	IND/NED
D.L.P.R. Abeyaratne, PMG (Ex Officio)	From 10.03.15	NIND/NED
Bradley Emerson	From 11.02.15	IND/NED
Suranga Naullage	From 09.02.15	NIND/NED
Ajith Pathirana	From 20.03.15	IND/NED
Ms. W.A. Nalani, Chairperson	Up to 19.01.15	NIND/NED
S.R. Attygalle (Ex Officio)	Up to 24.02.15	NIND/NED
H. Madiwela	Up to 27.01.15	IND/NED
S.T. Abeygunawardena	Up to 12.01.15	NIND/WD
N.P.L.P. Fernando	Up to 13.01.15	NIND/NED
Sumith Wijesinghe	Up to 02.02.15	IND/NED

NIND - Non-Independent, IND - Independent, NED - Non-Executive Director,  
WD - Working Director

### **Directors' Remuneration and Other Benefits** →

Details of Directors' emoluments and other benefits in respect of the Bank and Group for the financial year 2014 are given in Note 39 to the Financial Statements.

### **Board Sub-Committees** →

The Board while assuming the overall responsibility and accountability has also appointed the four Board Sub-Committees to ensure conformity with Corporate Governance Standards of the Central Bank and other statutory compliances. The four mandatory Sub-Committees and their composition as at 31st December 2014 are as follows.

### **Board Audit Committee** →

Bradley Emerson	- Chairman (From 12th March 2015)
Lionel P. Fernando	- Chairman (Up to 13th January 2015)
Mahinda Siriwardana	- Member (From 12th March 2015)
S.R. Attygalle	- Member (Up to 09th February 2015)
H. Madiwela	- Member (Up to 27th January 2015)

The Report of the Board Audit Committee is given on page 109.

### **Board Human Resources and Remuneration Committees** →

Aswin De Silva	- Chairman (From 12th March 2015)
Ms. W.A. Nalani	- Chairperson (Up to 19th January 2015)
D.L.P.R. Abeyaratne	- Member (From 12th March 2015)
S.R. Attygalle	- Member (Up to 24th February 2015)
H. Madiwela	- Member (Up to 27th January 2015)

The Report of the Board Human Resources and Remuneration Committee is given on page 112.

### **Board Nomination Committee** →

Aswin De Silva	- Chairman (From 12th March 2015)
S.R. Attygalle	- Chairman (Up to 24th February 2015)
Mahinda Siriwardana	- Member (From 12th March 2015)
Sumith Wijesinghe	- Member (Up to 2nd February 2015)
S.T. Abeygunawardena	- Member (Up to 12th January 2015)

The Report of the Board Nomination Committee is given on page 114.

### **Board Integrated Risk Management Committee** →

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D.L.P.R. Abeyaratne	- Chairman
Bradley Emerson	- Member (From 12th March 2015)
Mahinda Siriwardana	- Member (From 12th March 2015)
Lionel P. Fernando	- Member (Up to 13th January 2015)
Sumith Wijesinghe	- Member (Up to 2nd February 2015)

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The Report of the Board Integrated Risk Management Committee is given on pages 113.

### **Directors' Meetings** →

The number of Directors' meetings which comprises of Board meetings, Audit Committee meetings, Nomination Committee meetings, Integrated Risk Management Committee meetings and Human Resources and Remuneration Committee and the attendance of Directors at these meetings are given on Corporate Governance Report (pages 86 and 89) of this Annual Report.

### **Directors' Interests in Contracts** →

Directors' interests in contracts or proposed contracts with the Bank, both direct and indirect are disclosed in Note 39 to the Financial Statements. These interests have been declared at the Board meetings. The Directors do not have any direct or indirect interest in other contracts or proposed contracts with the Bank.

### **Related Party Transactions** →

The Directors have also disclosed the transactions if any, that could be classified as related party transactions in terms of Sri Lanka Accounting Standard (LKAS) 24 - 'Related Party Disclosures' which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 39 to the Financial Statements.

### **Branch Expansion and Developments** →

The Bank extended its services through the addition of 7 new branches and relocation of two new branches during the period under review. At the end of the year the Bank has 236 branches in its network. The ATM network was further expanded enhancing customer convenience. The Bank installed 13 ATMs during the year across the island bringing out the total ATMs to 260 excluding peer banks' ATMs through which customers of NSB can transact. Also Postal network which comprises 4,063 main and sub-post office are also a major part of NSB network.

### **Human Resources** →

The Bank continued to develop and maintain dedicated and highly motivated employees who are committed to create sustainable value through high quality service. Significant investments have been made in the development of quality of Human Capital of the Bank. The policies and procedures adopted by the Bank to upgrade human capital are described in Management Discussion and Analysis on pages 65.

### **Environmental Protection** →

The Bank has taken initiatives to safeguard and enhance the environment which are vital for sustainable development and growth of the Bank. The Bank and the Group have not engaged in any activity that is harmful or hazardous to environment.

### **Risk Management, Internal Controls and Management Information Systems** →

The Board of Directors assumes overall responsibility for managing risk. For this purpose, the Board of Directors has instituted and implemented an effective and comprehensive system of internal controls and management information systems in the Bank. The Board of Directors continuously monitors and reviews this process through the Board Integrated Risk Management Committee. The Bank's Risk Management Report is given on page 115.

Internal control systems have been redesigned to mitigate the risks to which the Bank is exposed, to provide reasonable assurance against material misstatements or loss. The Board has issued a report on the internal control mechanism of the Bank as per the provisions of the Banking Act Direction No. 12 of 2007 on Corporate Governance. This report forms an integral part of the Report of the Board of Directors and is given on page 162.

### **Corporate Governance** →

The Directors are responsible for the governance of the Bank including the establishment and maintenance of the Bank's systems of internal controls. In the process of management of the Bank, the Directors have placed emphasis on conforming with, the best Corporate Governance Practices and procedures. Officers responsible for ensuring compliance with the provisions in various laws and regulations confirm compliance in each quarter to the Board Integrated Risk Management Committee.

A report on the Bank's Corporate Governance is set out on page 83.

### **Compliance with Laws, Regulations and Prudential Requirements** →

The Bank has at all times ensured that the Bank complied with all applicable laws and regulations in conducting its business and has not engaged in any activity contravening the relevant laws and regulations mainly all provisions in the National Savings Bank Act.

### **Government Guarantee** →

The Government of Sri Lanka guarantees the repayment of the monies deposited with the Bank together with interest thereon.

### **Auditors** →

The Auditor General carried out the audit of the Financial Statements of the Bank for the financial year ended 31st December 2014.

By Order of the Board,



**Aswin De Silva**  
Chairman



**Y.F. Deen**  
Secretary to the Board

26th March 2015  
Colombo

The responsibility of the Directors in relation to the Financial Statements of the National Savings Bank (Bank) and Consolidated Financial Statements of the Bank and its subsidiary (Group) is set out in this statement.

The Directors of the Bank are responsible for ensuring that the Bank and the Group keep proper books of accounts of all the transactions and prepare Financial Statements in accordance with Generally Accepted Accounting Principles, Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards that give a true and fair view of the state of affairs of the Bank and the Group at the end of each financial year in compliance with statutory requirements. The Financial Statements comprise of Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes thereto.

The Directors have ensured the following in preparation of the Financial Statements:

1. The accounting policies adopted to prepare the Financial Statements were appropriate, consistently applied and adequately disclosed.
2. Reasonable and prudent judgments have been made where necessary when preparing the Financial Statements.
3. All applicable accounting standards as relevant have been followed.

As per the provisions of the Finance Act No. 38 of 1971, the Banking Act No. 30 of 1988 and Section 7 (i) of NSB Act No. 30 of 1971, the Board of Directors is required to control and administer the affairs and the business of the Bank. The Board of Directors are also responsible for ensuring

that proper accounting records which correctly record and explain the Bank's financial position, with reasonable accuracy at any point of time is determined by the Bank, enabling preparation of the Financial Statements.

The Board of Directors accepts the responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report. (The Directors confirm that in preparing the Financial Statements exhibited on page 168 to 263) The Financial Statements for the year 2014 prepared and presented in this Annual Report are consistent with the underlying books of accounts and are conformity with the requirements of Sri Lanka Accounting Standards, Sri Lanka Financial Reporting Standards, Sri Lanka Accounting and Auditing Standards Act, Baking Act and the Directions of the Central Bank of Sri Lanka.

The Board of Directors has been responsible for taking reasonable measures and care to safeguard the assets of the Bank and the Group, detect frauds and other irregularities and has also instituted an effective and comprehensive system of internal controls and an effective system of monitoring its effectiveness which includes internal audit. The Directors ensure that the Financial Statements are reviewed by them directly at their regular meetings and also through the Board Audit Committee. The Directors' Statement on Internal Control is given on page 162 of this Annual Report. External Auditors' Assurance Report on the Bank's Internal Control is given on page 164.

The Auditor General has been made available with all records of the Bank including the Financial Statements by the Board of Directors and provided every opportunity to undertake the inspections they considered appropriate all of which

the Auditor General Department has examined and have expressed the Auditor General's opinion which appears as reported by him on page 167 of this Annual Report.

The Directors confirm that to the best of their knowledge and belief that all taxes payable by the Bank on behalf of and in respect of employees of the Bank and the Group, and all other known statutory dues to the Government and the other relevant regulatory and statutory Authorities which were due and payable by the Bank and the Group as at the Statement of Financial Position date have been paid or where relevant provided for. Further, the Directors have confirmed that after considering the financial position, operating conditions and regulatory and other factors required to be addressed in the 'Corporate Governance Code' issued jointly by the ICASL and the SEC, the Bank and the Group have adequate resources to continue in operation for the foreseeable future and to justify the application of the going concern basis in preparing these Financial Statements and the Board has taken all necessary measures to comply with the directives issued by the Central Bank of Sri Lanka.

By Order of the Board,



**Y.F. Deen**  
*Secretary to the Board*

26th March 2015  
Colombo

The Board of Directors present this Report on Internal Control over Financial Reporting in line with the Banking Act Direction No. 12 of 2007, Section 3 (8) (ii) (b) and it has been prepared based on the guidelines issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The Board of Directors (Board) is responsible for ensuring that an adequate and effective system of internal control is established and maintained at the National Savings Bank (Bank). However, such a system is designed to manage the Bank's significant risk areas within the acceptable risk parameters, rather than eliminating the risk of failure to achieve business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or frauds.

The Board of Directors has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls over financial reporting as and when there are changes to business environment or regulatory requirements and other guidelines. The processes are regularly reviewed by the Board and confirmed according to the compliance with the Guidance for Directors of the Banks on the Directors' Statement on Internal Control issued by CA Sri Lanka. The Board has assessed the internal control system taking into principle the assessment of an internal control system as given in that guidance.

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the policies and procedures approved by the Board on risk and control by identifying and assessing the risks faced by the Bank and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

The Board has put in place the system of reviewing the adequacy and integrity of system of internal control over financial reporting. The key processes include the following:

- The Board Sub-Committees have been established with defined scopes and functions to assist the Board in ensuring the effectiveness of the Bank's operations and that the Bank's operations are in accordance with the corporate objectives, strategies & policies and business directions that have been approved.
- The Internal Audit Division of the Bank carries out audit of Branches, Divisions and other Units as per the Annual Audit Plan. The frequency of audit is determined by the level of risk assessed. The Audit Plan is reviewed and approved by the Board Audit Committee (BAC) for implementation. The Internal Audit Division carries out audit checks to ensure compliance with policies & procedures and the effectiveness of the internal control systems and reports its findings in respect of any non-compliance. Audits are carried out to provide an independent and objective report on operational and management activities. The findings of the audits are submitted to the BAC for review at their periodic meetings.
- The BAC reviews periodically the internal control issues identified by the Internal Audit Division of the Bank, the External Auditors, Regulatory Authorities and the management and also evaluates the adequacy and effectiveness of the risk management and internal control systems. The BAC reviews the internal audit function with particular emphasis on the scope of audits and quality of the same. The Superintendent of the Government Audit

is generally invited to BAC meetings. The minutes of BAC meetings are forwarded to the Board on a periodic basis. The activities attended to by the BAC during the year 2014 are set out in the Board Audit Committee Report appearing on page 109 of this Annual Report.

- In assessing the internal control system, identified officers of the Bank continued to review and update all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. The Internal Audit Division of the Bank continues to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis. The assessment covered only the process applied by the Bank and did not include the processes carried out by its Subsidiary.

### **Confirmation** →

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards and regulatory requirements of the Central Bank of Sri Lanka.

### **Review of the Statement by the External Auditors** →

The External Auditors have reviewed the above Directors' Statement on Internal Controls for the year ended 31st December 2014 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank.

By Order of the Board,



**Aswin De Silva**  
Chairman



**D.L.P.R. Abeyaratne**  
Director



**Bradley Emerson**  
Chairman - Board Audit Committee/Director

30th April 2015  
Colombo



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கணக்காய்வாளர் தலைமை அறிப்பி திணைக்களம்  
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය } FB/L/NSB/IC/2014  
எனது இல. }  
My No. }

ඔබේ අංකය }  
உமது இல. }  
Your No. }

දිනය } 30 April 2015  
திகதி }  
Date }

The Chairman,  
National Savings Bank,

**Assurance Report of the Auditor General to  
the Board of Directors on the Directors'  
Statement on Internal Control of  
National Savings Bank** →

**Introduction** →

This report is to provide assurance on the Directors' Statement on Internal Control ("Statement") of National Savings Bank included in the annual report for the year ended 31 December 2014.

**Management's Responsibility** →

Management is responsible for the preparation and presentation of the statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

**My Responsibility and Compliance with  
SLSAE 3050** →

My responsibility is to issue a report to the Board of Directors on the statement based on the work performed. I conducted my engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

**Summary of Work Performed** →

My engagement has been conducted to assess whether the statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Bank.

The procedures performed are limited primarily to inquiries of bank personnel and the existence of documentation on a sample basis that supports the process adopted by the Board of Directors.

SLSAE 3050 does not require me to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require me to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

**My Conclusion** →

Based on the procedures performed, nothing has come to my attention that causes me to believe that the Statement included in the annual report is inconsistent with my understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Bank.

**W.P.C. Wickramaratne**  
Auditor General (Acting)

**GENERAL MANAGER/CEO'S AND / FINANCIAL REPORTS**  
**DEPUTY GENERAL MANAGER'S**  
**(FINANCE & PLANNING) STATEMENT**  
**OF RESPONSIBILITY**

The Financial Statements of the National Savings Bank and the Consolidated Financial Statements of the Bank and its Subsidiary (Group) as at 31st December 2014, are prepared and presented in conformity with the requirements of the following:

- National Savings Bank Act No. 30 of 1971 and amendments thereto.
- Finance Act No. 38 of 1971.
- Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards issued by The Institute of Chartered Accountants of Sri Lanka.
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.
- Banking Act No. 30 of 1988 and amendments thereto and Directions and Guidelines issued by Central Bank of Sri Lanka.
- Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka.

The formats used in the preparation of the Financial Statements and disclosures made, comply with the specified formats prescribed by the Central Bank of Sri Lanka which are also in compliance with the disclosure requirements of the Sri Lanka Accounting Standard 1 (LKAS 1) - 'Presentation of Financial Statements'. The Group presents the financial results to its users on a quarterly basis.

The Significant Accounting Policies have been consistently applied by the Group. Application of Significant Accounting Policies and estimates that involved a high degree of judgment and complexity were discussed with the Bank's External Auditors and the Board Audit Committee. Comparative information has been reclassified wherever necessary to comply with the current presentation and material departures, if any, have been disclosed and explained. We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and other financial information included in this Annual

Report, fairly present in all material aspects of the financial condition, results of the operations and the cash flows of the Group during the period under review. We also confirm that the Group has adequate resources to continue in operation and has applied the going concern basis in preparing these Financial Statements.

We are responsible for establishing, implementing and maintaining Internal Controls and Procedures of the Bank and its Subsidiary. We ensure that effective Internal Controls and Procedures are in place ensuring material information relating to the Group is made known to us for safeguarding assets, preventing and detecting fraud and/or error as well as other irregularities, which are reviewed, evaluated and updated on an ongoing basis. We are satisfied that there were no significant deficiencies and weaknesses in the design or operation of the Internal Controls and Procedures, to the best of our knowledge. We confirm, based on our evaluations, that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and fraud that involved management or other employees. The Bank's Internal Audit Division also conducts periodic reviews to ensure that the Internal Controls and Procedures are consistently followed.

The Financial Statements of the Bank and its Subsidiary were audited by the Auditor General and Messrs Ernst & Young, Chartered Accountants respectively. The Auditor General's Report on the Bank's Consolidated Financial Statements is given on page 167 of this Annual Report.

The Bank's Board Audit Committee, *inter alia*, reviewed all Internal Audit and Inspection Programmes, the efficiency of Internal Control Systems and Procedures and also reviewed the Significant Accounting Policies and their adherence to statutory and regulatory requirements, the details of which are given in the Board Audit Committee Report on pages 109 to 111 of this Annual Report. To ensure complete

independence, the Auditor General and the Internal Auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal control and accounting.

We confirm that to the best of our knowledge –

- The Bank and Group have complied with all applicable laws and regulations and guidelines and there are no material litigations against the Group other than those disclosed in Note 44 on page 234 of the Financial Statements.
- All taxes, duties, levies and all statutory payments payable by the Bank and the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and the Group as at 31st December 2014 have been paid, or where relevant, provided for.



**S.D.N. Perera**  
*General Manager/CEO*



**K.B. Wijeyaratne**  
*Deputy General Manager  
(Finance & Planning)*

26th March 2015  
Colombo



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கணக்காய்வாளர் தலைமை அகியதி திணைக்களம்  
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය  
எனது இல. } FB/L/NSB/14/62  
My No. }

ඔබේ අංකය  
உமது இல. }  
Your No. }

දිනය  
திகதி } 26 March 2015  
Date }

The Chairman,  
National Savings Bank,

**Report of the Auditor General on the  
Financial Statements of the National Savings  
Bank and its subsidiary for the year ended  
31 December 2014** →

The audit of the financial statements of the National Savings Bank ("Bank") and the consolidated financial statements of the Bank and its subsidiary ("Group") for the year ended 31 December 2014 comprising the Statements of Financial Position as at 31 December 2014, the Statement of Comprehensive Income, Statements of Changes in Equity and Cash Flow Statements for the year then ended, and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The financial statements of the subsidiary were audited by a firm of Chartered Accountants in public practice appointed by the members of the respective subsidiary.

**Board's Responsibility for the financial statements** →

The Board of Directors ("Board") is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

**Auditor's Responsibility** →

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of the material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose

of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of Accounting Policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion – Bank** →

In my opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2014 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**Opinion – Group** →

In my opinion, the consolidated financial statements give a true and fair view of the financial position of the Bank and its subsidiary as at 31 December 2014 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**Report on Other Legal and Regulatory Requirement** →

These financial statements had been presented the information required by the Banking Act, No. 30 of 1988 and subsequent amendments thereto.

**Report to Parliament** →

My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

**W.P.C. Wickramaratne**  
Auditor General (Acting)

For the year ended 31st December	Notes	Bank			Group		
		2014 Rs. '000	2013 Rs. '000	Change %	2014 Rs. '000	2013 Rs. '000	Change %
<b>Gross income</b>	3	<b>77,890,413</b>	65,573,042	19	<b>78,573,202</b>	66,670,921	18
Interest income		<b>74,022,734</b>	64,247,818	15	<b>74,656,751</b>	65,066,567	15
Less: Interest expenses		<b>52,642,488</b>	54,141,176	(3)	<b>52,995,992</b>	54,811,288	(3)
<b>Net interest income</b>	4	<b>21,380,246</b>	10,106,642	112	<b>21,660,759</b>	10,255,279	111
Fee and commission income		<b>356,092</b>	228,056	56	<b>356,173</b>	228,142	56
Less: Fee and commission expenses		<b>70,056</b>	33,016	112	<b>72,035</b>	34,124	111
<b>Net fee and commission income</b>	5	<b>286,036</b>	195,040	47	<b>284,138</b>	194,018	46
Net gain/(loss) from trading	6	<b>1,904,725</b>	857,079	122	<b>1,970,243</b>	1,137,997	73
Net gain/(loss) from financial instruments designated at fair value through profit or loss	7	-	-	-	-	-	-
Net gain/(loss) from financial investments	8	<b>1,349,348</b>	-	100	<b>1,349,348</b>	-	100
Other operating income (net)	9	<b>257,513</b>	240,089	7	<b>240,686</b>	238,215	1
<b>Total operating income</b>		<b>25,177,867</b>	11,398,850	121	<b>25,505,174</b>	11,825,509	116
Less: Impairment charge for loans and other losses	10	<b>3,475,695</b>	1,380,003	152	<b>3,475,695</b>	1,380,003	152
<b>Net operating income</b>		<b>21,702,172</b>	10,018,847	117	<b>22,029,479</b>	10,445,506	111
<b>Less: Expenses</b>							
Personnel expenses	11	<b>4,797,371</b>	4,208,706	14	<b>4,813,983</b>	4,224,196	14
Other expenses	12	<b>4,396,971</b>	2,906,932	51	<b>4,369,365</b>	2,879,603	52
<b>Operating profit before value added tax (VAT) and nation building tax (NBT)</b>		<b>12,507,830</b>	2,903,209	331	<b>12,846,131</b>	3,341,707	284
Less: Value added tax on financial services		<b>1,744,872</b>	624,445	179	<b>1,784,099</b>	672,464	165
Nation building tax on financial services		<b>290,812</b>	-	100	<b>298,134</b>	-	100
<b>Operating profit after value added tax (VAT) and nation building tax (NBT)</b>		<b>10,472,146</b>	2,278,764	360	<b>10,763,898</b>	2,669,243	303
<b>Profit before income tax</b>		<b>10,472,146</b>	2,278,764	360	<b>10,763,898</b>	2,669,243	303
Less: Income tax expenses	13	<b>3,605,541</b>	1,094,954	229	<b>3,710,276</b>	1,141,437	225
<b>Profit for the year</b>		<b>6,866,605</b>	1,183,810	480	<b>7,053,622</b>	1,527,806	362
<b>Profit attributable to:</b>							
Equity holders of the Bank		<b>6,866,605</b>	1,183,810	480	<b>7,053,622</b>	1,527,806	362
<b>Profit for the year</b>		<b>6,866,605</b>	1,183,810	480	<b>7,053,622</b>	1,527,806	362
<b>Earnings per share on profit</b>							
Basic earnings per ordinary share (Rs.)	14	<b>21.46</b>	3.70	480	<b>21.06</b>	4.56	362
Diluted earnings per ordinary share (Rs.)		<b>21.46</b>	3.70	480	<b>21.06</b>	4.56	362

For the year ended 31st December	Notes	Bank			Group		
		2014 Rs. '000	2013 Rs. '000	Change %	2014 Rs. '000	2013 Rs. '000	Change %
<b>Profit for the year</b>		<b>6,866,605</b>	1,183,810	480	<b>7,053,622</b>	1,527,806	362
<b>Other comprehensive income, net of tax</b>							
<b>Other comprehensive income to be reclassified to Income Statement</b>							
Net gains/(losses) on cash flow hedges		39,820	(45,324)	188	39,820	(45,324)	188
Net gains/(losses) on re-measuring available-for-sale financial assets		1,246,466	(152,672)	916	1,246,466	(152,672)	916
Fair value gains transferred to the Income Statement on disposal of available-for-sale financial assets		(30,494)	-	(100)	(30,494)	-	(100)
<b>Total other comprehensive income to be reclassified to Income Statement</b>		<b>1,255,792</b>	(197,996)	734	<b>1,255,792</b>	(197,996)	734
<b>Other comprehensive income not to be reclassified to Income Statement</b>							
Net gains/(losses) on revaluation of property, plant & equipment		-	482,106	(100)	-	482,106	(100)
Actuarial gains/(losses) on retirement benefit plans		(3,000,390)	-	(100)	(3,000,294)	(416)	(721,125)
<b>Total other comprehensive income not to be reclassified to Income Statement</b>		<b>(3,000,390)</b>	482,106	(722)	<b>(3,000,294)</b>	481,690	(723)
<b>Other comprehensive income for the year, net of taxes</b>		<b>(1,744,598)</b>	284,110	(714)	<b>(1,744,502)</b>	283,694	(715)
<b>Total comprehensive income for the year</b>		<b>5,122,007</b>	1,467,920	249	<b>5,309,120</b>	1,811,500	193
<b>Attributable to:</b>							
Equity holders of the Bank		5,122,007	1,467,920	249	5,309,120	1,811,500	193
<b>Total comprehensive income for the year</b>		<b>5,122,007</b>	1,467,920	249	<b>5,309,120</b>	1,811,500	193

The Notes to the Financial Statements disclosed on pages 177 to 263 are integral parts of these Financial Statements.

As at 31st December	Note	Bank			Group		
		2014 Rs. '000	2013 Rs. '000	Change %	2014 Rs. '000	2013 Rs. '000	Change %
<b>Assets</b>							
Cash and cash equivalents	16	1,926,594	1,546,221	25	1,930,527	1,557,267	24
Balances with central banks	17	-	-	-	167	203	(18)
Placements with banks	18	9,645,621	11,298,360	(15)	9,645,621	11,298,360	(15)
Derivative financial instruments	19	2,879,931	5,118,615	(44)	2,879,931	5,118,615	(44)
Other financial assets held-for-trading	20	7,431,458	13,808,239	(46)	11,555,186	18,111,911	(36)
Financial assets designated at fair value through profit or loss	21	-	-	-	-	-	-
Loans and receivables to banks	22	6,534,102	7,550,509	(13)	6,534,102	7,849,969	(17)
Loans and receivables to other customers	23	216,162,152	158,869,826	36	216,164,238	158,871,926	36
Financial investments – Available-for-sale	24	4,036,955	2,926,082	38	4,037,955	2,927,082	38
Financial investments – Held-to-maturity	25	510,341,337	432,465,113	18	513,709,164	435,959,845	18
Investments in subsidiaries	26	150,000	150,000	-	-	-	-
Property, plant & equipment	27	5,529,743	5,610,413	(1)	5,530,622	5,611,100	(1)
Intangible assets	28	64,652	81,803	(21)	64,659	81,888	(21)
Deferred tax assets	29	-	-	-	668	568	18
Other assets	30	14,763,764	14,942,811	(1)	14,791,687	14,957,063	(1)
<b>Total assets</b>		<b>779,466,309</b>	<b>654,367,993</b>	<b>19</b>	<b>786,844,527</b>	<b>662,345,797</b>	<b>19</b>
<b>Liabilities</b>							
Due to banks	31	90,150	126,989	(29)	694,869	4,118,522	(83)
Due to other customers	32	554,060,312	501,889,688	10	554,060,312	501,889,688	10
Other borrowings	33	191,102,124	120,433,536	59	196,008,232	122,790,093	60
Current tax liabilities		-	-	-	86,575	33,205	161
Deferred tax liabilities	29	269,754	143,450	88	269,754	143,450	88
Other liabilities	34	10,683,745	9,556,844	12	10,699,769	9,574,014	12
<b>Total liabilities</b>		<b>756,206,086</b>	<b>632,150,506</b>	<b>20</b>	<b>761,819,512</b>	<b>638,548,971</b>	<b>19</b>
<b>Equity</b>							
Stated capital/Assigned capital	35	3,200,000	3,200,000	-	3,200,000	3,200,000	-
Statutory reserve fund	36	1,874,135	1,736,803	8	1,874,135	1,736,803	8
Other reserves	37	18,186,088	17,280,684	5	19,950,880	18,860,023	6
Total equity of the owners of the parent		<b>23,260,223</b>	<b>22,217,487</b>	<b>5</b>	<b>25,025,015</b>	<b>23,796,826</b>	<b>5</b>
<b>Total equity</b>		<b>23,260,223</b>	<b>22,217,487</b>	<b>5</b>	<b>25,025,015</b>	<b>23,796,826</b>	<b>5</b>
<b>Total equity and liabilities</b>		<b>779,466,309</b>	<b>654,367,993</b>	<b>19</b>	<b>786,844,527</b>	<b>662,345,797</b>	<b>19</b>
<b>Contingent liabilities and commitments</b>	38	<b>59,444,638</b>	<b>69,590,143</b>	<b>(15)</b>	<b>59,444,638</b>	<b>69,590,143</b>	<b>(15)</b>

The Notes to the Financial Statements disclosed on pages 177 to 263 are integral part of these Financial Statements.

**Certification**

I certify that the above Financial Statements give a true and fair view of the state of affairs as at 31st December 2014 and its profit for the year ended 31st December 2014.

**K.B. Wijeyaratne**

*Deputy General Manager (Finance and Planning)*

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board.



**Aswin De Silva**  
*Chairman*



**Mahinda Siriwardana**  
*Director*



**S.D.N. Perera**  
*General Manager/CEO*

26th March 2015  
Colombo

**Bank** →

	Stated capital/ Assigned capital Rs. '000	Statutory reserve fund Rs. '000	Revaluation reserve Rs. '000
<b>Balance as at 1st January 2013</b>	3,200,000	1,713,127	1,583,340
Profit for the year 2013	-	-	-
Other comprehensive income (net of tax)	-	-	482,106
<b>Total comprehensive income for the year</b>	-	-	482,106
<b>Transaction with equity holders, recognised directly in equity</b>			
Transfers to reserves during the period	-	23,676	-
Contribution to consolidated fund/dividend	-	-	-
Contribution to national insurance trust fund	-	-	-
Unclaimed deposit reserve	-	-	-
<b>Total transactions with equity holders</b>	-	23,676	-
<b>Balance as at 31st December 2013</b>	3,200,000	1,736,803	2,065,446
Profit for the year 2014	-	-	-
Other comprehensive income (net of tax)	-	-	-
<b>Total comprehensive income for the year</b>	-	-	-
<b>Transaction with equity holders, recognised directly in equity</b>			
Transfers to reserves during the period	-	137,332	-
Contribution to consolidated fund/dividend	-	-	-
Contribution to national insurance trust fund	-	-	-
Unclaimed deposit reserve	-	-	-
<b>Total transactions with equity holders</b>	-	137,332	-
<b>Balance as at 31st December 2014</b>	3,200,000	1,874,135	2,065,446

Available-for-sale reserve Rs. '000	Cash flow hedging reserve Rs. '000	Other reserves Rs. '000	Retained earnings Rs. '000	Total equity Rs. '000
136,119	-	17,134,512	-	23,767,098
-	-	-	1,183,810	1,183,810
(152,672)	(45,324)	-	-	284,110
(152,672)	(45,324)	-	1,183,810	1,467,920
-	-	(1,851,707)	1,828,028	-
-	-	-	(3,000,000)	(3,000,000)
-	-	-	(11,838)	(11,838)
-	-	(5,693)	-	(5,693)
-	-	(1,857,400)	(1,183,810)	(3,017,531)
(16,553)	(45,324)	15,277,112	-	22,217,487
-	-	-	6,866,605	6,866,605
1,215,972	39,820	-	(3,000,390)	(1,744,598)
1,215,972	39,820	-	3,866,215	5,122,007
-	-	(339,783)	202,451	-
-	-	-	(4,000,000)	(4,000,000)
-	-	-	(68,666)	(68,666)
-	-	(10,606)	-	(10,606)
-	-	(350,389)	(3,866,215)	(4,079,272)
1,199,419	(5,504)	14,926,723	-	23,260,223

**Group** →

	Stated capital/ Assigned capital Rs. '000	Statutory reserve fund Rs. '000	Revaluation reserve Rs. '000
<b>Balance as at 1st January 2013</b>	3,200,000	1,713,127	1,583,340
Profit for the year 2013	-	-	-
Other comprehensive income (net of tax)	-	-	482,106
<b>Total comprehensive income for the year</b>	-	-	482,106
<b>Transaction with equity holders, recognised directly in equity</b>			
Transfers to reserves during the period	-	23,676	-
Contribution to consolidated fund/dividend	-	-	-
Contribution to national insurance trust fund	-	-	-
Unclaimed deposit reserve	-	-	-
<b>Total transactions with equity holders</b>	-	23,676	-
<b>Balance as at 31st December 2013</b>	3,200,000	1,736,803	2,065,446
Profit for the year 2014	-	-	-
Other comprehensive income (net of tax)	-	-	-
<b>Total comprehensive income for the year</b>	-	-	-
<b>Transaction with equity holders, recognised directly in equity</b>			
Transfers to reserves during the period	-	137,332	-
Contribution to consolidated fund/dividend	-	-	-
Contribution to national insurance trust fund	-	-	-
Unclaimed deposit reserve	-	-	-
<b>Total transactions with equity holders</b>	-	137,332	-
<b>Balance as at 31st December 2014</b>	3,200,000	1,874,135	2,065,446

The Notes to the Financial Statements disclosed on pages 177 to 263 are integral parts of these Financial Statements.

Available-for-sale reserve Rs. '000	Cash flow hedging reserve Rs. '000	Other reserves Rs. '000	Retained earnings Rs. '000	Total equity Rs. '000
136,119	-	18,370,271	-	25,002,857
-	-	-	1,527,806	1,527,806
(152,672)	(45,324)	-	(416)	283,694
(152,672)	(45,324)	-	1,527,390	1,811,500
-	-	(1,508,124)	1,484,448	-
-	-	-	(3,000,000)	(3,000,000)
-	-	-	(11,838)	(11,838)
-	-	(5,693)	-	(5,693)
-	-	(1,513,817)	(1,527,390)	(3,017,531)
(16,553)	(45,324)	16,856,453	-	23,796,826
-	-	-	7,053,622	7,053,622
1,215,972	39,820	-	(3,000,294)	(1,744,502)
1,215,972	39,820	-	4,053,328	5,309,120
-	-	(154,331)	16,999	-
-	-	-	(4,001,661)	(4,001,661)
-	-	-	(68,666)	(68,666)
-	-	(10,606)	-	(10,606)
-	-	(164,937)	(4,053,328)	(4,080,933)
1,199,419	(5,504)	16,691,515	-	25,025,015

For the year ended 31st December	Note	Bank		Group	
		2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Cash Flow from Operating Activities</b>					
Profit before tax		10,472,146	2,278,764	10,763,898	2,669,243
<b>Adjustment for:</b>					
Non-cash items included in profit before tax	41	1,602,603	1,861,004	1,602,959	1,860,883
Change in operating assets	42	(128,410,932)	(141,595,582)	(127,818,280)	(139,777,863)
Change in operating liabilities	43	53,843,200	50,162,185	50,455,238	47,748,316
Placements with banks		1,652,739	(5,324,775)	1,652,739	(5,324,775)
Contribution paid to defined benefit plans		(575,033)	(679,971)	(575,033)	(679,971)
Tax paid		(3,479,237)	(1,074,842)	(3,530,702)	(1,141,199)
Contribution to national insurance trust fund		(39,303)	(11,838)	(39,303)	(11,838)
Dividends received from investment in subsidiaries		(14,953)	-		
<b>Net cash used in operating activities</b>		<b>(64,948,770)</b>	<b>(94,385,055)</b>	<b>(67,488,484)</b>	<b>(94,657,204)</b>
<b>Cash Flows from Investing Activities</b>					
Purchase of property, plant & equipment		(181,360)	(268,407)	(181,732)	(268,407)
Proceeds from the sale of property, plant & equipment		11,408	2,340	11,408	2,340
Net increase in investment in available-for-sale		(1,110,873)	147,176	(1,110,873)	147,176
Net purchase of intangible assets		(26,128)	(12,248)	(26,128)	(12,248)
Decrease in unclaimed reserve fund		(10,606)	(5,693)	(10,606)	(5,693)
Dividends received from investment in subsidiaries		14,953	-		
<b>Net cash used in investing activities</b>		<b>(1,302,606)</b>	<b>(136,832)</b>	<b>(1,317,931)</b>	<b>(136,831)</b>
<b>Cash Flow from Financing Activities</b>					
Other borrowings		70,668,588	97,812,591	73,218,139	98,094,246
Contribution to consolidated fund/dividend		(4,000,000)	(3,000,000)	(4,001,661)	(3,000,000)
<b>Net cash from financing activities</b>		<b>66,668,588</b>	<b>94,812,591</b>	<b>69,216,478</b>	<b>95,094,246</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>417,212</b>	<b>290,704</b>	<b>410,063</b>	<b>300,211</b>
Cash and cash equivalents at the beginning of the year		1,419,232	1,128,528	1,430,481	1,130,270
<b>Cash and cash equivalents at the end of the year</b>		<b>1,836,444</b>	<b>1,419,232</b>	<b>1,840,544</b>	<b>1,430,481</b>

The Notes to the Financial Statements disclosed on pages 177 to 263 are integral parts of these Financial Statements.

## **1. Corporate Information** →

### **Reporting Entity** →

National Savings Bank (NSB) is a specialised bank incorporated in Sri Lanka. The registered office of the Bank is located at No. 255, 'Saving House', Galle Road, Colombo 03, Sri Lanka. The Group Financial Statements for the year ended 31st December 2014 comprise of the Bank (Parent) and its fully-owned Subsidiary, NSB Fund Management Company Ltd.

The staff strength of the Bank as at 31st December 2014 was 3,358. (2013 - 2,943)

The Bank possesses 236 branches, 2,287 school bank units and 260 ATMs of its service outlets and 647 Post Offices and 3,416 Sub-Post Offices as its agency network.

The Bank prepares Financial Statements of the 'Bank' and the 'Group' for the twelve months period ended 31st December each year to be table in the Parliament.

The Financial Statements for the year ended 31st December 2014 were authorised for issue on 26th March 2015, by a resolution of the Board of Directors.

## **2. Accounting Policies** →

### **2.1 Basis of Preparation** →

The Consolidated Financial Statements have been prepared on a historical cost basis, except for the following material items:

- (i) available-for-sale investments
- (ii) derivative financial instruments
- (iii) other financial assets and liabilities held-for-trading
- (iv) financial assets and liabilities designated at fair value through profit or loss
- (v) land and buildings
- (vi) liability for employee defined benefits

The Consolidated Financial Statements are presented in Sri Lankan Rupees (Rs.) and all values are rounded to the nearest thousand Rupees, except when otherwise indicated.

### **2.1.1 Statement of Compliance**

The Financial Statements of the Bank and the Group are prepared in accordance with Sri Lanka Accounting Standards (LKASs and SLFRSs) as issued by The Institute of Chartered Accountants of Sri Lanka and presented the information amendments required by the Banking Act No. 30 of 1988 and subsequent amendments thereto.

The formats used in the preparation of the Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka for the preparation, presentation and publication of Annual Audited Financial Statements of Licensed Specialised Banks.

### **2.1.2 Presentation of Financial Statements**

The Bank and the Group present their Statement of Financial Position broadly in order of liquidity.

### **2.1.3 Offsetting Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if and only if there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Income Statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

### **2.1.4 Basis of Consolidation**

The Financial Statements of the Bank and the Group comprise the Financial Statements of the Bank and its Subsidiary for the year ended 31st December 2014.

The Financial Statements of the Bank's Subsidiary for the purpose of consolidation are prepared for the same reporting period as that of National Savings Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses are eliminated in preparing the Consolidated Financial Statements.

The Financial Statements of the Subsidiary is consolidated from the date on which control is transferred to the Bank. The control exists where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

## **2.2 Significant Accounting Judgments, Estimates and Assumptions** →

In the process of applying the Group's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the Financial Statements. The most significant uses of judgements and estimates are as follows:

### ***2.2.1 Going Concern***

The management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

### ***2.2.2 Fair Value of Financial Instruments***

Where the fair value of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models. The inputs to these models are

derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

### ***2.2.3 Impairment Losses on Loans and Receivables***

The Group reviews its individually significant loans and receivables at each Reporting date to assess whether an impairment loss should be recorded in the Income Statement. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about various factors and actual results may differ, resulting in future changes to the allowance.

Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.) and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

## **2.3 Financial Instruments** →

### ***2.3.1 Financial Instruments - Initial Recognition, Classification and Subsequent Measurement***

#### ***(i) Date of recognition***

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument.

Note: In maintaining the General Ledger, Government Securities are recognized on the settlement date which falls due after three days from the date of trade. The position is rectified in preparation of the Financial Statements.

### *(ii) Initial Measurement of Financial Instruments*

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instrument, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Transaction costs in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through profit or loss.

### *(iii) 'Day 1' Profit or Loss*

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Interest Income and Personnel Expenses'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Statement of Comprehensive Income when the inputs become observable, or when the instrument is derecognised. The 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is using Effective Interest Rates (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

### *(iv) Derivatives Recorded at Fair Value Through Profit or Loss*

The Group uses derivatives such as interest rate swaps and forward foreign exchange contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading income'.

#### Cash Flow Hedge

If a hedge of the exposure to variability in cash flow, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Other Comprehensive Income within 'cash flow hedge' – fair value gains/(losses)'. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the Income Statement.

The accumulated gains and losses recognised in Other Comprehensive Income are reclassified to the Income Statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged result in the recognised of a non-financial assets or a non-financial liability, the gains and losses previously recognised in Other Comprehensive Income are removed from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meet the criteria for hedge accounting, any cumulative gain or loss recognised in Other Comprehensive Income at that time remains in equity until the forecast transaction is eventually recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in Other Comprehensive Income is immediately reclassified to the Income Statement.

### **2.3.2 Classification and Subsequent Measurement of Financial Instruments**

#### ***(i) Financial Assets or Financial Liabilities Held-for-Trading***

Financial assets or financial liabilities held-for-trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in 'Net trading income'. Interest and dividend income or expense are recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are Government Securities Held-for-Trading and dealing equity securities.

#### ***(ii) Financial Assets and Financial Liabilities Designated at Fair Value Through Profit or Loss (FVTPL)***

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition, and designation is determined as per the provisions in LKAS 39 on, 'Financial Instruments: Recognition and Measurement' on an instrument by instrument basis.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively using the effective interest rate (EIR), while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

#### ***(iii) Available-for-Sale Financial Investments (AFS)***

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale

are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

Note: The Group has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Equity investments under AFS that do not have quoted market price and whose fair value cannot be reliably measured shall be measured at cost.

Unrealised gains and losses are recognised directly in equity (Other Comprehensive Income) in the 'Available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Income Statement in 'Net gain/(loss) from financial investment'. Where the Group holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is required as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the Income Statement as 'Other Operating Income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the Income Statement in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

#### ***(iv) Held-to-Maturity Financial Investments***

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised

cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the Income Statement. The losses arising from impairment of such investments are recognised in the Income Statement line 'Credit loss expense'.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

#### *(v) Due from Banks and Loans and Receivable to Customers*

'Due from banks' and 'Loans and receivables to customers', include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, amounts 'Due from banks' and 'Loans and receivables to customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the Income Statement. The losses arising from impairment are recognised in the Income Statement in 'Credit loss expense'.

#### *(vi) Repurchase and Reverse Repurchase Agreements*

Securities sold under agreements to repurchase at a specified future date are not derecognised from the Statement of Financial Position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the Consolidated Statement of Financial Position as financial liability reflecting as a

loan received by the Group, including accrued interest as a liability within 'Cash collateral on securities lent and repurchase agreements', reflecting the transaction's economic substance. The difference between the sale and repurchase prices is treated as interest expenses and is accrued over the life of agreement using the EIR.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'Cash collateral on securities borrowed and reverse repurchase agreements', reflecting the transaction's economic substance as a loan granted by the Group. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR.

#### *(vii) Cash and Cash Equivalents*

Cash and cash equivalents as referred to in the Cash Flow Statement comprises cash on hand, non-restricted current accounts with Central Banks and amounts due from banks on demand or with an original maturity of three months or less.

#### *(viii) Due to Banks*

These represents overdrafts, call money borrowings and repos by the Subsidiary. Subsequent to initial recognition deposits are measured at their amortised cost using EIR method.

#### *(ix) Due to Other Customers*

These include savings deposits and term deposits. Subsequent to initial recognition deposits are measured at their amortised cost using EIR method.

#### *(x) Other Borrowings - Debt Securities Issued*

These represent the funds borrowed by the Bank for long-term funding requirement through international bonds (USD denominated). Subsequent to initial recognition debt

securities issued are measured at their amortised cost using EIR method. Interest paid/payable is recognised in profit or loss.

Foreign currency denominated debt securities as at the reporting date are translated to the functional currency at the middle exchange rate of the functional currency at that date. Foreign currency differences arising on retranslation at the reporting date are recognised in profit or loss.

### **2.3.3 Reclassification of Financial Instruments**

The Group reclassifies non-derivative financial assets out of the 'held-for-trading' category and into the 'available-for-sale', 'loans and receivables', or 'held-to-maturity' categories as permitted by the Sri Lanka Accounting Standard - LKAS 39 'Financial Instruments: Recognition and Measurement'. In certain circumstances the Group is also permitted to reclassify financial assets out of the 'available-for-sale' category and into the 'loans and receivables', 'held-for-trading' or 'held-to-maturity' category.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset with a fixed maturity reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate (EIR). Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR.

In the case of a financial asset does not have a fixed maturity, the gain or loss is recognised in the profit or loss when such financial asset is sold or disposed of. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the Income Statement.

The Group may reclassify a non-derivative trading asset out of the 'held-for-trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis.

The Group does not reclassify any financial instrument into the 'fair value through profit or loss' category after initial recognition. Also the Group does not reclassify any financial instrument out of the 'fair value through profit or loss' category if upon initial recognition it was designated as at fair value through profit or loss.

### **2.3.4 Derecognition of Financial Instruments**

#### **(a) Financial Assets**

Financial assets are derecognised when the contractual right to receive cash flows from the assets has expired; or when Group has transferred its contractual right to receive the cash flows of the financial assets and, either:

- substantially all risks and rewards of ownership have been transferred; or
- the Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party.

#### **(b) Financial Liabilities**

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expired.

### 2.3.5 Impairment of Financial Instruments

#### (i) Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has a impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Objective evidence of impairment includes indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial restructuring, default or delinquency in interest or principal payments and also other observable data indicating that there is a measurable decrease in the estimated future cash flows, or economic conditions that correlate with defaults.

In general, the Group considers a decline of 20% to be 'significant' and a period of six months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

#### (ii) Impairment of Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and receivable to customers as well as held-to-maturity investments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics

and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the Income Statement. Interest income continues to be accrued on the reduced carrying amount at the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increased or decreased because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Group has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effect of current conditions on which the historical loss experience is based and to remove the effect of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### Collateral Valuation

The Group uses collateral where possible to mitigate the risk on financial assets. The collateral comes in various forms such as cash, gold, Government Securities. To the extent possible, the Bank uses active market data for valuing financial assets held as collaterals.

#### *(iii) Available-for-Sale Financial Investments*

For available-for-sale financial investments including debt securities, the Group assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial asset carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Income Statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increased and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the Income Statement, the impairment loss is reversed through the Income Statement.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Group treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Other Comprehensive Income is removed from equity and recognised in the Income Statement. Impairment losses on equity investments are not reversed through the Income Statement; increases in the fair value after impairment are recognised in Other Comprehensive Income.

#### *(iv) Renegotiated Loans*

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no

longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

### **2.3.6 Recognition of Income and Expenses for Financial Instruments**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### **(i) Interest and Similar Income and Expense**

For all financial instruments measured at amortised cost, interest-bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Other operating income'. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase are recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

#### **(ii) Fee and Commission Income**

Fees earned for the provision of services and credit-related fees are recognised in the year in which the income is received.

#### **(iii) Net Trading Income**

Net trading income includes all gains and losses from changes in fair value and related dividend for financial assets and financial liabilities 'held-for-trading' other than interest income.

#### **(iv) Dividend Income**

Dividend income is recognised when the Group's right to receive the payment is established.

## **2.4 Property, Plant & Equipment (PPE) →**

Property, Plant & Equipment are recognised if it is probable that future benefits associated with the asset will flow to the Group and cost of the asset can be reliably measured. Property, Plant & Equipment are initially measured at cost including costs directly attributable to the acquisition of the asset.

The Group applies cost model to Property, Plant & Equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

The Group applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of

revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and buildings of the Group are revalued every three years on a roll over basis to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to Income Statement.

In this circumstance, the increase is recognised as income to the extent of the previous write-down. Any decrease in the carrying amount is recognised as an expense in the Income Statement or debited in the Other Comprehensive Income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the Revaluation Reserve in respect of an asset is transferred directly to Retained Earnings on retirement or disposal of the asset.

Depreciation is recognised in profit or loss on the straight-line method to write-down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. Depreciation rates for the identified classes of assets are as follows:

Category of Asset	Depreciation Rate Per Annum
Leasehold Property	Over the period of lease
Freehold Buildings	2.5% p.a.
Office and Sundry Equipment	10% p.a.
Motor Vehicles	20% p.a.
Computer Hardware and Software	25% p.a.
Furniture and Fittings	10% p.a.

The Group provide depreciation of an asset commence from the date when they are available for use to the date of disposal of the asset.

Property, Plant & Equipment are derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the Income Statement in the year the asset is derecognised.

## **2.5 Intangible Assets** →

The Group's intangible assets consist of the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function of the intangible asset.

The Group does not possess intangible assets with indefinite useful economic life. The estimated economic life of the Group's computer software is 4 years (25% per annum).

**2.6 Impairment of Non-Financial Assets** →

The Group assess at each reporting date whether there is an indication that an asset other than deferred tax asset, may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

**2.7 Employee Benefits** →**2.7.1 Defined Benefit Pension Plans****2.7.1.1 Staff Pension Fund - I**

The Bank operates a defined benefit pension plan, for the permanent staff members who have joined the Bank prior to 1st October 1995, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit pension plan is determined separately for each plan using the Projected Unit Credit actuarial valuation method. Actuarial gains and losses are recognised in the Other Comprehensive Income in the period in which they arise.

The defined benefit asset or liability is calculated as the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of planned assets out of which the obligations are to be settled directly, less actuarial losses not yet recognised. The value of the defined benefit liability is borne by the Bank and recognised in the profit or loss. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The latest actuarial valuation was carried out as of 31st December 2014, by Piyal S. Gunatilleke F.S.A. (USA), Member of the American Academy of Actuaries and Consulting Actuaries.

The principal financial assumptions used in the valuation as at 31st December 2014 are as follows:

Interest/Discount Rate	9.75% p.a.
Increase in Cost of Living Allowances	4.50% p.a.
Increase in Average Basic Salary	5.50% p.a.

The assets of the fund are held separately from these of the Bank and are independently administrated by the Trustees as per the provisions of the Trust Fund and are subject to annual audit by Independent External Auditors. The Financial Statements as well as the Auditor's Report are tabled and reviewed by the Board of Trustees. They are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at optimum levels. Pension is payable monthly as long as the participant is alive.

**2.7.1.2 Un-funded Pension Liability**

The past service cost not funded is recognised in Other Comprehensive Income immediately upon actuarial valuation. The actuarial valuation as at 31st December 2014 indicated a past service cost deficit of Rs. 4,258 Million which has been provided in full. The details of Unfunded Pension Liability are given in Note No. 34 (a).1.

**2.7.1.3 Staff Pension Fund - II**

Effective from 2013, a pension scheme has been established for the staff members who have joined the Bank on or after 1st October 1995. The option has been granted to staff members to continue with gratuity entitlement or to join with the new scheme. The Bank monthly contributes 12% of members' gross salary to the scheme. Rs. 149 Million has been allocated from the profit of 2014 by using an actuary estimate of valuation.

#### **2.7.1.4 Widows'/Widowers' and Orphans' Pension Fund**

Effective from 2013 December, the Bank has established a 'Widows'/Widowers' and Orphans' Pension Scheme for the members of Pension Fund - II. The Bank does not contribute to the Fund while Bank's employees monthly contribute 5% of their basic salary.

#### **2.7.2 Gratuity**

The employees who joined the Bank on or after 1st October 1995 will be eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, or if opted can join the proposed new pension scheme - II and if so such employees will forfeit their right to gratuity payment.

Other employees whose services are terminated other than by retirement are eligible to receive the terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one-half of the gross salary applicable to the last month of the financial year in which the employment is terminated, for each year of continuous service, for those who have served in excess of 5 years.

The Group makes a monthly provision towards such Gratuity Payment Liabilities and this value is reflected in the Financial Position of the Group. The provision is based on the actuarial valuation. The last actuarial valuation was carried out as of 31st December 2014. The gratuity liabilities are not externally funded.

#### **2.7.3 Post-Employment Medical Benefits**

The Bank has a contributory medical assistance scheme for the retired employees. The assets of the plan are held independently of the Bank's assets and administered by Boards of Trustees/Managers, representing the management and the employees, as provided in the trust deed of the fund.

The Bank contributes to the contributory medical scheme an amount determined by the Management of the Bank

based on actuarial recommendation made from time to time. Accordingly, a sum of Rs. 54 Million has been provided from the profit of 2014.

#### **2.7.4 Defined Contribution Plans**

The Group also operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability. The Bank contributes to the following defined contribution plans:

##### **(i) Employees' Provident Fund**

The Bank and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund. The Bank's Provident Fund is an approved fund under the Employees' Provident Fund Act. The Bank guarantees 8% p.a. return to the members of the Employees' Provident Fund.

##### **(ii) Employees' Trust Fund**

The Group contributes 3% of the employee's monthly gross salary (excluding overtime) to the Employees' Trust Fund maintained by the Employees' Trust Fund Board.

## **2.8 Taxation →**

### **2.8.1 Current Taxation**

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted at the reporting date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in Note 13 to the Financial Statements.

**2.8.2 Deferred Taxation**

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

Deferred tax assets are recognised for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the reporting date.

**2.8.3 Value Added Tax on Financial Services (VAT)**

VAT on financial services is calculated in accordance with Section 25A of Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto.

VAT on financial services is payable at 12% on operating profit before value added tax and nation building tax on financial services adjusted for emoluments of employees and economic depreciation.

**2.8.4 Nation Building Tax on Financial Services (NBT)**

NBT on financial services is calculated in accordance with Nation Building Tax (Amendment) Act No. 10 of 2014. NBT on financial services is payable at 2% on same base subjected to value added tax on financial services.

**2.9 Provisions** →

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and 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. The expenses relating to any provision is presented in the Income Statement net of any reimbursement.

**2.9.1 Provision for Fraudulent Withdrawals**

The total value of fraudulent withdrawals identified as at 31st December 2014 was Rs. 26.53 Million. A provision of Rs. 7.02 Million already exists in the account.

**2.10 Contingent Liabilities** →

Where, as a result of past events, there may be an outflow of resources embodying future economic benefits in settlement of a present obligation or a possible obligation whose existence is confirmed only by occurrence or non-occurrence of one or more uncertain future events, a provision is made if there is a present obligation that probably requires an outflow of resources.

**2.11 Events After the Reporting Period** →

The Group updates disclosures relating to any event occurred between the end of the reporting period and the date when the Financial Statements are authorised for issue and provide evidence of the conditions that existed at the end of the reporting period.

**2.12 Foreign Currency Transactions** →

Foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Sri Lankan Rupees at the functional currency rate at the reporting date. All exchange differences arising on the settlement of monetary items or on translating monetary items at rates different to those at which they are initially recorded are recognised in the Income Statement in the period in which they arise.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The Statement of Financial Position of Foreign Currency Banking Unit is translated to Sri Lankan Rupees at the middle rate of exchange ruling at the reporting date.

**2.13 Statement of Cash Flows** →

The Statement of Cash Flows has been prepared by using the 'Indirect Method' of preparing cash flows in accordance with the LKAS 7. Cash and cash equivalents comprise short term, highly liquid investment that is readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in hand, balances with banks and money at call and short notice.

**2.14 Directors' Responsibility Statement** →

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements. Please refer page 160 for the Statement of the Directors' Responsibility for Financial Reporting.

**2.15 Deposit Insurance Scheme** →

The Bank calculates the insurance premium on eligible deposit base at the rate of 0.10% which is the applicable statutory rate based on capital adequacy ratio of the Bank. The Bank has remitted the applicable premium within a period of 15 days from the end of each quarter as stipulated by the Direction.

**2.16 Investment Fund Account (IFA)** →

As required by the Government Budget 2011, with effect from 1st January 2011 the Bank is required to transfer an amount equivalent to 8% of the profits calculated for the payment of VAT on financial services and 5% of the profit before tax calculated for the payment of income tax to an Investment Fund Account.

The operations of this fund were ceased with effect from 1st October 2014 by Central Bank Direction Ref. No. 08/17/800/0014/02. Accordingly, the amount equivalent to 8% of the profits calculated for the payment of VAT on financial services expires with effect from 1st January 2014. The amount equivalent to 5% of the profit before tax calculated for the payment of income tax expires with effect from 1st April 2014. The balance as at that date was transferred to retained earnings.

**2.17 Crop Insurance Levy (CIL) →**

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1st April 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

**2.18 Accounting Standards Issued But Not Yet Effective as at Reporting Date →**

The following SLFRSs have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these Financial Statements. Those SLFRS will have an effect on the accounting policies currently adopted by the Bank and the Group and may have an impact on the future Financial Statements.

***Sri Lanka Accounting Standard (SLFRS 9) - 'Financial Instruments: Classification and Measurement'***

SLFRS 9 reflects all phases of the financial instruments project and replaces LKAS 39 - 'Financial Instruments: Recognition and Measurement'. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. SLFRS 9 is effective for annual periods beginning on or after 1st January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

The adoption of SLFRS 9 will have an effect on the classification and measurement of the Group's financial instruments.

***Sri Lanka Accounting Standard (SLFRS 14) - 'Regulatory Deferral Accounts'***

The scope of this standard is limited to first-time adopters of SLFRS that already recognise regulatory deferral account balances in their Financial Statements. Consequently, the Financial Statements of rate regulated entities that already apply SLFRS, or that do not otherwise recognise such balances, will not be affected by this standard. This standard is effective for the annual periods beginning on or after 1st January 2016.

***Sri Lanka Accounting Standard (SLFRS 15) – 'Revenue from Contracts with Customers'***

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including Sri Lanka Accounting Standard (LKAS 18) - 'Revenue', Sri Lanka Accounting Standard (LKAS 11) - 'Construction Contracts' and IFRIC 13 - 'Customer Loyalty Programmes'. This Standard is effective for the annual periods beginning on or after 1st January 2017.

The Bank and the Group will adopt these Standards when they become effective. Pending the completion of detailed review, the financial impact is not reasonably estimable as at the date of publication of these Financial Statements.

**3. Gross Income** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>For the year ended 31st December</i>				
Interest income	74,022,734	64,247,818	74,656,751	65,066,567
Fee and commission income	356,092	228,056	356,173	228,142
Net gain/(loss) from trading	1,904,725	857,079	1,970,243	1,137,997
Net gain/(loss) from financial investments	1,349,348	-	1,349,348	-
Other operating income (net)	257,513	240,089	240,686	238,215
<b>Gross income</b>	<b>77,890,413</b>	<b>65,573,042</b>	<b>78,573,202</b>	<b>66,670,921</b>

**4. Net Interest Income** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>For the year ended 31st December</i>				
<b>4. (a) Interest Income</b> →				
Cash and cash equivalents	7,733	2,713	7,733	2,713
Placements with banks	367,562	419,301	367,562	419,301
Derivative financial instruments	-	11,819	-	11,819
Other financial assets held-for-trading	783,859	712,171	783,894	712,171
Loans and receivables to banks	688,532	1,341,428	702,305	1,382,585
Loans and receivables to other customers	22,276,769	21,749,970	22,277,006	21,750,759
Financial investments – Held-to-maturity	49,898,278	40,010,417	50,518,251	40,787,220
<b>Total interest income</b>	<b>74,022,734</b>	<b>64,247,818</b>	<b>74,656,751</b>	<b>65,066,567</b>

**4. (b) Interest Expenses** →

Due to other customers	41,500,097	49,416,240	41,500,097	49,416,240
Other borrowings	11,142,391	4,724,935	11,495,895	4,872,226
Debt securities issued	-	-	-	-
Others	-	-	-	522,821
<b>Total interest expenses</b>	<b>52,642,488</b>	<b>54,141,176</b>	<b>52,995,992</b>	<b>54,811,288</b>
<b>Net interest income</b>	<b>21,380,246</b>	<b>10,106,642</b>	<b>21,660,759</b>	<b>10,255,279</b>

**4. Net Interest Income (Cont.)** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>For the year ended 31st December</i>				
<b>4. (c) Net Interest Income from Sri Lanka Government Securities</b> →				
Interest income	50,682,137	40,722,587	51,302,145	41,541,336
(Less): Interest expenses	-	-	383,512	670,112
<b>Net interest income</b>	<b>50,682,137</b>	<b>40,722,587</b>	<b>50,918,633</b>	<b>40,871,224</b>

**4. (d) Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions** →

In accordance with the Section 137 of the Inland Revenue Act No. 10 of 2006 and amendment thereto, the Group is entitled to a notional tax credit equivalent to 1/9th of the interest income derived from the market transaction in Government Securities.

Accordingly, the net income earned by the Group from the secondary market transactions in Government Securities, has been grossed up in the Financial Statements and the resulting notional tax credit amounted to Rs. 4,200 Million (2013 - Rs. 3,454 Million) for the Bank and Rs. 4,228 Million (2013 - Rs. 3,469 Million) for the Group.

**4. (e) Notional Tax Receivable** →

The notional tax receivable is given in Note 30 to the Financial Statements after deducting the recoverable amounts.

**5. Net Fee and Commission Income** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>For the year ended 31st December</i>				
Fee and commission income	356,092	228,056	356,173	228,142
Fee and commission expenses	(70,056)	(33,016)	(72,035)	(34,124)
<b>Net fee and commission income</b>	<b>286,036</b>	<b>195,040</b>	<b>284,138</b>	<b>194,018</b>
<b>Earned from</b>				
Loans	283,376	174,554	283,376	174,554
Cards	(30,088)	(3,346)	(30,088)	(3,346)
Others	32,749	23,832	30,851	22,810
<b>Net fee and commission income</b>	<b>286,036</b>	<b>195,040</b>	<b>284,138</b>	<b>194,018</b>

**6. Net Gain/(Loss) from Trading** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>For the year ended 31st December</i>				
Foreign exchange				
From banks	-	-	-	-
From other customers	73,881	79,006	73,881	79,006
Interest rates – mark-to-market gain/(loss) and others	849,034	504,999	914,552	785,917
Equities – mark-to-market gain/(loss) and others	981,810	282,475	981,810	282,475
Others – interest rate swap	-	(9,401)	-	(9,401)
<b>Total</b>	<b>1,904,725</b>	<b>857,079</b>	<b>1,970,243</b>	<b>1,137,997</b>

**7. Net Gain/(Loss) from Financial Instruments Designated at Fair Value Through Profit or Loss** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>For the year ended 31st December</i>				
Gains/(Losses) on financial assets designated at fair value through profit or loss	-	-	-	-
<b>Total</b>	-	-	-	-

**8. Net Gain/(Loss) from Financial Investments** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>For the year ended 31st December</i>				
Assets available-for-sale				
Debt securities	-	-	-	-
Equities [Note (a)]	1,349,348	-	1,349,348	-
Others	-	-	-	-
<b>Total</b>	1,349,348	-	1,349,348	-

**Note (a)**

The fully-impaired financial investment (Rs. 1,136,500,000/-) in Sri Lankan Airlines Ltd. in 2011 has been recovered in full during 2014.

**9. Other Operating Income (Net)** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>For the year ended 31st December</i>				
Gain on sale of property, plant & equipment	9,631	2,119	9,631	2,119
Gain/(Loss) on revaluation of foreign exchange	(21,965)	32,059	(21,965)	32,059
Equities - Divided income	173,979	156,313	159,026	156,313
Others	95,869	49,597	93,995	47,723
<b>Other operating income (Net)</b>	<b>257,513</b>	<b>240,089</b>	<b>240,686</b>	<b>238,215</b>

**10. Impairment for Loans and Other Losses** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>For the year ended 31st December</i>				
Loans and receivables				
To other customers [Refer Note 23 (d)]	3,475,695	1,380,003	3,475,695	1,380,003
<b>Total</b>	<b>3,475,695</b>	<b>1,380,003</b>	<b>3,475,695</b>	<b>1,380,003</b>

**11. Personnel Expenses** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>For the year ended 31st December</i>				
Salary and bonus	3,464,219	3,077,458	3,478,526	3,109,215
Contribution - staff provident fund	258,515	237,093	259,152	237,346
Contribution - Employees' Trust Fund	64,593	59,328	64,752	59,391
Contribution - staff pension fund 1 [Note 11 (a) and 34 (a).1]	641,919	592,759	642,500	593,325
Contribution - staff pension fund 11 [Note 11.(b)]	149,025	118,274	149,038	118,274
Gratuity on termination of service [Note 34.(a).3]	44,916	19,207	45,346	20,000
Retired Staff Medical Assistance Scheme [Note 34.(a).2]	53,850	-	53,850	-
Others	120,334	104,587	120,819	86,645
<b>Total</b>	<b>4,797,371</b>	<b>4,208,706</b>	<b>4,813,983</b>	<b>4,224,196</b>

**11. Personnel Expenses (Cont.)** →**11. (a) Provision for Staff Pension Fund - 1** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
For the year ended 31st December				
Amount recognised as expense	<b>641,919</b>	592,759	<b>642,500</b>	593,325

Actuarial valuation was carried out by Mr. Piyal S. Goonetilleke, Fellow of Society of Actuaries (USA) of Piyal S. Goonetilleke & Associates, on 31st December 2014. [Refer Note 34. (a)]

**11. (b) Provision for Staff Pension Fund - 11** →

Effective from 2013, a pension scheme has been established for the employees who were recruited on or after 1st October 1995.

**12. Other Expenses** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
For the year ended 31st December				
Directors' emoluments	<b>1,879</b>	1,301	<b>2,029</b>	1,436
Auditors' remunerations	<b>3,090</b>	3,942	<b>3,379</b>	4,121
Professional and legal expenses	<b>23,755</b>	13,715	<b>23,755</b>	13,715
Depreciation of property, plant & equipment	<b>253,024</b>	284,163	<b>253,205</b>	284,380
Amortisation of leasehold property	<b>7,228</b>	7,228	<b>7,228</b>	7,228
Amortisation of intangible assets	<b>43,279</b>	42,546	<b>43,357</b>	42,625
Special fees paid to Treasury [Note 30. (a)]	<b>1,333,333</b>	-	<b>1,333,333</b>	-
Office administration and establishment expenses	<b>2,286,006</b>	2,128,062	<b>2,257,701</b>	2,100,124
Others	<b>445,376</b>	425,975	<b>445,376</b>	425,975
<b>Total</b>	<b>4,396,971</b>	2,906,932	<b>4,369,365</b>	2,879,603

**13. Income Tax Expenses** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>For the year ended 31st December</i>				
Current tax expenses				
Current year tax expenses	3,479,237	1,074,842	3,584,072	1,114,069
Prior years' (over)/under provision	-	-	-	7,510
Deferred tax expenses				
Temporary differences [Refer Note 13. (b)]	126,304	20,112	126,204	19,858
<b>Total</b>	<b>3,605,541</b>	<b>1,094,954</b>	<b>3,710,276</b>	<b>1,141,437</b>
Effective tax rate (%)	34.43	48.05	34.47	42.76
Effective tax rate (excluding deferred tax) (%)	33.22	47.17	33.30	42.02

**13. (a) Reconciliation of Tax Expenses** →

Profit before tax	10,472,146	2,278,764	10,763,898	2,669,243
Income tax for the period (Accounting profit @ 28%)	2,932,201	638,054	3,013,891	747,388
Add: Tax effect of expenses that are not deductible for tax purposes	2,633,136	1,195,472	2,656,567	1,125,656
(Less): Tax effect of expenses that are deductible for tax purposes	2,086,100	758,684	2,086,386	758,975
<b>Tax expense for the period</b>	<b>3,479,237</b>	<b>1,074,842</b>	<b>3,584,072</b>	<b>1,114,069</b>

**13. Income Tax Expenses (Cont.)** →**13. (b) The Deferred Tax Charge in the Income Statement Comprise of the following** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>For the year ended 31st December</i>				
Deferred tax assets	37,511	3,870	37,611	4,124
Deferred tax liabilities	163,815	23,982	163,815	23,982
<b>Deferred tax (credit)/charge to Income Statement</b>	<b>126,304</b>	<b>20,112</b>	<b>126,204</b>	<b>19,858</b>

**14. Earning Per Share (EPS)** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>For the year ended 31st December</i>				
Net profit attributable to ordinary equity holders	6,866,605	1,183,810	7,053,622	1,527,806
Adjustment for the effect of dilution	-	-	-	-
Net profit attributable to ordinary equity holders adjusted for the effect of dilution	6,866,605	1,183,810	7,053,622	1,527,806
Weighted average number of ordinary shares for basic earnings per share	320,000	320,000	335,000	335,000
Weighted average number of ordinary shares adjusted for the effect of dilution	320,000	320,000	335,000	335,000
<b>Basic earnings per ordinary share (Rs.)</b>	<b>21.46</b>	<b>3.70</b>	<b>21.06</b>	<b>4.56</b>
<b>Diluted earnings per ordinary share (Rs.)</b>	<b>21.46</b>	<b>3.70</b>	<b>21.06</b>	<b>4.56</b>

**15. Analysis of Financial Instruments by Measurement Basis** →**15. (a) Bank - 2014** →

	HFT Rs. '000	HTM Rs. '000	Amortised cost Rs. '000	AFS Rs. '000	FVTPL Rs. '000	Hedging Rs. '000	Total Rs. '000
<b>Assets</b>							
Cash and cash equivalents	-	-	1,926,594	-	-	-	1,926,594
Balances with central banks	-	-	-	-	-	-	-
Placements with banks	-	-	9,645,621	-	-	-	9,645,621
Derivative financial instruments	-	-	-	-	-	2,879,931	2,879,931
Other financial assets held-for-trading	7,431,458	-	-	-	-	-	7,431,458
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Loans and receivables to banks	-	-	6,534,102	-	-	-	6,534,102
Loans and receivables to other customers	-	-	216,162,152	-	-	-	216,162,152
Financial investments	-	510,341,337	-	4,036,955	-	-	514,378,292
<b>Total financial assets</b>	<b>7,431,458</b>	<b>510,341,337</b>	<b>234,268,469</b>	<b>4,036,955</b>	<b>-</b>	<b>2,879,931</b>	<b>758,958,150</b>

	HFT Rs. '000	Designated at fair value Rs. '000	Amortised cost Rs. '000	FVTPL Rs. '000	Hedging Rs. '000	Total Rs. '000
<b>Liabilities</b>						
Due to banks	-	-	90,150	-	-	90,150
Derivative financial instruments	-	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Due to other customers	-	-	554,060,312	-	-	554,060,312
Other borrowings	-	-	191,102,124	-	-	191,102,124
Debt securities issued	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>745,252,587</b>	<b>-</b>	<b>-</b>	<b>745,252,587</b>

Held-for-trading – HFT

Designated at fair value through profit or loss –

Designated at fair value - FVTPL

Loans and receivables/deposits at amortised cost –

Amortised cost

Held-to-maturity – HTM

Available-for-sale – AFS

Instruments of fair value and cash flow hedging – Hedging

**15. Analysis of Financial Instruments by Measurement Basis (Cont.)** →**15. (b) Bank - 2013** →

	HFT Rs. '000	HTM Rs. '000	Amortised cost Rs. '000	AFS Rs. '000	FVTPL Rs. '000	Hedging Rs. '000	Total Rs. '000
<b>Assets</b>							
Cash and cash equivalents	-	-	1,546,221	-	-	-	1,546,221
Balances with central banks	-	-	-	-	-	-	-
Placements with banks	-	-	11,298,360	-	-	-	11,298,360
Derivative financial instruments	-	-	-	-	-	5,118,615	5,118,615
Other financial assets held-for-trading	13,808,239	-	-	-	-	-	13,808,239
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Loans and receivables to banks	-	-	7,550,509	-	-	-	7,550,509
Loans and receivables to other customers	-	-	158,869,826	-	-	-	158,869,826
Financial investments	-	432,465,113	-	2,926,082	-	-	435,391,195
<b>Total financial assets</b>	13,808,239	432,465,113	179,264,916	2,926,082	-	5,118,615	633,582,965

	HFT Rs. '000	Designated at fair value Rs. '000	Amortised cost Rs. '000	FVTPL Rs. '000	Hedging Rs. '000	Total Rs. '000
<b>Liabilities</b>						
Due to banks	-	-	126,989	-	-	126,989
Derivative financial instruments	-	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Due to other customers	-	-	501,889,688	-	-	501,889,688
Other borrowings	-	-	120,433,536	-	-	120,433,536
Debt securities issued	-	-	-	-	-	-
<b>Total financial liabilities</b>	-	-	622,450,213	-	-	622,450,213

**15. Analysis of Financial Instruments by Measurement Basis (Cont.)** →**15. (c) Group - 2014** →

	HFT Rs. '000	HTM Rs. '000	Amortised cost Rs. '000	AFS Rs. '000	FVTPL Rs. '000	Hedging Rs. '000	Total Rs. '000
<b>Assets</b>							
Cash and cash equivalents	-	-	1,930,527	-	-	-	1,930,527
Balances with central banks	-	-	167	-	-	-	167
Placements with banks	-	-	9,645,621	-	-	-	9,645,621
Derivative financial instruments	-	-	-	-	-	2,879,931	2,879,931
Other financial assets held-for-trading	11,555,186	-	-	-	-	-	11,555,186
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Loans and receivables to banks	-	-	6,534,102	-	-	-	6,534,102
Loans and receivables to other customers	-	-	216,164,238	-	-	-	216,164,238
Financial investments	-	513,709,164	-	4,037,955	-	-	517,747,119
<b>Total financial assets</b>	<b>11,555,186</b>	<b>513,709,164</b>	<b>234,274,656</b>	<b>4,037,955</b>	<b>-</b>	<b>2,879,931</b>	<b>766,456,891</b>

	HFT Rs. '000	Designated at fair value Rs. '000	Amortised cost Rs. '000	FVTPL Rs. '000	Hedging Rs. '000	Total Rs. '000
<b>Liabilities</b>						
Due to banks	-	-	694,869	-	-	694,869
Derivative financial instruments	-	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Due to other customers	-	-	554,060,312	-	-	554,060,312
Other borrowings	-	-	196,008,232	-	-	196,008,232
Debt securities issued	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>750,763,413</b>	<b>-</b>	<b>-</b>	<b>750,763,413</b>

**15. Analysis of Financial Instruments by Measurement Basis (Cont.)** →**15. (d) Group - 2013** →

	HFT Rs. '000	HTM Rs. '000	Amortised cost Rs. '000	AFS Rs. '000	FVTPL Rs. '000	Hedging Rs. '000	Total Rs. '000
<b>Assets</b>							
Cash and cash equivalents	-	-	1,557,267	-	-	-	1,557,267
Balances with central banks	-	-	203	-	-	-	203
Placements with banks	-	-	11,298,360	-	-	-	11,298,360
Derivative financial instruments	-	-	-	-	-	5,118,615	5,118,615
Other financial assets held-for-trading	18,111,911	-	-	-	-	-	18,111,911
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Loans and receivables to banks	-	-	7,849,969	-	-	-	7,849,969
Loans and receivables to other customers	-	-	158,871,926	-	-	-	158,871,926
Financial investments	-	435,959,845	-	2,927,082	-	-	438,886,927
<b>Total financial assets</b>	18,111,911	435,959,845	179,577,725	2,927,082	-	5,118,615	641,695,178

	HFT Rs. '000	Designated at fair value Rs. '000	Amortised cost Rs. '000	FVTPL Rs. '000	Hedging Rs. '000	Total Rs. '000
<b>Liabilities</b>						
Due to banks	-	-	4,118,522	-	-	4,118,522
Derivative financial instruments	-	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Due to other customers	-	-	501,889,688	-	-	501,889,688
Other borrowings	-	-	122,790,093	-	-	122,790,093
Debt securities issued	-	-	-	-	-	-
<b>Total financial liabilities</b>	-	-	628,798,303	-	-	628,798,303

**16. Cash and Cash Equivalents** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>As at 31st December</i>				
Cash in hand	570,277	512,938	570,277	512,942
Balances with banks	1,260,687	989,803	1,264,620	1,000,845
Money at call and short notice	95,630	43,480	95,630	43,480
<b>Total</b>	<b>1,926,594</b>	<b>1,546,221</b>	<b>1,930,527</b>	<b>1,557,267</b>

**17. Balances with Central Banks** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>As at 31st December</i>				
Statutory balances with Central Bank of Sri Lanka	-	-	167	203
<b>Total</b>	<b>-</b>	<b>-</b>	<b>167</b>	<b>203</b>

**18. Placements with Banks** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>As at 31st December</i>				
Placements with banks - Sri Lanka	9,645,621	11,298,360	9,645,621	11,298,360
<b>Total</b>	<b>9,645,621</b>	<b>11,298,360</b>	<b>9,645,621</b>	<b>11,298,360</b>

**19. Derivative Financial Instruments - Bank & Group** →

<i>As at 31st December</i>	<b>Assets 2014</b>	Notional Amount - 2014	Assets 2013	Notional Amount - 2013
<b>Interest rate derivatives</b>				
Interest rate swaps	-	-	-	-
<b>Cash flow hedges</b>				
Foreign currency swaps	<b>2,879,931</b>	71,196,422	<b>5,118,615</b>	71,196,422
<b>Total</b>	<b>2,879,931</b>	71,196,422	<b>5,118,615</b>	71,196,422

**20. Other Financial Assets Held-For-Trading** →

<i>As at 31st December</i>	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Held-for-trading</b>				
Sri Lanka Government Securities				
Treasury Bills	<b>182,311</b>	1,778,133	<b>1,778,098</b>	2,992,381
Treasury Bonds	<b>3,479,689</b>	8,201,689	<b>5,990,595</b>	11,291,113
Equity securities - [Refer Note 20. (a,b)]	<b>3,769,459</b>	3,828,417	<b>3,769,459</b>	3,828,417
Debt securities - Debenture	-	-	<b>17,035</b>	-
<b>Total</b>	<b>7,431,458</b>	13,808,239	<b>11,555,186</b>	18,111,911

**20. Other Financial Assets Held-For-Trading (Cont.)** →**20. (a) Equity Securities (Quoted) - Bank & Group** →

As at 31st December	2014			2013		
	No. of Shares	Cost Rs. '000	Market Value Rs. '000	No. of Shares	Cost Rs. '000	Market Value Rs. '000
<b>1. Banks, Finance and Insurance</b>						
Commercial Bank of Ceylon PLC	-	-	-	1,517,149	137,590	181,669
DFCC Bank	-	-	-	1,342,024	194,396	171,846
HNB Assurance PLC	-	-	-	105,332	6,556	5,468
Hatton National Bank PLC (NV)	-	-	-	1,103,175	138,244	129,808
Janashakthi Insurance Company PLC	-	-	-	1,699,500	26,322	21,342
National Development Bank PLC	-	-	-	679,868	74,247	107,897
Nations Trust Bank PLC	-	-	-	355,200	27,962	21,951
Pan Asia Banking Corporation PLC	5,000	116	129	570,200	16,269	8,739
Seylan Bank PLC (NV)	-	-	-	1,535,151	59,466	46,753
Lanka Orix Leasing Company PLC	606,900	68,594	52,809	606,900	68,594	43,507
Lanka Orix Finance PLC	4,550,000	50,340	18,446	4,550,000	50,340	12,597
		119,049	71,384		799,986	751,577
<b>2. Beverage, Food and Tobacco</b>						
Cargills (Ceylon) PLC	783,568	143,957	118,543	543,800	106,584	79,043
Lanka Milk Foods (CWE) PLC	75,421	9,567	8,986	311,300	39,457	33,244
		153,523	127,530		146,041	112,287
<b>3. Chemical and Pharmaceuticals</b>						
CIC Holdings PLC (NV)	233,700	20,184	15,344	183,700	17,302	6,267
Haycarb PLC	447,491	83,838	76,549	391,366	73,006	73,449
		104,023	91,893		90,308	79,716
<b>4. Construction and Engineering</b>						
Access Engineering PLC	3,470,023	132,692	111,170	-	-	-
Colombo Dockyard PLC	1,234,706	275,603	235,629	642,075	162,381	120,628
		408,294	346,799		162,381	120,628

**20. Other Financial Assets Held-For-Trading (Cont.)** →**20. (a) Equity Securities (Quoted) - Bank & Group (Cont.)** →

As at 31st December	2014			2013		
	No. of Shares	Cost Rs. '000	Market Value Rs. '000	No. of Shares	Cost Rs. '000	Market Value Rs. '000
<b>5. Diversified Holdings</b>						
Aitken Spence PLC	2,593,516	306,499	265,423	450,700	77,045	46,080
C T Holdings PLC	700,265	124,420	99,016	440,400	83,598	61,009
Hemas Holdings PLC	-	-	-	1,112,300	53,158	37,395
John Keells Holdings PLC	1,103,023	267,845	272,667	1,649,585	321,298	367,000
Sunshine Holdings PLC	-	-	-	318,200	15,038	8,841
Browns Investments PLC	93,606,200	468,031	185,116	93,606,200	468,031	222,139
Expolanka Holdings PLC	-	-	-	9,943,700	100,038	73,742
Free Lanka Capital Holdings PLC	2,900,000	13,279	6,022	2,900,000	13,279	6,309
Richard Pieris & Company PLC	12,001,659	113,095	100,872	5,323,900	63,909	33,165
Vallibel One PLC	3,300,000	77,299	79,025	-	-	-
		<b>1,370,468</b>	<b>1,008,140</b>		<b>1,195,393</b>	<b>855,680</b>
<b>6. Footwear and Textile</b>						
Heyleys MGT Knitting Mills PLC	362,623	5,294	6,239	1,202,700	21,321	13,200
		<b>5,294</b>	<b>6,239</b>		<b>21,321</b>	<b>13,200</b>
<b>7. Health Care</b>						
Nawaloka Hospitals PLC	17,789,400	79,421	58,048	17,789,400	79,421	52,770
		<b>79,421</b>	<b>58,048</b>		<b>79,421</b>	<b>52,770</b>

**20. Other Financial Assets Held-For-Trading (Cont.)** →**20. (a) Equity Securities (Quoted) - Bank & Group (Cont.)** →

As at 31st December	2014			2013		
	No. of Shares	Cost Rs. '000	Market Value Rs. '000	No. of Shares	Cost Rs. '000	Market Value Rs. '000
<b>8. Hotels and Travels</b>						
Eden Hotels Lanka PLC	576,566	28,590	14,652	477,900	25,837	13,704
Ceylon Hotels Corporation PLC	3,793,842	128,776	86,656	3,304,900	116,264	52,286
The Kingsbury PLC	4,569,876	104,096	81,336	2,707,100	74,428	35,334
John Keells Hotels PLC	5,541,205	103,475	94,241	3,473,800	72,296	42,936
Lighthouse Hotels PLC	1,900,000	115,539	103,330	1,900,000	115,539	82,664
Mahaweli Reach Hotels PLC	133,300	4,884	3,071	133,300	4,884	2,109
Marawila Resorts PLC	1,899,556	16,063	11,458	702,750	9,413	3,683
Asian Hotels & Properties PLC	1,366,132	106,609	92,532	441,000	42,526	28,344
Aitken Spence Hotel Holdings PLC	2,102,133	188,903	164,209	1,613,400	153,681	119,331
		796,935	651,484		614,869	380,391
<b>9. Investment Trusts</b>						
Renuka Holdings PLC	5,356,146	235,077	166,299	2,678,073	178,838	81,031
Renuka Holdings PLC (NV)	496,812	12,043	11,643	148,406	5,789	3,038
		247,120	177,942		184,626	84,069
<b>10. Land and Property</b>						
Overseas Reality (Ceylon) PLC	50,000	1,213	1,300	5,279,241	99,789	96,572
		1,213	1,300		99,789	96,572

**20. Other Financial Assets Held-For-Trading (Cont.)** →**20. (a) Equity Securities (Quoted) - Bank & Group (Cont.)** →

As at 31st December	2014			2013		
	No. of Shares	Cost Rs. '000	Market Value Rs. '000	No. of Shares	Cost Rs. '000	Market Value Rs. '000
<b>11. Manufacturing</b>						
ACL Cables PLC	2,059,267	172,418	155,362	1,275,200	116,643	81,960
Dipped Products PLC	190,812	23,782	26,981	953,900	118,890	84,889
Chevron Lubricants PLC	-	-	-	-	-	-
Tokyo Cement Company (Lanka) PLC	-	-	-	1,334,520	68,723	37,608
Lanka Ceramic PLC	446,000	60,350	52,965	446,000	60,350	46,526
Lanka Walltile PLC	1,838,387	154,859	177,962	619,700	68,290	32,844
Royal Ceramics Lanka PLC	1,844,159	234,003	213,350	747,700	119,581	63,582
Tokyo Cement Company (Lanka) PLC (NV)	-	-	-	2,568,500	99,706	59,684
Textured Jersey PLC	4,335,000	87,201	88,301	-	-	-
		732,612	714,921		652,183	407,093
<b>12. Plantation</b>						
Namunukula Plantations PLC	150,000	12,432	13,260	-	-	-
Watawala Plantations PLC	588,301	13,979	10,936	419,500	11,250	4,148
		26,411	24,196		11,250	4,148
<b>13. Power and Energy</b>						
Lanka IOC PLC	-	-	-	15,365,100	567,966	501,369
Laugfs Gas PLC	-	-	-	154,900	5,801	4,350
Resus Energy PLC	1,627,415	37,238	29,287	424,800	15,605	7,687
		37,238	29,287		589,371	513,406
<b>14. Telecommunication</b>						
Dialog Axiata PLC	6,790,960	168,982	89,308	6,790,960	168,982	60,434
		168,982	89,308		168,982	60,434

**20. Other Financial Assets Held-For-Trading (Cont.)** →**20. (a) Equity Securities (Quoted) - Bank & Group (Cont.)** →

As at 31st December	2014			2013		
	No. of Shares	Cost Rs. '000	Market Value Rs. '000	No. of Shares	Cost Rs. '000	Market Value Rs. '000
<b>15. Trading</b>						
Browns & Company PLC	1,000,000	319,948	105,802	1,000,000	319,948	84,048
		319,948	105,802		319,948	84,048
<b>16. Unit Trust</b>						
Comtrust Equity Fund	556,793	10,000	11,339	556,793	10,000	9,541
Ceybank Unit Trust	7,604,797	85,110	253,848	7,604,797	85,110	202,858
		95,110	265,187		95,110	212,399
<b>Total</b>		4,665,644	3,769,459		5,230,980	3,828,417

**20. (b) Reclassification** →

In 2013, Bank reclassified Rs. 5.495 Million of financial assets from the held-for-trading category to the available-for-sale category, as permitted by LKAS 39. No further reclassification was undertaken. People Finance (subsidiary company) was initially classified as held-for-trading. This subsidiary was amalgamated with the Parent Company, People Leasing Company PLC, which was classified initially under available-for-sale. Therefore, reclassification was made accordingly.

**Reclassification of Bank's Financial Assets**

	2014		2013	
	Carrying Amount '000	Fair Value '000	Carrying Amount '000	Fair Value '000
Reclassification to available-for-sale	-	-	5,495	5,495

**20. Other Financial Assets Held-For-Trading (Cont.)** →**20. (b) Reclassification (Cont.)** →**Effect of Reclassifying and not Classifying Financial Assets**

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>As at 31st December</i>				
<b>Reclassification to available-for-sale</b>				
Recorded in the Income Statement	-	-	-	-
Assuming no reclassification	-	(2,897)	-	(2,897)
<b>Net Income Statement effect</b>	-	(2,897)	-	(2,897)

**21. Financial Assets Designated at Fair Value Through Profit or Loss** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>As at 31st December</i>				
Sri Lanka Government Securities				
Treasury Bills	-	-	-	-
Treasury Bonds	-	-	-	-
Less: Increase/(decrease) in falling value of securities	-	-	-	-
<b>Total</b>	-	-	-	-

**22. Loans and Receivables to Banks** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>As at 31st December</i>				
Gross loans and receivables	6,534,102	7,550,509	6,534,102	7,849,969
(Less): Individual impairment	-	-	-	-
<b>Net loans and receivables</b>	6,534,102	7,550,509	6,534,102	7,849,969

**22.(a) Analysis by Product** →

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Loans and receivables				
Short-term loans	-	-	-	-
Long-term loans	4,152,195	4,228,538	4,152,195	4,228,538
Securities purchased under resale agreements	498,705	1,548,565	498,705	1,848,025
Debentures	1,883,202	1,671,509	1,883,202	1,671,509
Commercial papers	-	101,897	-	101,897
<b>Gross total</b>	<b>6,534,102</b>	<b>7,550,509</b>	<b>6,534,102</b>	<b>7,849,969</b>

**22. (b)** All loans and receivables to banks are in Sri Lankan Rupees

**23. Loans and Receivables to Other Customers** →

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Gross loans and receivables	220,087,324	160,875,404	220,089,410	160,877,504
(Less): Individual impairment	-	-	-	-
Collective impairment [Refer - 23. (d)]	3,925,172	2,005,578	3,925,172	2,005,578
<b>Net loans and receivables</b>	<b>216,162,152</b>	<b>158,869,826</b>	<b>216,164,238</b>	<b>158,871,926</b>

**23. Loans and Receivables to Other Customers (Cont.)** →**23. (a) Analysis by Product** →

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Loans and receivables				
Pawning	38,184,641	52,000,487	38,184,641	52,000,487
Staff loans	2,791,077	2,659,967	2,791,077	2,659,967
Term loans				
Short-term	1,000,000	1,192,959	1,000,000	1,192,959
Long-term	169,647,494	91,905,182	169,647,494	91,905,182
Securities purchased under resale agreements	-	-	2,086	2,100
Others				
Securitisation/Commercial papers	3,797,575	5,427,665	3,797,575	5,427,665
Sri Lanka Government Securities	4,122,500	4,122,500	4,122,500	4,122,500
Administrative borrowings	-	3,389,220	-	3,389,220
Others	544,037	177,425	544,037	177,425
<b>Gross total</b>	<b>220,087,324</b>	<b>160,875,404</b>	<b>220,089,410</b>	<b>160,877,504</b>

**23. Loans and Receivables to Other Customers (Cont.)** →**23. (b) Analysis by Industry** →

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Agriculture and fishing	1,001,737	1,195,539	1,001,737	1,195,539
Tourism	145,375	163,577	145,375	163,577
Transport	913,895	456,551	913,895	456,551
Construction/Housing	56,776,500	53,483,331	56,776,500	53,483,331
Others				
Infrastructure	52,692,775	6,595,707	52,692,775	6,595,707
Leasing and Finance	4,521,533	5,728,880	4,521,533	5,728,880
Government	4,122,500	7,511,719	4,122,500	7,511,719
Education	12,924,747	3,398,654	12,924,747	3,398,654
Telecommunication	-	91,063	-	91,063
Power and Energy	13,126,850	3,185,665	13,126,850	3,185,665
Health Care	-	74,482	-	74,482
Pawning	38,184,641	52,000,487	38,184,641	52,000,487
Loan against deposit	19,802,230	20,470,214	19,802,230	20,470,214
Others	15,874,541	6,519,535	15,876,627	6,521,635
<b>Gross total</b>	<b>220,087,324</b>	<b>160,875,404</b>	<b>220,089,410</b>	<b>160,877,504</b>

**23. (c) Analysis by Currency** →

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Sri Lankan Rupees	210,618,937	158,741,108	210,621,023	158,743,208
United States Dollar	9,468,387	2,134,296	9,468,387	2,134,296
	<b>220,087,324</b>	<b>160,875,404</b>	<b>220,089,410</b>	<b>160,877,504</b>

**23. Loans and Receivables to Other Customers (Cont.)** →**23. (d) Movements in Collective Impairment Charges during the Year** →

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Collective impairment				
Opening balance	2,005,578	625,773	2,005,578	625,773
Charge to Income Statement (Note 10)	3,475,695	1,380,003	3,475,695	1,380,003
Net write-off during the year	(1,556,101)	(198)	(1,556,101)	(198)
<b>Closing balance</b>	<b>3,925,172</b>	<b>2,005,578</b>	<b>3,925,172</b>	<b>2,005,578</b>

**24. Financial Investments – Available-for-Sale** →

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Quoted Investments</b>				
Equity Securities [Note - 24. (a)]	3,634,808	2,628,554	3,634,808	2,628,554
<b>Unquoted Investments</b>				
Equity Securities [Note - 24. (b)]	402,147	297,528	403,147	298,528
<b>Net Available-for-sale investments</b>	<b>4,036,955</b>	<b>2,926,082</b>	<b>4,037,955</b>	<b>2,927,082</b>

**24. (a) Quoted Investments – Bank and Group** →

Quoted Investments	2014			2013		
	No. of Shares	Cost	Fair Value	No. of Shares	Cost	Fair Value
Hatton National Bank PLC	9,371,940	1,301,845	1,807,060	9,371,940	1,301,845	1,362,245
Sri Lanka Telecom PLC	13,158,700	445,643	657,072	13,158,700	445,643	481,419
People's Leasing Company PLC	48,323,927	868,036	1,170,676	59,237,340	1,064,072	784,890
		<b>2,615,524</b>	<b>3,634,808</b>		<b>2,811,560</b>	<b>2,628,554</b>

**24. Financial Investments – Available-for-Sale (Cont.)** →**24. (b) Unquoted Investments** →

Unquoted Investments	2014 - Bank			2013 - Bank		
	No. of Shares	Cost	Cost/Fair Value	No. of Shares	Cost	Cost/Fair Value
Investment - Credit Information Bureau	30,450	57,364	57,364	30,450	57,364	57,364
Investment - Associated News Papers Ceylon Ltd.	20,000	127	127	20,000	127	127
Investment - Regional Development Bank (RDB)	16,452,126	164,521	344,656	7,358,448	73,584	240,037
Investment - Sri Lankan Airlines Ltd.	-	-	-	4,236,135	1,136,500	1,136,500
(Less): Impairment		-	-		-	(1,136,500)
		<b>222,012</b>	<b>402,147</b>		<b>1,267,575</b>	<b>297,528</b>

Unquoted Investments	2014 - Group			2013 - Group		
	No. of Shares	Cost	Cost/Fair Value	No. of Shares	Cost	Cost/Fair Value
Investment - Credit Information Bureau	30,450	57,364	57,364	30,450	57,364	57,364
Investment - Associated News Papers Ceylon Ltd.	20,000	127	127	20,000	127	127
Investment - Regional Development Bank (RDB)	16,452,126	164,521	344,656	7,358,448	73,584	240,037
Investment- Sri Lanka Financial Services Bureau	100,000	1,000	1,000	100,000	1,000	1,000
Investment - Sri Lankan Airlines Ltd.	-	-	-	4,236,135	1,136,500	1,136,500
(Less): Impairment		-	-		-	(1,136,500)
		<b>223,012</b>	<b>403,147</b>		<b>1,268,575</b>	<b>298,528</b>

All unquoted available-for-sale equities (except RDB) are recorded at cost since its fair value can't be reliably estimated. There is no market for these investments and Bank intends to hold it for the long-term. The investment in RDB shares have been fair valued using a valuation model based on observable data. The fully-impaired financial investment in Sri Lankan Airline in 2011, has been recovered in full during 2014.

There were no financial investments - available-for-sale pledged as collateral.



**27. Property, Plant & Equipment** →**27. (a) Property, Plant & Equipment – Bank - 2014** →

	Land and buildings	Leasehold properties	Computer hardware	Office equipment, furniture and fittings	Others	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost/Valuation</b>						
Opening balance as at 1st January 2014	4,373,526	475,549	1,639,899	1,311,733	239,037	8,039,744
Adjustments	-	-	-	(37)	-	(37)
Additions	86,918	-	64,809	53,457	41,443	246,627
Revaluation	-	-	-	-	-	-
Disposals	-	-	(4,544)	(3,260)	(17,098)	(24,902)
Transfers [Refer 27. (d)]	(65,230)	-	-	-	-	(65,230)
Closing balance as at 31st December 2014	4,395,214	475,549	1,700,164	1,361,893	263,382	8,196,202
<b>(Less): Accumulated depreciation</b>						
Opening balance as at 1st January 2014	-	44,704	1,495,557	727,980	161,090	2,429,331
Adjustments	-	-	-	(1)	-	(1)
Charge for the year	42,433	7,228	83,124	99,419	28,049	260,253
Additions	-	-	-	-	-	-
Disposals	-	-	(4,544)	(3,242)	(15,339)	(23,125)
Closing balance as at 31st December 2014	42,433	51,932	1,574,137	824,156	173,800	2,666,458
(Less): Impairment	-	-	-	-	-	-
<b>Net book value as at 31st December 2014</b>	<b>4,352,781</b>	<b>423,617</b>	<b>126,027</b>	<b>537,737</b>	<b>89,582</b>	<b>5,529,743</b>

**27. Property, Plant & Equipment (Cont.)** →**27. (a) Property, Plant & Equipment – Bank - 2013** →

	Land and buildings	Leasehold properties	Computer hardware	Office equipment, furniture and fittings	Others	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost/Valuation</b>						
Opening balance as at 1st January 2013	3,905,258	475,549	1,578,243	1,257,284	199,579	7,415,913
Adjustments	-	-	-	(684)	-	(684)
Additions	158,490	-	64,294	62,426	42,111	327,321
Revaluation	482,106	-	-	-	-	482,106
Depreciation adjustment for revalued assets	(114,098)	-	-	-	-	(114,098)
Disposals	-	-	(2,638)	(7,293)	(2,653)	(12,584)
Transfers [Refer 27. (d)]	(58,230)	-	-	-	-	(58,230)
Closing balance as at 31st December 2013	4,373,526	475,549	1,639,899	1,311,733	239,037	8,039,744
<b>(Less): Accumulated Depreciation</b>						
Opening balance as at 1st January 2013	71,536	37,476	1,376,654	634,947	143,788	2,264,401
Adjustments	-	-	-	(23)	-	(23)
Charge for the year	42,562	7,228	121,541	100,128	19,955	291,414
Additions	-	-	-	-	-	-
Depreciation adjustment for revalued assets	(114,098)	-	-	-	-	(114,098)
Disposals	-	-	(2,638)	(7,072)	(2,653)	(12,363)
Closing balance as at 31st December 2013	-	44,704	1,495,557	727,980	161,090	2,429,331
(Less): Impairment	-	-	-	-	-	-
<b>Net book value as at 31st December 2013</b>	4,373,526	430,845	144,342	583,753	77,947	5,610,413

**27. Property, Plant & Equipment (Cont.)** →**27. (b) Property, Plant & Equipment – Group - 2014** →

	Land and buildings	Leasehold properties	Computer hardware	Office equipment, furniture and fittings	Others	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost/Valuation</b>						
Opening balance as at 1st January 2014	4,373,526	475,549	1,643,415	1,313,127	239,037	8,044,654
Adjustments	-	-	-	(37)	-	(37)
Additions	86,918	-	65,173	53,466	41,443	246,999
Revaluation	-	-	-	-	-	-
Disposals	-	-	(4,769)	(3,273)	(17,098)	(25,140)
Transfers [Refer 27. (d)]	(65,230)	-	-	-	-	(65,230)
Closing balance as at 31st December 2014	4,395,214	475,549	1,703,819	1,363,283	263,382	8,201,246
<b>(Less): Accumulated Depreciation</b>						
Opening balance as at 1st January 2014	-	44,704	1,499,017	728,744	161,090	2,433,555
Adjustments	-	-	-	(1)	-	(1)
Charge for the year	42,433	7,228	83,199	99,524	28,049	260,433
Additions	-	-	-	-	-	-
Disposals	-	-	(4,769)	(3,255)	(15,339)	(23,363)
Closing balance as at 31st December 2014	42,433	51,932	1,577,447	825,012	173,800	2,670,624
(Less): Impairment	-	-	-	-	-	-
<b>Net book value as at 31st December 2014</b>	<b>4,352,781</b>	<b>423,617</b>	<b>126,372</b>	<b>538,271</b>	<b>89,582</b>	<b>5,530,622</b>

**27. Property, Plant & Equipment (Cont.)** →**27. (b) Property, Plant & Equipment – Group - 2013** →

	Land and buildings	Leasehold properties	Computer hardware	Office equipment, furniture and fittings	Others	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost/Valuation</b>						
Opening balance as at 1st January 2013	3,905,258	475,549	1,581,759	1,258,678	199,579	7,420,823
Adjustments	-	-	-	(684)	-	(684)
Additions	158,490	-	64,294	62,426	42,111	327,321
Revaluation	482,106	-	-	-	-	482,106
Depreciation adjustment for revalued assets	(114,098)	-	-	-	-	(114,098)
Disposals	-	-	(2,638)	(7,293)	(2,653)	(12,584)
Transfers [Refer 27. (d)]	(58,230)	-	-	-	-	(58,230)
Closing balance as at 31st December 2013	4,373,526	475,549	1,643,415	1,313,127	239,037	8,044,654
<b>(Less): Accumulated Depreciation</b>						
Opening balance as at 1st January 2013	71,536	37,476	1,380,005	635,603	143,788	2,268,408
Adjustments	-	-	-	(23)	-	(23)
Charge for the year	42,562	7,228	121,650	100,236	19,955	291,632
Additions	-	-	-	-	-	-
Depreciation adjustment for revalued assets	(114,098)	-	-	-	-	(114,098)
Disposals	-	-	(2,638)	(7,072)	(2,653)	(12,363)
Closing balance as at 31st December 2013	-	44,704	1,499,017	728,744	161,090	2,433,555
(Less): Impairment	-	-	-	-	-	-
<b>Net book value as at 31st December 2013</b>	4,373,526	430,845	144,396	584,383	77,947	5,611,100

**27. Property, Plant & Equipment (Cont.)** →**27. (c) Revaluation** →

The Bank had revalued its land and buildings, by professionally qualified independent valuers. The revaluation was carried out by taking into account the observable prices in active market or recent market transactions on arm's length basis. Accordingly, a revaluation surplus, amounting to Rs. 482 Million had been credited to the Revaluation Reserve Account in 2013.

**27. (d) Building Work-in-Progress** →

Land and Building includes Building Work-in-Progress as follows:

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Opening Balance	88,534	46,504	88,534	46,504
Add:				
Additions during the year	21,687	100,260	21,687	100,260
Less:				
Amount transferred to buildings	65,230	58,230	65,230	58,230
<b>Closing balance</b>	<b>44,991</b>	<b>88,534</b>	<b>44,991</b>	<b>88,534</b>

**27. (e) Land & Buildings of the Bank** →

Land and building balance include freehold land value of Rs. 2,258,345,000/-.

**27. (f) Property, Plant & Equipment Pledged as Security for Liabilities** →

There were no items of property, plant & equipment pledged as securities for liabilities.

**27. Property, Plant & Equipment (Cont.)** →**27. (g) Fully Depreciated Property, Plant & Equipment** →

The initial cost of fully-depreciated property, plant & equipment, which are still in use as at reporting date is as follows:

As at 31st December	Bank & Group	
	2014 Rs. '000	2013 Rs. '000
Computer hardware	585,131	456,497
Office equipment, furniture and fittings	83,340	61,274
Intangible assets	89,235	28,792
Others	111,651	117,063

**28. Intangible Assets** →

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Cost</b>				
Opening balance	448,223	435,975	450,193	437,945
Additions	26,128	12,248	26,128	12,248
Disposals	-	-	-	-
<b>Closing balance</b>	<b>474,351</b>	<b>448,223</b>	<b>476,321</b>	<b>450,193</b>
<b>(Less): Accumulated Amortisation</b>				
Opening balance	366,420	323,874	368,305	325,680
Charge for the year	43,279	42,546	43,357	42,625
Disposals	-	-	-	-
<b>Closing balance</b>	<b>409,699</b>	<b>366,420</b>	<b>411,662</b>	<b>368,305</b>
<b>Net book value</b>	<b>64,652</b>	<b>81,803</b>	<b>64,659</b>	<b>81,888</b>

**29. Deferred Tax Assets/Liabilities** →

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>29. (a) Deferred Tax Assets</b> →				
Deferred tax assets	-	-	568	313
Income Statement	-	-	100	255
<b>Deferred tax assets</b>	<b>-</b>	<b>-</b>	<b>668</b>	<b>568</b>
<b>29. (b) Deferred Tax Liabilities</b> →				
Deferred tax liabilities	143,450	123,338	143,450	123,338
Income Statement	126,304	20,112	126,304	20,112
<b>Net Deferred tax liabilities</b>	<b>269,754</b>	<b>143,450</b>	<b>269,754</b>	<b>143,450</b>

**30. Other Assets** →

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
WHT receivable [Refer Note 4. (e)]	4,419,382	3,259,465	4,447,394	3,274,243
Receivables	1,793,930	1,823,324	1,793,941	1,822,798
Deposits and prepayments	59,689	91,722	59,689	91,722
Advance payment to Treasury [Note (a)]	6,666,667	8,000,000	6,666,667	8,000,000
Sundry debtors	1,485	1,238	1,485	1,238
Other receivables	1,822,611	1,767,062	1,822,511	1,767,062
<b>Total</b>	<b>14,763,764</b>	<b>14,942,811</b>	<b>14,791,687</b>	<b>14,957,063</b>

**Note (a)**

At the request of Treasury, the Bank paid an advance of Rs. 6,000 Million in 2012 and Rs. 2,000 Million in 2013, as confirmed by the Treasury to be set off against the profit within a period of 6 years starting from 2014.

**31. Due to Banks** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>As at 31st December</i>				
Securities sold under repurchase (Repo) agreements	-	-	604,719	3,991,533
Other facilities	90,150	126,989	90,150	126,989
<b>Total</b>	<b>90,150</b>	<b>126,989</b>	<b>694,869</b>	<b>4,118,522</b>

**32. Due to Other Customers** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>As at 31st December</i>				
Amount due to other customers	554,060,312	501,889,688	554,060,312	501,889,688
<b>Total</b>	<b>554,060,312</b>	<b>501,889,688</b>	<b>554,060,312</b>	<b>501,889,688</b>

**32. (a) Analysis by Product** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>As at 31st December</i>				
Savings deposits	141,598,577	115,267,167	141,598,577	115,267,167
Fixed deposits	412,461,735	386,622,521	412,461,735	386,622,521
<b>Total</b>	<b>554,060,312</b>	<b>501,889,688</b>	<b>554,060,312</b>	<b>501,889,688</b>

**32. Due to Other Customers (Cont.)** →**32. (b) Analysis by Currency** →

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Sri Lankan Rupee	547,692,326	493,134,240	547,692,326	493,134,240
United States Dollar	3,607,111	5,856,969	3,607,111	5,856,969
Great Britain Pound	967,373	988,819	967,373	988,819
Others	1,793,502	1,909,660	1,793,502	1,909,660
<b>Total</b>	<b>554,060,312</b>	<b>501,889,688</b>	<b>554,060,312</b>	<b>501,889,688</b>

**33. Other Borrowings** →

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Securities sold under repurchase (Repo) agreements	56,828,947	20,285,108	61,735,055	22,641,665
Senior note issued [Note 33. (a)]	134,273,177	100,148,428	134,273,177	100,148,428
<b>Total</b>	<b>191,102,124</b>	<b>120,433,536</b>	<b>196,008,232</b>	<b>122,790,093</b>

**33. (a) Senior Note Issued** →

	Interest Payable Frequency	Issued Date	Maturity Date	Coupon Rate %	2014 Rs. '000	2013 Rs. '000
750 Million US Dollar senior note	Semi Annually	18.09.2013	18.09.2018	8.875	100,935,186	100,148,428
250 Million US Dollar senior note	Semi Annually	10.09.2014	10.09.2019	5.150	33,337,991	-
					<b>134,273,177</b>	<b>100,148,428</b>

**34. Other Liabilities** →

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Sundry creditors	63,250	54,165	63,250	54,165
Interest payable	98,574	98,032	98,574	98,032
Provision for pension scheme [Note 34. (a) 1]	4,258,336	1,898,618	4,258,336	1,898,618
Provision for medical assistance scheme [Note 34. (a) 2]	549,827	-	549,827	-
Provision for gratuity [Note 34. (a) 3]	292,667	158,698	295,019	160,901
Other payables	5,421,091	7,347,331	5,434,762	7,362,298
<b>Total</b>	<b>10,683,745</b>	<b>9,556,844</b>	<b>10,699,769</b>	<b>9,574,014</b>

**34. (a) Defined Benefit Plans** →

Actuarial valuation was carried out by Mr. Piyal S. Goonetilleke, fellow of Society of Actuaries (USA) of Piyal S. Goonetilleke & Associates, on 31st December 2014.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31st December 2014.

**34. (a) 1. National Savings Bank Employees' Pension Scheme**

The assets of this scheme are held independently of the Bank's assets and administered by Boards of Trustees/Managers, representing the management and the employees, as provided in the trust deed/rules of the fund.

**34. Other Liabilities (Cont.)** →**34. (a) Defined Benefit Plans (Cont.)** →**34. (a) 1. National Savings Bank Employees' Pension Scheme (Cont.)**

	Bank & Group
	2014 Rs. '000
<b>(a) Net Asset/(Liability) Recognised in Statement of Financial Position</b>	
Fair value of plan assets	11,918,372
Defined benefit obligation	(16,176,708)
<b>Total</b>	<b>(4,258,336)</b>
<b>(b) Amount Recognised in Income Statement</b>	
Current service cost	202,595
Interest cost on benefit obligation	440,773
Adjustments	(868)
<b>Net benefit expense</b>	<b>642,500</b>
<b>(c) Amount Recognised in Other Comprehensive Income (OCI)</b>	
Provision adjustment	1,674,629
Experience (gain)/loss	(417,168)
(Gain)/loss due to changes in assumptions	912,963
Actuarial gain/(loss) on plan assets	80,762
Difference in interest income on plan assets	108,531
<b>Total</b>	<b>2,359,718</b>
<b>(d) Changes in Fair Value of Plan Assets are as follows:</b>	
Opening fair value of plan assets	11,477,736
Expected return on plan assets	1,031,049
Actual employer contribution	643,368
Benefits paid	(1,153,019)
Actuarial gain/(loss) on plan assets	(80,762)
<b>Closing fair value of plan assets</b>	<b>11,918,372</b>

**34. Other Liabilities (Cont.)** →**34. (a) Defined Benefit Plans (Cont.)** →**34. (a) 1. National Savings Bank Employees' Pension Scheme (Cont.)**

	Bank & Group
	2014 Rs. '000
<b>(e) Changes in Present Value of Defined Benefit Obligation are as follows:</b>	
Opening defined benefit obligation	15,050,984
Interest cost	1,580,353
Current service cost	202,595
Benefits paid	(1,153,019)
(Gains)/losses due to changes in assumptions	912,963
Actuarial (gains)/losses on obligation	(417,168)
<b>Closing defined benefit obligation</b>	<b>16,176,708</b>
<b>(f) Plan Assets Consists of followings:</b>	
Treasury Bonds	6,339,689
Treasury Bills	100,893
Fixed Deposits	4,158,314
Securities purchased under resale agreements	802,016
Cash at Bank of Ceylon	8,971
Other assets	508,491
<b>Total</b>	<b>11,918,372</b>

**34. Other Liabilities (Cont.)** →**34. (a) Defined Benefit Plans (Cont.)** →**34. (a) 1. National Savings Bank Employees' Pension Scheme (Cont.)****(g) Actuarial Assumption**

Future salary increment rate (%)	5.50
Discount rate (%)	9.75
Increase in future Cost of Living Allowance (COLA) (%)	4.50
Mortality	GA 1983 Mortality table
Retirement age	57 years
Normal form of payment	Monthly

## Turnover rate

Age	%
20	2
25	1.5
30	1
35	1
40	1
45	1
50	1
55	–

**(h) Increase/Decrease in the following assumptions will have an impact on the Present Value of Defined Benefit Obligation as illustrated below:**

	1% increase	1% decrease
Future salary increment rate	16,215,521	16,139,777
Discount rate	14,980,418	17,561,380

**34. Other Liabilities (Cont.)** →**34. (a) Defined Benefit Plans (Cont.)** →**34. (a) 2. Medical Assistance Scheme for the Retired Employees of NSB**

The assets of this scheme are held independently of the Bank's assets and administered by Boards of Trustees/Managers, representing the management and the employees, as provided in the trust deed/rules of the fund.

	Bank & Group
	2014 Rs. '000
<b>(a) Net Asset/(Liability) Recognised in Statement of Financial Position</b>	
Fair value of plan assets	315,935
Defined benefit obligation	(860,443)
Less:	
Contribution from employees	5,320
	<b>(549,827)</b>
<b>(b) Amount Recognised in Income Statement</b>	
Current service cost	5,303
Interest cost on benefit obligation	48,547
<b>Net benefit expense</b>	<b>53,850</b>
<b>(c) Amount Recognised in Other Comprehensive Income (OCI)</b>	
Provision adjustment	420,658
Experience (gain)/loss	79,972
(Gain)/loss due to changes in assumptions	50,109
Actuarial gain/(loss) on plan assets	(3,547)
Difference in interest income on plan assets	2,635
	<b>549,827</b>

**34. Other Liabilities (Cont.)** →**34. (a) Defined Benefit Plans (Cont.)** →**34. (a) 2. Medical Assistance Scheme for the Retired Employees of NSB (Cont.)**

	Bank & Group
	2014 Rs. '000
<b>(d) Changes in Fair Value of Plan Assets are as follows</b>	
Opening fair value of plan assets	305,154
Expected return on plan assets	25,029
Actual employer contribution	53,850
Actual participants' contribution	5,320
Benefits paid	(76,964)
Actuarial gain/(loss) on plan assets	3,547
<b>Closing fair value of plan assets</b>	<b>315,935</b>
<b>(e) Changes in Present Value of Defined Benefit Obligation are as follows:</b>	
Opening defined benefit obligation	725,812
Interest cost	76,210
Current service cost	5,303
Benefits paid	(76,964)
(Gains)/losses due to changes in assumptions	50,109
Actuarial (gains)/losses on obligation	79,972
<b>Closing defined benefit obligation</b>	<b>860,443</b>
<b>(f) Plan Assets Consists of followings</b>	
Treasury Bonds	79,028
Fixed Deposits	183,036
Cash at Bank of Ceylon	21
NSB contribution receivable	53,850
<b>Total</b>	<b>315,935</b>

**34. Other Liabilities (Cont.)** →**34. (a) Defined Benefit Plans (Cont.)** →**34. (a) 2. Medical Assistance Scheme for the Retired Employees of NSB (Cont.)**

	%
<b>(g) Actuarial Assumption</b>	
Future salary increment rate	5.50
Medical cost inflation rate	5.00
Discount rate	9.75

**34. (a) 3. National Savings Bank Gratuity Plan**

	Bank	Group
	2014	2013
	Rs. '000	Rs. '000
<b>(a) Net Benefit Expense (recognised under personal expenses)</b>		
Current service cost	23,445	23,664
Interest cost on benefit obligation	21,471	21,682
<b>Net benefit expense</b>	<b>44,916</b>	<b>45,346</b>
<b>(b) Provision for Gratuity</b>		
Defined benefit obligation as at 1st January	158,698	160,901
Interest cost	21,471	21,682
Current service cost	23,445	23,664
Benefits paid	(1,791)	(1,976)
Actuarial losses/(gains) on obligation (recognised in OCI)	90,845	90,749
<b>Defined benefit obligation at 31st December</b>	<b>292,667</b>	<b>295,019</b>

**34. Other Liabilities (Cont.)** →**34. (a) Defined Benefit Plans (Cont.)** →**34. (a) 3. National Savings Bank Gratuity Plan**

	2014
<b>(c) Actuarial Assumption</b>	
Future salary increment rate (%)	5.50
Discount rate (%)	9.75
Mortality	GA 1983 Mortality table

**(d) Increase/Decrease in the following assumptions will have an impact on the Present Value of Defined Benefit Obligation as illustrated below:**

	1% increase	1% decrease
Salary increment rate	334,401	257,770
Discount rate	258,101	334,539

**35. Stated Capital/Assigned Capital** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>As at 31st December</i>				
<b>Authorised</b>				
One Billion Ordinary Share of Rs. 10/- each	10,000,000	10,000,000	10,000,000	10,000,000
<b>Issued and Fully Paid</b>				
320 Million Ordinary Shares of Rs. 10/- each	3,200,000	3,200,000	3,200,000	3,200,000
<b>Total</b>	3,200,000	3,200,000	3,200,000	3,200,000

**36. Statutory Reserve Fund** →

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Opening balance	1,736,803	1,713,127	1,736,803	1,713,127
Transfer during the period - 2% of profit after tax	137,332	23,676	137,332	23,676
<b>Closing balance</b>	<b>1,874,135</b>	<b>1,736,803</b>	<b>1,874,135</b>	<b>1,736,803</b>

The statutory reserve fund is maintained as per the requirements under Section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profit that are transferred to elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter, sum equivalent to 2% of such profit until the amount of said reserve fund is equal to the stated capital of the Bank.

The balance in the statutory reserve fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

**37. Other Reserves** →**37. (a) Bank - 2014** →

	Opening Balance at 01.01.2014 Rs. '000	Movement/ Transfers Rs. '000	Closing Balance at 31.12.2014 Rs. '000
General reserve	11,794,196	2,922,091	14,716,287
Revaluation reserve	2,065,446	-	2,065,446
Available-for-sale reserve	(16,553)	1,215,972	1,199,419
Cash flow hedging reserve	(45,324)	39,820	(5,504)
Other reserves (Refer Note 01)	3,482,917	(3,272,477)	210,440
<b>Total</b>	<b>17,280,684</b>	<b>905,404</b>	<b>18,186,088</b>

**37. Other Reserves (Cont.)** →**37. (b) Bank - 2013** →

	Opening Balance at 01.01.2013 Rs. '000	Movement/ Transfers Rs. '000	Closing Balance at 31.12.2013 Rs. '000
General reserve	14,254,137	(2,459,941)	11,794,196
Revaluation reserve	1,583,340	482,106	2,065,446
Available-for-sale reserve	136,119	(152,672)	(16,553)
Cash flow hedging reserve	-	(45,324)	(45,324)
Other reserves (Refer Note 01)	2,880,373	602,544	3,482,917
<b>Total</b>	<b>18,853,971</b>	<b>(1,573,286)</b>	<b>17,280,684</b>

**37. (c) Group - 2014** →

	Opening Balance at 01.01.2014 Rs. '000	Movement/ Transfers Rs. '000	Closing Balance at 31.12.2014 Rs. '000
General reserve	12,995,126	3,057,016	<b>16,052,142</b>
Revaluation reserve	2,065,446	-	<b>2,065,446</b>
Available-for-sale reserve	(16,553)	1,215,972	<b>1,199,419</b>
Cash flow hedging reserve	(45,324)	39,820	(5,504)
Other reserves (Refer Notes 01 and 02)	3,861,326	(3,221,951)	<b>639,375</b>
<b>Total</b>	<b>18,860,023</b>	<b>1,090,857</b>	<b>19,950,880</b>

**37. Other Reserves (Cont.)** →**37. (d) Group - 2013** →

	Opening Balance at 01.01.2013 Rs. '000	Movement/ Transfers Rs. '000	Closing Balance at 31.12.2013 Rs. '000
General reserve	15,197,799	(2,202,673)	12,995,126
Revaluation reserve	1,583,340	482,106	2,065,446
Available-for-sale reserve	136,119	(152,672)	(16,553)
Cash flow hedging reserve	-	(45,324)	(45,324)
Other reserves (Refer Notes 01 and 02)	3,172,471	688,855	3,861,326
<b>Total</b>	<b>20,089,730</b>	<b>(1,229,707)</b>	<b>18,860,023</b>

**Note 01 - Investment Fund Reserve** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Opening balance	3,261,864	2,829,999	3,261,864	2,829,999
Prior year adjustment	-	(176,368)	-	(176,368)
Restated balance	3,261,864	2,653,631	3,261,864	2,653,631
Add: Transferred during the year	-	608,233	-	608,233
Less: Amount transferred to general reserve	3,261,864	-	3,261,864	-
<b>Closing balance</b>	<b>-</b>	<b>3,261,864</b>	<b>-</b>	<b>3,261,864</b>

As required by the Government Budget 2011 and subsequent direction from Central Bank of Sri Lanka, with effect from 1st January 2011, the Bank is required to transfer an amount equivalent to 8% of the profit calculated for the payment of VAT on Financial services and 5% of the profit before tax calculated for the payment of Income Tax to an Investment Fund Account.

The operations of this fund were ceased with effect from 1st October 2014 and the balance as at that date was transferred to Retained earnings/General reserve.

**37. Other Reserves (Cont.)** →**Investment Made Under Investment Fund Account** →

	Interest Rate Tenure		Bank		Group	
			2014	2013	2014	2013
Loan - Road Development Authority	9.0%	14.5 Years	-	1,049,956	-	1,049,956
Long-Term Agriculture Loan	10.5%	5 Years	-	2,580	-	2,580
Long-Term Government Bonds 1	7.5%	7 Years	-	14,279	-	14,279
Long-Term Government Bonds 2	7.0%	12 Years	-	539,650	-	539,650
Short-Term Government Securities			-	1,690,698	-	1,690,698
<b>Total investment</b>			-	3,297,163	-	3,297,163

**Note 02 - Special Risk Reserve (NSB Fund Management Company Ltd.)** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Opening balance	-	-	379,931	294,036
Transferred during the year - 25% of profit after tax	-	-	50,516	85,895
<b>Closing balance</b>	-	-	430,447	379,931

In order to promote the safety, soundness and the stability of the Primary Dealer (PD) system and to build up PD capital base, with effect from 1st July 2004, Primary Dealers (PDs) are required to transfer a percentage of their profit after tax annually to a Special Risk Reserve as follows:

- I. 50% of the profit after tax annually by the PDs who maintain capital funds less than Rs. 400 Million.
- II. 25% of the profit after tax annually by the PDs who maintain capital funds in excess of Rs. 400 Million.

**38. Contingent Liabilities and Commitments** →

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

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Guarantees	355,250	309,065	355,250	309,065
Other contingent items	49,700	51,890	49,700	51,890
Undrawn loan commitments	59,039,688	69,229,188	59,039,688	69,229,188
<b>Total</b>	<b>59,444,638</b>	<b>69,590,143</b>	<b>59,444,638</b>	<b>69,590,143</b>

**39. Related Party Disclosures** →**39. (a) Transactions with State and State Controlled Entities** →

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Assets</b>				
Loans to Government	4,122,500	7,511,719	4,122,500	7,511,719
Investments made on Government Securities	514,003,337	442,444,935	521,477,856	450,243,339
Investments on State and State Controlled Entities	95,943,765	23,294,211	95,943,765	23,294,211
Securities purchased under Resale Agreements	498,705	1,548,565	500,791	1,850,125
Tax Receivable	4,276,544	3,259,465	4,276,544	3,259,465
Postmaster-General's Current Account	98,547	228,071	98,547	228,071
Other Advance payment to Government	6,666,667	8,000,000	6,666,667	8,000,000
	<b>625,610,065</b>	<b>486,286,966</b>	<b>633,086,670</b>	<b>494,386,930</b>
<b>Liabilities</b>				
Securities sold under Repurchase Agreements	56,828,947	20,285,108	62,339,774	26,633,198
<b>Taxes paid</b>				
Income Tax	3,605,541	1,094,954	3,710,276	1,141,437
Value Added Tax	1,744,872	624,445	1,784,099	672,464
Nation Building Tax	290,812	-	298,134	-
Contribution to Consolidated Fund/Dividend	4,000,000	3,000,000	4,001,661	3,000,000
	<b>9,641,225</b>	<b>4,719,399</b>	<b>9,794,170</b>	<b>4,813,901</b>

**39. Related Party Disclosures (Cont.)** →**39. (b) Transactions with Subsidiary Company (NSB Fund Management Company Ltd.)** →

The Bank has contributed Rs. 150 Million towards the share capital of the Company. The Company invested its funds in Treasury Bills, Bonds and Repo during the year on a regular basis. All investment in Treasury Bills and Treasury Bonds of the Bank are being made through the NSB Fund Management Co. Ltd. on which a service charge of Rs. 34.5 Million has been made (Rs. 33 Million in 2013)

**39. (c) Transactions with Post Employment Benefit Plans of the Bank** →

Transactions which had taken place between the Bank and Post Employment Benefit Plans of the Bank as at the year end are summarised below:

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>National Savings Bank Employees' Pension Scheme</b>				
Fixed deposits	4,597,588	5,527,256	4,597,588	5,527,256
Securities purchased under resale agreements	217,174	533,804	217,174	533,804
<b>Medical Assistance Scheme for the Retired Employees of NSB</b>				
Fixed deposits	256,741	219,781	256,741	219,781
Securities purchased under resale agreements	-	5,844	-	5,844
<b>National Savings Bank Employees' Provident Fund</b>				
Fixed deposits	2,191,427	2,769,446	2,191,427	2,769,446
Securities purchased under resale agreements	159,478	93,611	159,478	93,611
	<b>7,422,408</b>	<b>9,149,743</b>	<b>7,422,408</b>	<b>9,149,743</b>

**39. Related Party Disclosures (Cont.)** →**39. (d) Transactions with Key Managerial Persons** →

(i) Key managerial persons include members of the Board of Directors of the Bank and key employees of the Bank holding directorships in subsidiary, NSB Fund Management Company of the Bank.

(ii) Loans and advances in the names of key managerial persons are given below:

<i>As at 31st December</i>	<b>2014</b>	2013
	<b>Rs. '000</b>	Rs. '000
Loans & Advances	15,702	17,937

(iii) Chairperson's, Directors', GM/CEO's and DGMM's emoluments and fees amounted to Rs. 27.27 Million in 2014 (Rs. 28.68 Million in 2013).

**39. (e) Net Accommodation Granted to Related Parties** →

(Disclosure under rule 3 (8) (ii) (e) of the Governance Direction of No. 12 of 2007 issued by the Central Bank of Sri Lanka.)

<i>As at 31st December</i>	<b>2014</b>	2013
	<b>Rs. '000</b>	Rs. '000
<b>Key Managerial Persons</b>		
Loan & Advances	<b>15,702</b>	17,937
Total net accommodation	<b>15,702</b>	17,937
Regulatory Capital	<b>21,527,650</b>	15,096,707
Net accommodation as a percentage of the Bank's Regulatory Capital	<b>0.1</b>	0.1

**40. Net Assets Value per Ordinary Share** →

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Amount used as the numerator				
Share holders' Funds	23,260,223	22,217,487	25,025,015	23,796,826
Number of ordinary share used as the denominator				
Total number of shares	320,000	320,000	335,000	335,000
Net assets value per ordinary share (Rs.)	72.69	69.43	74.70	71.04

**41. Non-Cash items included in Profit Before Tax** →

For the year ended 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Depreciation of property, plant & equipment	253,024	284,163	253,205	284,380
Amortisation of leasehold property	7,228	7,228	7,228	7,228
Amortisation of intangible assets	43,279	42,546	43,357	42,625
Impairment losses on loans and receivables	3,475,695	1,380,003	3,475,695	1,380,003
Profit on disposal of property, plant & equipment	(9,631)	(2,119)	(9,631)	(2,119)
Accretion of discounts and amortisation of premiums of investment securities	(2,166,992)	149,183	(2,166,896)	148,767
<b>Total</b>	<b>1,602,603</b>	<b>1,861,004</b>	<b>1,602,959</b>	<b>1,860,883</b>

**42. Change in Operating Assets** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>For the year ended 31st December</i>				
Change in derivative financial instruments	2,238,684	(5,099,813)	2,238,684	(5,099,813)
Net increase in debt securities, treasury bills & bonds and equity shares held at fair value through profit or loss	(71,055,084)	(126,272,611)	(70,748,235)	(124,904,121)
Net increase in loans and receivables to banks	1,016,407	5,823,498	1,315,867	6,241,330
Net increase in loans and receivables to other customers	(60,768,021)	(11,146,408)	(60,768,007)	(11,144,261)
Change in other assets	157,082	(4,900,248)	143,411	(4,870,998)
<b>Total</b>	<b>(128,410,932)</b>	<b>(141,595,582)</b>	<b>(127,818,280)</b>	<b>(139,777,863)</b>

**43. Change in Operating Liabilities** →

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>For the year ended 31st December</i>				
Change in deposits from banks, customers and debt securities issued	52,170,624	44,239,301	48,783,810	41,821,940
Change in other liabilities	1,672,576	5,922,884	1,671,428	5,926,376
<b>Total</b>	<b>53,843,200</b>	<b>50,162,185</b>	<b>50,455,238</b>	<b>47,748,316</b>

**44. Litigation Against the Bank** →

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. The unresolved court cases against the Bank as at the year end for which adjustments to the Financial Statements have not been made due to the uncertainty of its outcome are as follows:

<i>As at 31st December</i>	<b>2014</b>	2013
<b>Tribunal/Court</b>		
Labour Tribunal	<b>8</b>	10
District Court	<b>28</b>	22
Commercial High Court	<b>8</b>	10
Supreme Court	<b>1</b>	2
Magistrate's Court	<b>9</b>	4

**45. Event Occurring after the Reporting Date** →

No circumstances have arisen since the reporting date which would require adjustments to or disclosure in the Financial Statements, other than those disclosed below;

**Super Gain Tax** →

The Minister of Finance announced at the interim budget proposals on 29th January 2015, (which was passed in Parliament on 07th February 2015) that an additional one-off tax of 25% is to be charged on profits of entities which earned in excess of Rs. 2,000 Million for the year of assessment 2013/14. The Bank made a profit before tax in excess of such amount for the said year of assessment and accordingly, may be liable to pay such additional tax in the future.

**46. Comparative Figures** →

The comparative information is reclassified as wherever necessary to confirm with the current year's classification in order to provide a better presentation. The reclassified balances are as follows:

**a. Insurance Premium Paid on Eligible Deposit Base** →

Rs. 422 Million classified under interest expenses has been reclassified under other expenses as follows:

	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>For the year ended 31st December</i>				
Interest expenses	-	54,563,482	-	55,233,594
Less: Reclassified amount	-	422,306	-	422,306
Interest expenses after reclassification	-	54,141,176	-	54,811,288
Other expenses	-	2,484,626	-	2,457,297
Add: Reclassified amount	-	422,306	-	422,306
Other expenses after reclassification	-	2,906,932	-	2,879,603

**47. Financial Risk Management** →**47.1 Risk Management Framework** →

Risk management requires an integrated approach that interacts with a number of factors such as strategy, structure, policies, procedures and functions etc. since all activities are interrelated and interconnected in achieving the organisation's goals. A cohesive approach of management, development of an atmosphere for positive cultural and organisational changes, policy and structure based systems and procedures, risk identification and reporting etc. are the pillars of achieving the establishment of an Integrated Risk Management (IRM) framework in the Bank.

***Risk Management Structure***

The Bank has been improving its effort for establishing a cohesive risk management structure to ensure adequate oversight due to the mature and complexity of and risk inherent in the Bank's operation. The principle responsibilities set out below extend throughout the Bank:

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IRMC	Integrated Risk Management Committee
BAC	Board Audit Committee
ERMC	Executive Risk Management Committee
ALCO	Asset and Liability Management Committee
RMD	Risk Management Division
ORM/Rep	Operational Management Representative
MO	Middle Office
CRMU	Credit Risk Management Unit

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**47.2 Board Risk Categories in Focus** →

Following board risk categories arising from financial instruments are in focus.

- a. Credit risk
- b. Liquidity risk
- c. Market risk
- d. Operational risk
- e. Equity risk
- f. Interest Rate risk

**(a) Credit Risk**

Credit risk is the possibility of losses arising from the diminution in the credit quality of borrowers or counterparties which could materialise from the banking book and both on or Off-Balance Sheet.

**47. Financial Risk Management (Cont.)** →**47.2 Board Risk Categories in Focus (Cont.)** →***Credit Risk Exposures of the Bank***

The total credit exposure which is 28.57% of the Bank's total assets is the second major line of business (the investment in risk free securities is 65.94% of total assets). Hence, the magnitude of credit risk is comparatively moderate to the Bank, albeit the fact that the Bank considers credit risk as a major type of risk.

The credit exposure of the Bank is created from two main categories i.e. 'lending to banks' and 'lending to other customers' such as corporate and retail borrowers, Government and Government Institutions.

***Management of the Credit Portfolio***

The Bank monitors the concentration of credit risk by product and sectors. An analysis of concentration risk of the Bank portfolio (Loans and Receivables to other customers) is given below:

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Concentration by Sector</b>				
Agriculture and Fishing	1,001,737	1,195,539	1,001,737	1,195,539
Tourism	145,375	163,577	145,375	163,577
Transport	913,895	456,551	913,895	456,551
Construction/Housing	56,776,500	53,483,331	56,776,500	53,483,331
Others				
Infrastructure	52,692,775	6,595,707	52,692,775	6,595,707
Leasing and Finance	4,521,533	5,728,880	4,521,533	5,728,880
Government	4,122,500	7,511,719	4,122,500	7,511,719
Education	12,924,747	3,398,654	12,924,747	3,398,654
Telecommunication	-	91,063	-	91,063
Power and Energy	13,126,850	3,185,665	13,126,850	3,185,665
Health care	-	74,482	-	74,482
Pawning	38,184,641	52,000,487	38,184,641	52,000,487
Loan against deposit	19,802,230	20,470,214	19,802,230	20,470,214
Others	15,874,541	6,519,535	15,876,627	6,521,635
<b>Gross total</b>	<b>220,087,324</b>	<b>160,875,404</b>	<b>220,089,410</b>	<b>160,877,504</b>

**47. Financial Risk Management (Cont.)** →**47.2 Board Risk Categories in Focus (Cont.)** →

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Concentration by product</b>				
Loans and receivables to other customers				
Pawning	38,184,641	52,000,487	38,184,641	52,000,487
Staff loans	2,791,077	2,659,967	2,791,077	2,659,967
Term loans				
Short-term	1,000,000	1,192,959	1,000,000	1,192,959
Long-term	169,647,494	91,905,182	169,647,494	91,905,182
Securities purchased under resale agreements	-	-	2,086	2,100
Others				
Securitisation/Commercial papers	3,797,575	5,427,665	3,797,575	5,427,665
Sri Lanka Government Securities	4,122,500	4,122,500	4,122,500	4,122,500
Administrative Borrowings	-	3,389,220	-	3,389,220
Others	544,037	177,425	544,037	177,425
<b>Gross total</b>	<b>220,087,324</b>	<b>160,875,404</b>	<b>220,089,410</b>	<b>160,877,504</b>

**47. Financial Risk Management (Cont.)** →**47.2 Board Risk Categories in Focus (Cont.)** →

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Loans and Receivables to Other Customer and Impairment Analysis</b>				
Individual impaired				
Gross amount	-	-	-	-
Allowance for impaired	-	-	-	-
Carrying amount	-	-	-	-
Collective impaired				
Gross amount	193,442,661	127,607,135	193,442,661	127,607,135
Allowance for impaired	(3,925,172)	(2,005,578)	(3,925,172)	(2,005,578)
Carrying amount	189,517,489	125,601,557	189,517,489	125,601,557
Past due but not individually impaired	39,707	30,064	39,707	30,064
Carrying amount	39,707	30,064	39,707	30,064
Neither past due nor impaired	26,604,956	33,238,205	26,607,042	33,240,305
Carrying amount	26,604,956	33,238,205	26,607,042	33,240,305
<b>Total carrying amount - amortised cost</b>	<b>216,162,152</b>	<b>158,869,826</b>	<b>216,164,238</b>	<b>158,871,926</b>

**(b) Liquidity Risk**

Liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit).

Liquidity risk would occur in a situation where the Bank would not be able to fulfil its obligations promptly due to inadequate cushions maintained.

**47. Financial Risk Management (Cont.)** →**47.2 Board Risk Categories in Focus (Cont.)** →**Concentration of Liquid Assets**

The Bank's regulatory requirement to invest 60% of its deposits in Government Securities forces the Bank to maintain a high Statutory Liquid Assets Ratio. Currently, the Bank maintains a liquidity ratio at 92% which is well above the statutory requirement of 20%. The investment in Government Securities represent 96% from the total liquid assets of the Bank.

Item	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Liquidly assets ratio				
Year end	91.5	92.7	91.5	92.7
30th June	89.5	70.8	89.5	70.8
Year beginning	92.7	69.5	92.7	69.5
Gross loans and receivables to deposit	40.9	33.9	40.9	33.9
Net loans and receivables to total assets	28.6	25.6	28.6	25.6

**(c) Market Risk**

Market risk to the Bank stems from movements in market prices, in particular, changes in interest rates, foreign exchange rates and equity prices. Market risk is often propagated by other forms of financial risk such as credit and market-liquidity risk. The risk of losses would arise from On-Balance Sheet as well as Off-Balance Sheet activities.

**Sources of Market Risk to NSB**

The exposure to market risk arise to National Savings Bank from the following sources:

- Treasury securities portfolio (Government Securities and other permitted fixed income securities)
- Repo and reverse repo transaction
- Direct foreign currency borrowings and lending
- Foreign exchange deposits
- Derivatives
- Assets-liabilities mismatch

**Foreign Exchange Risk**

Foreign Exchange Risk (also known as exchange rate risk or currency risk) is a financial risk posed by an exposure to unanticipated changes in the exchange rate between two currencies.

**47. Financial Risk Management (Cont.)** →**47.2 Board Risk Categories in Focus (Cont.)** →***(d) Operational Risk***

The BASEL Committee on Banking Supervision defines operational risk as 'the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events'. This definition includes legal risk but excludes strategic and reputational risk.

**Operational Risk Management Framework**

The Bank's operational risk management framework provides a mechanism for improving the overall risk culture and behaviour towards operational risk management and understanding the Bank's inherent risk through the operational risk management process which leads to making sound decisions in order to achieve the objectives of the Bank. Further, the Bank's operational risk management functions are guided by the Board approved operational risk management policy of the Bank.

***(e) Equity Risk***

Equity risk is the risk that one's investments will depreciate because of stock market dynamic causing one to lose money.

The investment in equity represent 1.00% of the total assets while investments in quoted and unquoted equity are 0.95% and 0.05% respectively. Hence, the Bank does not have a major exposure to equity risk. However, the adverse movements in the stock market affected the yield on equity investments. The investment in non-quoted companies are made due to policy decisions on market and economic development and strategic reasons.

***(f) Interest Rate Risk***

Interest rate risk is the risk that an investment's value will change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationships. The Bank's major source of funding is deposits which represent 71% of total on Balance Sheet liabilities. Of this, 26% represent savings deposits where 74% represent term deposits. On the other hand, the majority of investments in Government Securities in short to medium term which represent 66% of total on Balance Sheet Assets. Hence the Bank is subject to interest rate risk to a greater extent.

**47. Financial Risk Management (Cont.)** →**47.2 Board Risk Categories in Focus (Cont.)** →**Bank's Interest Rate Sensitivity Report as at 31st December 2014 is Presented below:**

Bank	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
<b>Interest-Bearing Assets</b>	<b>23,765,072</b>	<b>84,578,626</b>	<b>123,950,848</b>	<b>250,128,810</b>
Bank balances and placements	1,811,641	4,422,723	9,741,251	9,741,251
Other financial assets held-for-trading	16,949	618,224	822,514	2,038,082
Loan and receivables to banks	498,705	506,427	1,257,865	5,423,312
Loan and receivables to other customers	3,253,654	10,131,916	20,315,559	55,711,719
Financial investment held-to-maturity	18,184,123	68,899,336	91,813,659	177,214,446
<b>Interest-Bearing Liabilities</b>	<b>198,280,086</b>	<b>392,745,782</b>	<b>462,505,979</b>	<b>590,966,496</b>
Due to banks	90,150	90,150	90,150	90,150
Due to other customers	168,584,766	344,445,592	406,228,018	533,175,216
Other borrowings	29,605,170	48,210,040	56,187,811	57,701,130
<b>Net Rate Sensitive Assets (Liabilities)</b>	<b>(174,515,014)</b>	<b>(308,167,156)</b>	<b>(338,555,131)</b>	<b>(340,837,686)</b>
<b>Interest Rate Sensitivity Ratio (%)</b>	<b>12</b>	<b>22</b>	<b>27</b>	<b>42</b>

**Group's Interest Rate Sensitivity Report as at 31st December 2014 is Presented below**

Group	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
<b>Interest-Bearing Assets</b>	<b>24,014,898</b>	<b>85,327,771</b>	<b>122,035,859</b>	<b>252,956,482</b>
Bank balances and placements	1,811,808	4,422,890	6,384,442	9,741,418
Other financial assets held-for-trading	93,861	848,960	1,520,234	3,669,770
Loan and receivables to banks	498,705	506,427	1,257,865	5,423,312
Loan and receivables to other customers	3,254,154	10,133,416	20,317,254	55,713,805
Financial investment held-to-maturity	18,356,370	69,416,078	92,556,064	178,408,177
<b>Interest-Bearing Liabilities</b>	<b>199,443,563</b>	<b>396,236,213</b>	<b>466,669,875</b>	<b>596,477,323</b>
Due to banks	291,723	694,869	694,869	694,869
Due to other customers	168,584,766	344,445,592	406,228,018	533,175,216
Other borrowings	30,567,074	51,095,752	59,746,988	62,607,238
<b>Net Rate Sensitive Assets (Liabilities)</b>	<b>(175,428,665)</b>	<b>(310,908,442)</b>	<b>(344,634,016)</b>	<b>(343,520,841)</b>
<b>Interest Rate Sensitivity Ratio (%)</b>	<b>12</b>	<b>22</b>	<b>26</b>	<b>42</b>

**47. Financial Risk Management (Cont.)** →**47.2 Board Risk Categories in Focus (Cont.)** →**Bank's Interest Rate Sensitivity Report as at 31st December 2013 is Presented below:**

Bank	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
<b>Interest-Bearing Assets</b>	<b>22,583,769</b>	<b>93,821,833</b>	<b>154,459,872</b>	<b>225,159,256</b>
Bank balances and placements	43,480	11,341,840	11,341,840	11,341,840
Other financial assets held-for-trading	58,828	1,125,871	2,731,708	4,282,347
Loan and receivables to banks	1,658,700	1,958,700	1,961,181	1,961,181
Loan and receivables to other customers	13,783,743	27,678,849	45,834,563	67,783,723
Financial investment held-to-maturity	7,039,018	51,716,573	92,590,580	139,790,165
<b>Interest-Bearing Liabilities</b>	<b>90,657,051</b>	<b>254,031,743</b>	<b>340,567,164</b>	<b>484,353,904</b>
Due to banks	126,989	126,989	126,989	126,989
Due to other customers	80,665,472	242,004,615	325,954,106	464,694,475
Other borrowings	9,864,589	11,900,139	14,486,069	19,532,440
<b>Net Rate Sensitive Assets (Liabilities)</b>	<b>(68,073,282)</b>	<b>(160,209,911)</b>	<b>(186,107,291)</b>	<b>(259,194,649)</b>
<b>Interest Rate Sensitivity Ratio (%)</b>	<b>25</b>	<b>37</b>	<b>45</b>	<b>46</b>

**Group's Interest Rate Sensitivity Report as at 31st December 2013 is Presented below:**

Group	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
<b>Interest-Bearing Assets</b>	<b>27,675,508</b>	<b>94,237,520</b>	<b>183,241,890</b>	<b>227,744,075</b>
Bank balances and placements	43,683	11,342,042	11,342,042	11,342,042
Other financial assets held-for-trading	409,820	1,229,461	4,104,679	5,542,288
Loan and receivables to banks	728,297	2,184,890	2,235,391	2,260,641
Loan and receivables to other customers	9,226,812	27,680,436	54,417,361	67,785,823
Financial investment held-to-maturity	17,266,897	51,800,691	111,142,418	140,813,281
<b>Interest-Bearing Liabilities</b>	<b>86,051,019</b>	<b>258,153,057</b>	<b>413,185,682</b>	<b>490,701,995</b>
Due to banks	906,125	2,718,376	3,651,807	4,118,522
Due to other customers	80,668,205	242,004,615	390,464,522	464,694,475
Other borrowings	4,476,689	13,430,066	19,069,354	21,888,997
<b>Net Rate Sensitive Assets (Liabilities)</b>	<b>(58,375,511)</b>	<b>(163,915,537)</b>	<b>(229,943,793)</b>	<b>(262,957,920)</b>
<b>Interest Rate Sensitivity Ratio (%)</b>	<b>32</b>	<b>37</b>	<b>44</b>	<b>46</b>

**48. Maturity Analysis** →

Bank	Up to 3 months	3 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Total as at 31.12.2014	Total as at 31.12.2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets with Contractual Maturity (Interest-Bearing Asset)</b>							
Cash and cash equivalents	95,630	-	-	-	-	95,630	43,480
Balances with central banks	-	-	-	-	-	-	-
Placements with banks	4,327,093	5,318,528	-	-	-	9,645,621	11,298,360
Other financial assets held-for-trading	618,224	1,419,858	1,053,737	570,181	-	3,661,999	9,979,823
Loans and receivables to banks	506,427	4,916,885	278,490	832,300	-	6,534,102	7,550,509
Loans and receivables to other customers	10,131,916	45,579,803	45,420,407	39,087,588	75,942,438	216,162,152	158,869,826
Financial investments – held-to-maturity	68,899,336	108,315,110	127,775,599	137,640,216	67,711,076	510,341,337	432,465,113
	84,578,626	165,550,184	174,528,233	178,130,285	143,653,514	746,440,841	620,207,110
<b>Other Asset (Non-Interest-Bearing Asset)</b>							
Cash and cash equivalents	1,830,964	-	-	-	-	1,830,964	1,502,741
Derivative financial instruments	-	575,986	1,151,972	1,151,972	-	2,879,931	5,118,615
Other financial assets held-for-trading	942,365	2,827,094	-	-	-	3,769,459	3,828,417
Financial investments – available-for-sale	-	-	-	-	4,036,956	4,036,955	2,926,082
Investments in subsidiaries	-	-	-	-	150,000	150,000	150,000
Property, plant & equipment	-	-	-	-	5,529,743	5,529,743	5,610,413
Intangible assets	-	-	-	-	64,652	64,652	81,803
Deferred tax assets	-	-	-	-	-	-	-
Other assets	701,972	2,008,060	5,354,826	5,354,826	1,344,080	14,763,764	14,942,811
	3,475,301	5,411,140	6,506,798	6,506,798	11,125,431	33,025,468	34,160,882
<b>Total Asset</b>	88,053,927	170,961,324	181,035,031	184,637,083	154,778,945	779,466,309	654,367,993
<b>Liabilities with Contractual Maturity (Interest-Bearing Liability)</b>							
Due to banks	90,150	-	-	-	-	90,150	126,989
Due to other customers	344,445,592	188,729,624	17,120,874	3,764,222	-	554,060,312	501,889,688
Other borrowings	48,210,040	9,491,090	1,713,358	131,687,636	-	191,102,124	120,433,536
	392,745,782	198,220,714	18,834,232	135,451,858	-	745,252,586	622,450,213
<b>Other Liabilities (Non-Interest-Bearing Liability)</b>							
Current tax liabilities	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	269,754	269,754	143,450
Other liabilities	277,632	734,242	1,946,806	1,944,896	5,780,169	10,683,745	9,556,844
Stated capital/Assigned capital	-	-	-	-	3,200,000	3,200,000	3,200,000
Statutory reserve fund	-	-	-	-	1,874,135	1,874,135	1,736,803
Other reserves	-	-	-	-	18,186,088	18,186,088	17,280,684
	277,632	734,242	1,946,806	1,944,896	29,310,146	34,213,723	31,917,780
<b>Total Liabilities</b>	393,023,414	198,954,956	20,781,038	137,396,754	29,310,146	779,466,309	654,367,993

**48. Maturity Analysis (Cont.)** →

Group	Up to 3 months	3 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Total as at 31.12.2014	Total as at 31.12.2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets with Contractual Maturity (Interest-Bearing Asset)</b>							
Cash and cash equivalents	95,630	-	-	-	-	95,630	43,480
Balances with central banks	167	-	-	-	-	167	203
Placements with banks	4,327,093	5,318,528	-	-	-	9,645,621	11,298,360
Other financial assets held-for-trading	848,960	2,820,810	1,392,912	1,931,742	791,304	7,785,727	14,283,494
Loans and receivables to banks	506,427	4,916,885	278,490	832,300	-	6,534,102	7,849,969
Loans and receivables to other customers	10,133,416	45,580,389	45,420,407	39,087,588	75,942,438	216,164,238	158,871,926
Financial investments – held-to-maturity	69,416,078	108,992,099	129,163,733	138,426,178	67,711,076	513,709,164	435,959,845
	85,327,771	167,628,711	176,255,542	180,277,808	144,444,818	753,934,649	628,307,276
<b>Other Asset (Non-Interest-Bearing Asset)</b>							
Cash and cash equivalents	1,834,897	-	-	-	-	1,834,897	1,513,787
Derivative financial instruments	-	575,986	1,151,972	1,151,972	-	2,879,931	5,118,615
Other financial assets held-for-trading	942,365	2,827,094	-	-	-	3,769,459	3,828,417
Financial investments – available-for-sale	-	-	-	-	4,037,956	4,037,955	2,927,082
Investments in subsidiaries	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	5,530,622	5,530,622	5,611,100
Intangible assets	-	-	-	-	64,659	64,659	81,888
Deferred tax assets	-	-	-	-	668	668	568
Other assets	703,135	2,011,550	5,364,134	5,364,134	1,348,734	14,791,687	14,957,063
	3,480,397	5,414,630	6,516,106	6,516,106	10,982,639	32,909,878	34,038,520
<b>Total Asset</b>	88,808,168	173,043,341	182,771,648	186,793,914	155,427,457	786,844,527	662,345,797
<b>Liabilities with Contractual Maturity (Interest-Bearing Liability)</b>							
Due to banks	694,869	-	-	-	-	694,869	4,118,522
Due to other customers	344,445,592	188,729,624	17,120,874	3,764,222	-	554,060,312	501,889,688
Other borrowings	51,095,752	11,511,486	1,713,358	131,687,636	-	196,008,232	122,790,093
	396,236,213	200,241,110	18,834,232	135,451,858	-	750,763,413	628,798,304
<b>Other Liabilities (Non-Interest-Bearing Liability)</b>							
Current tax liabilities	-	86,575	-	-	-	86,575	33,205
Deferred tax liabilities	-	-	-	-	269,754	269,754	143,450
Other liabilities	278,300	736,245	1,952,147	1,950,237	5,782,840	10,699,769	9,574,014
Stated capital/Assigned capital	-	-	-	-	3,200,000	3,200,000	3,200,000
Statutory reserve fund	-	-	-	-	1,874,135	1,874,135	1,736,803
Other reserves	-	-	-	-	19,950,880	19,950,880	18,860,023
	278,300	822,820	1,952,147	1,950,237	31,077,609	36,081,114	33,547,494
<b>Total Liabilities</b>	396,514,513	201,063,930	20,786,379	137,402,095	31,077,609	786,844,527	662,345,797

**49. Capital Adequacy and Management (As per Regulatory Reporting) →**

Capital adequacy measures the adequacy of Bank's aggregate capital in relation to the risks, which may arise from its assets and off-balance sheet transaction, its dealing operations and its human activities, technology and natural incident. Central Bank of Sri Lanka has prescribed the minimum risk sensitive capital and effective from January 2008 required the Bank to compute the regulatory capital requirements in accordance with the "International Convergence of Capital Measurement and Capital Standards - a Revised Framework" (BASEL - II). The Bank's capital adequacy position has been computed under the following approaches of BASEL II, which are currently effective to the local banking industry:

- Standardised approach for credit risk
- Standardised measurement method for market risk
- Basic indicator approach for operational risk

**Capital and Risk-Weighted Assets - Bank →**

As at 31st December	Minimum Requirement	Bank		Group	
		2014	2013	2014	2013
<b>Capital to Risk-Weighted Assets Ratio</b>					
Tier I (%)		22.96	21.19	24.01	22.43
Deduction - Tier I (%)		(2.50)	(2.69)	(2.42)	(2.59)
Core Capital Ratio (%)	5	20.46	18.50	21.59	19.84
Tier II (%)		21.48	19.41	22.61	20.74
Deduction - Tier II (%)		(2.50)	(2.69)	(2.42)	(2.59)
<b>Total Capital Ratio (%)</b>	10	<b>18.98</b>	16.72	<b>20.19</b>	18.15

**Details of Computation** →

## Capital Base

As at 31st December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Tier I: Core Capital</b>				
Stated Capital	3,200,000	3,200,000	3,200,000	3,200,000
Statutory reserve fund	1,903,809	1,737,993	1,903,809	1,737,993
General and other reserves	20,941,142	14,194,721	22,282,734	15,400,626
	<b>26,044,951</b>	19,132,714	<b>27,386,543</b>	20,338,619
<b>Less: Deductions</b>				
50% Investment in the capital of other banks and financial institutions/subsidiary	2,839,759	2,427,298	2,764,759	2,352,298
Total Tier I Capital	<b>23,205,192</b>	16,705,416	<b>24,621,784</b>	17,986,321
<b>Tier II: Supplementary capital</b>				
General provisions and Revaluation Reserve	1,162,217	818,589	1,162,217	818,589
<b>Less: Deductions</b>				
50% Investment in the capital of other banks and financial institutions/subsidiary	2,839,759	2,427,298	2,764,759	2,352,298
Eligible Tier II Capital	(1,677,542)	(1,608,709)	(1,602,542)	(1,533,709)
<b>Capital Base</b>	<b>21,527,650</b>	15,096,707	<b>23,019,242</b>	16,452,612

**Composition of Total Risk-Weighted Assets** →

Total risk-weighted assets and off-balance sheet exposure for credit risk	77,087,034	58,008,991	77,090,344	58,028,301
Total risk-weighted assets equivalent for market risk	12,397,030	11,067,470	12,710,870	11,309,850
Total risk-weighted assets equivalent for operational risk	23,930,514	21,223,336	24,235,794	21,299,422
<b>Total Risk-Weighted Assets</b>	<b>113,414,578</b>	90,299,797	<b>114,037,008</b>	90,637,573

## ***50. Fair Value of Financial Instruments*** →

### ***50.1 Financial Instruments Recorded at Fair Value*** →

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

#### **Derivatives**

Derivative products (Foreign Currency swaps/Cash Flow Hedges) valued using valuation techniques incorporating various inputs such as foreign exchange spot rates and foreign exchange forward rates.

#### **Financial Assets Held-for-Trading**

##### **i. Government Treasury Bills and Bonds.**

Financial assets held-for-trading are valued using a valuation technique consists of Government Treasury Bills and Treasury Bonds. The Bank values the securities using discounted cash flow valuation models which incorporate observable data. Observable inputs include assumptions regarding current rates of interest, broker statements and market data publishing by Central Bank of Sri Lanka.

##### **ii. Equity Securities**

The Bank values the equity securities using the quoted prices available for the identical securities in active market.

##### **Available-for-Sales**

The Bank values the quoted equity securities using the quoted prices available for the identical securities in active market.

The unquoted equity securities have been fair valued using a valuation model based on observable data.

### ***50.2 Determination of Fair Value and Fair Value Hierarchy*** →

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) price in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

**50. Fair Value of Financial Instruments (Cont.)** →**50.2 Determination of Fair Value and Fair Value Hierarchy (Cont.)** →

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

<b>Bank</b> <i>As at 31st December 2014</i>	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Derivative Financial Instruments				
Foreign currency swaps	-	-	2,879,931	2,879,931
Financial assets held-for-trading				
Government Treasury Bills and Bonds	3,662,000	-	-	3,662,000
Equity Securities	3,769,459	-	-	3,769,459
Available-for-sale				
Equity Securities - Quoted	3,634,808	-	-	3,634,808
Equity Securities - Unquoted	-	344,656	-	344,656
<b>Total financial assets</b>	<b>11,066,267</b>	<b>344,656</b>	<b>2,879,931</b>	<b>14,290,854</b>

<b>Bank</b> <i>As at 31st December 2013</i>	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Derivative Financial Instruments				
Foreign currency swaps	-	-	5,118,615	5,118,615
Financial assets held-for-trading				
Government Treasury Bills and Bonds	9,979,822	-	-	9,979,822
Equity Securities	3,828,417	-	-	3,828,417
Available-for-sale				
Equity Securities - Quoted	2,628,554	-	-	2,628,554
Equity Securities - Unquoted	-	240,037	-	240,037
<b>Total financial assets</b>	<b>16,436,792</b>	<b>240,037</b>	<b>5,118,615</b>	<b>21,795,444</b>

**50. Fair Value of Financial Instruments (Cont.)** →**50.2 Determination of Fair Value and Fair Value Hierarchy (Cont.)** →

<b>Group</b> As at 31st December 2014	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Derivative Financial Instruments				
Foreign currency swaps	-	-	2,879,931	2,879,931
Financial assets held-for-trading				
Government Treasury Bills and Bonds	7,768,693	-	-	7,768,693
Equity Securities	3,769,459	-	-	3,769,459
Debt Securities - Debenture	-	17,035	-	17,035
Available-for-sale				
Equity Securities - Quoted	3,634,808	-	-	3,634,808
Equity Securities - Unquoted	-	344,656	-	344,656
<b>Total financial assets</b>	<b>15,172,960</b>	<b>361,691</b>	<b>2,879,931</b>	<b>18,414,581</b>

<b>Group</b> As at 31st December 2013	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Derivative Financial Instruments				
Foreign currency swaps	-	-	5,118,615	5,118,615
Financial assets held-for-trading				
Government Treasury Bills and Bonds	14,283,494	-	-	14,283,494
Equity Securities	3,828,417	-	-	3,828,417
Available-for-sale				
Equity Securities - Quoted	2,628,554	-	-	2,628,554
Equity Securities - Unquoted	-	240,037	-	240,037
<b>Total financial assets</b>	<b>20,740,464</b>	<b>240,037</b>	<b>5,118,615</b>	<b>26,099,116</b>

**50. Fair Value of Financial Instruments (Cont.)** →**50.3 Fair Value of financial instruments – Bank** →

Determination of fair value and fair value hierarchy

As at 31st December	2014		2013	
	Carrying amount Rs. '000	Fair value Rs. '000	Carrying amount Rs. '000	Fair value Rs. '000
<b>Financial Assets</b>				
Cash and cash equivalents	1,926,594	1,926,594	1,546,221	1,546,221
Balances with central banks	-	-	-	-
Placement with banks	9,645,621	9,645,621	11,298,360	11,298,360
Derivative financial instruments	2,879,931	2,879,931	5,118,615	5,118,615
Other financial assets held-for-trading	7,431,458	7,431,458	13,808,239	13,808,239
Loans and receivable to banks	6,534,102	6,534,102	7,550,509	7,550,509
Loans and receivable to other customers	216,162,152	216,941,792	158,869,826	157,234,740
Financial investments – available-for-sale	4,036,955	4,036,955	2,926,082	2,926,082
Financial investments – held-to-maturity	510,341,337	524,654,742	432,465,113	434,395,138
	<b>758,958,150</b>	<b>774,051,195</b>	<b>633,582,965</b>	<b>633,877,905</b>
<b>Financial Liabilities</b>				
Due to banks	90,150	90,150	126,989	126,989
Due to other customers	554,060,312	550,043,022	501,889,688	495,777,197
Other borrowings	191,102,124	191,102,124	120,433,536	120,433,536
	<b>745,252,586</b>	<b>741,235,297</b>	<b>622,450,212</b>	<b>616,337,722</b>

**50. Fair Value of Financial Instruments (Cont.)** →**50.3 Fair Value of financial instruments – Group** →

<i>As at 31st December</i>	2014		2013	
	Carrying amount Rs. '000	Fair value Rs. '000	Carrying amount Rs. '000	Fair value Rs. '000
<b>Financial Assets</b>				
Cash and cash equivalents	1,930,527	1,930,527	1,557,267	1,557,267
Balances with central banks	167	167	203	203
Placement with banks	9,645,621	9,645,621	11,298,360	11,298,360
Derivative financial instruments	2,879,931	2,879,931	5,118,615	5,118,615
Other financial assets held-for-trading	11,555,186	11,555,186	18,111,911	18,111,911
Loans and receivable to banks	6,534,102	6,534,102	7,849,969	7,849,969
Loans and receivable to other customers	216,164,238	216,943,878	158,871,926	157,236,840
Financial investments – available-for-sale	4,037,955	4,037,955	2,927,082	2,927,082
Financial investments – held-to-maturity	513,709,164	528,042,145	435,959,845	437,783,773
	<b>766,456,891</b>	<b>781,569,512</b>	<b>641,695,178</b>	<b>641,884,021</b>
<b>Financial Liabilities</b>				
Due to banks	694,869	694,869	4,118,522	4,118,522
Due to other customers	554,060,312	550,043,022	501,889,688	495,777,197
Other borrowings	196,008,232	196,008,232	122,790,093	122,790,093
	<b>750,763,413</b>	<b>746,746,124</b>	<b>628,798,302</b>	<b>622,685,812</b>

## **50. Fair Value of Financial Instruments (Cont.)** →

### **50.4 Determination of Fair Value and Fair Value Hierarchy** →

#### **Fair Value of Financial Assets and Liabilities not Carried at Fair Value**

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not recorded at fair value in the Financial Statements.

#### **Assets for which Fair Value Approximates Carrying Value**

For financial assets and financial liabilities that have a short-term maturity (original maturities less than a year). It is assumed that the carrying amount approximate their fair values. This assumption is also applied to savings deposits without specific maturity.

Long-term deposits accepted from customers for which periodical interest is paid and loan & advances granted to customers with a variable rate are also considered to be carried at fair value in the books.

#### **Fixed Rate Financial Instruments**

Carrying amounts are considered as fair values for short-term credit facilities. In Fair valuing held-to-maturity securities, rates published by the CBSL for similar trading securities were used. Loans and advance with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year.



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For the year ended 31st December	Bank			Group		
	2014 US \$ '000	2013 US \$ '000	Change %	2014 US \$ '000	2013 US \$ '000	Change %
<b>Gross income</b>	<b>590,683</b>	500,558	18	<b>595,861</b>	508,938	17
Interest income	<b>561,352</b>	490,441	14	<b>566,160</b>	496,691	14
Less: Interest expenses	<b>399,215</b>	413,291	(3)	<b>401,896</b>	418,407	(4)
<b>Net interest income</b>	<b>162,137</b>	77,150	110	<b>164,264</b>	78,284	110
Fee and commission income	<b>2,700</b>	1,741	55	<b>2,701</b>	1,742	55
Less: Fee and commission expenses	<b>531</b>	252	111	<b>546</b>	260	110
<b>Net fee and commission income</b>	<b>2,169</b>	1,489	46	<b>2,155</b>	1,482	45
Net gain/(loss) from trading	<b>14,445</b>	6,543	121	<b>14,941</b>	8,687	72
Net gain/(loss) from financial instruments designated at fair value through profit or loss	-	-	-	-	-	-
Net gain/(loss) from financial investments	<b>10,233</b>	-	100	<b>10,233</b>	-	100
Other operating income (net)	<b>1,953</b>	1,833	7	<b>1,825</b>	1,818	1
<b>Total operating income</b>	<b>190,937</b>	87,015	119	<b>193,418</b>	90,271	114
Less: Impairment charge for loans and other losses	<b>26,358</b>	10,534	150	<b>26,358</b>	10,534	150
<b>Net operating income</b>	<b>164,579</b>	76,481	115	<b>167,060</b>	79,737	110
<b>Less: Expenses</b>	-	-	-	-	-	-
Personnel expenses	<b>36,381</b>	32,128	13	<b>36,507</b>	32,246	13
Other expenses	<b>33,344</b>	22,190	50	<b>33,135</b>	21,982	51
<b>Operating profit before value added tax (VAT) and nation building tax (NBT)</b>	<b>94,854</b>	22,163	328	<b>97,418</b>	25,509	282
Less: Value added tax on financial services	<b>13,232</b>	4,767	178	<b>13,530</b>	5,133	164
Nation building tax on financial services	<b>2,205</b>	-	100	<b>2,261</b>	-	100
<b>Operating profit after value added tax (VAT) and nation building tax (NBT)</b>	<b>79,417</b>	17,396	357	<b>81,627</b>	20,376	301
<b>Profit before Income tax</b>	<b>79,417</b>	17,396	357	<b>81,627</b>	20,376	301
Less: Income tax expenses	<b>27,343</b>	8,358	227	<b>28,137</b>	8,713	223
<b>Profit for the year</b>	<b>52,074</b>	9,038	476	<b>53,490</b>	11,663	359
<b>Profit attributable to:</b>						
Equity holders of the Bank	<b>52,074</b>	9,038	476	<b>53,490</b>	11,663	359
<b>Profit for the year</b>	<b>52,074</b>	9,038	476	<b>53,490</b>	11,663	359
<b>Earnings per share on profit</b>						
Basic earnings per ordinary share (Rs.)	<b>0.16</b>	0.03	433	<b>0.16</b>	0.03	433
Diluted earnings per ordinary share (Rs.)	<b>0.16</b>	0.03	433	<b>0.16</b>	0.03	433

	Bank			Group		
	2014 US \$ '000	2013 US \$ '000	Change %	2014 US \$ '000	2013 US \$ '000	Change %
<i>For the year ended 31st December</i>						
<b>Profit for the year</b>	<b>52,074</b>	<b>9,038</b>	<b>476</b>	<b>53,490</b>	<b>11,663</b>	<b>359</b>
<b>Other comprehensive income, net of tax</b>						
<b>Other comprehensive income to be reclassified to Income Statement</b>						
Net gains/(losses) on cash flow hedges	302	(346)	187	302	(346)	187
Net gains/(losses) on remeasuring available-for-sale financial assets	9,453	(1,165)	911	9,453	(1,165)	911
Fair value gains transferred to the Income Statement on disposal of available-for-sale financial assets	(231)	-	(100)	(231)	-	(100)
<b>Total other comprehensive income to be reclassified to Income Statement</b>	<b>9,524</b>	<b>(1,511)</b>	<b>730</b>	<b>9,524</b>	<b>(1,511)</b>	<b>730</b>
<b>Other comprehensive income not to be reclassified to Income Statement</b>						
Net gains/(losses) on revaluation of property, plant & equipment	-	3,680	(100)	-	3,680	(100)
Actuarial gains/(losses) on retirement benefit plans	(22,753)	-	(100)	(22,753)	(3)	(758,333)
<b>Total other comprehensive income not to be reclassified to Income Statement</b>	<b>(22,753)</b>	<b>3,680</b>	<b>(718)</b>	<b>(22,753)</b>	<b>3,677</b>	<b>(719)</b>
<b>Other comprehensive income for the year, net of taxes</b>	<b>(13,229)</b>	<b>2,169</b>	<b>(710)</b>	<b>(13,229)</b>	<b>2,166</b>	<b>(711)</b>
<b>Total comprehensive income for the year</b>	<b>38,845</b>	<b>11,207</b>	<b>247</b>	<b>40,261</b>	<b>13,829</b>	<b>191</b>
<b>Attributable to:</b>						
Equity holders of the Bank	38,845	11,207	247	40,261	13,829	191
<b>Total comprehensive income for the year</b>	<b>38,845</b>	<b>11,207</b>	<b>247</b>	<b>40,261</b>	<b>13,829</b>	<b>191</b>
US Dollar conversion rate (Rs.)	131.8650	131.0000		131.8650	131.0000	

As at 31st December	Bank			Group		
	2014 US \$ '000	2013 US \$ '000	Change %	2014 US \$ '000	2013 US \$ '000	Change %
<b>Assets</b>						
Cash and cash equivalents	14,610	11,803	24	14,640	11,888	23
Balances with Central Banks	-	-	-	1	2	(50)
Placements with banks	73,148	86,247	(15)	73,148	86,247	(15)
Derivative financial instruments	21,840	39,073	(44)	21,840	39,073	(44)
Other financial assets held-for-trading	56,357	105,406	(47)	87,629	138,259	(37)
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Loans and receivables to banks	49,551	57,637	(14)	49,551	59,923	(17)
Loans and receivables to other customers	1,639,269	1,212,747	35	1,639,284	1,212,763	35
Financial investments – Available-for-sale	30,614	22,337	37	30,622	22,344	37
Financial investments – Held-to-maturity	3,870,180	3,301,260	17	3,895,720	3,327,938	17
Investments in subsidiaries	1,138	1,145	(1)	-	-	-
Property, plant & equipment	41,935	42,828	(2)	41,942	42,833	(2)
Intangible assets	490	624	(21)	490	625	(22)
Deferred tax assets	-	-	-	5	4	25
Other assets	111,961	114,067	(2)	112,173	114,176	(2)
<b>Total assets</b>	<b>5,911,094</b>	<b>4,995,175</b>	<b>18</b>	<b>5,967,048</b>	<b>5,056,074</b>	<b>18</b>
<b>Liabilities</b>						
Due to banks	684	969	(29)	5,270	31,439	(83)
Due to other customers	4,201,724	3,831,219	10	4,201,724	3,831,219	10
Other borrowings	1,449,226	919,340	58	1,486,431	937,329	59
Current tax liabilities	-	-	-	657	253	160
Deferred tax liabilities	2,046	1,095	87	2,046	1,095	87
Other liabilities	81,020	72,953	11	81,142	73,084	11
<b>Total liabilities</b>	<b>5,734,700</b>	<b>4,825,576</b>	<b>19</b>	<b>5,777,270</b>	<b>4,874,419</b>	<b>19</b>
<b>Equity</b>						
Stated capital	24,267	24,427	(1)	24,267	24,427	(1)
Statutory reserve fund	14,213	13,258	7	14,213	13,258	7
Other reserves	137,914	131,914	5	151,298	143,970	5
Total equity of the owners of the Parent	176,394	169,599	4	189,778	181,655	4
<b>Total equity</b>	<b>176,394</b>	<b>169,599</b>	<b>4</b>	<b>189,778</b>	<b>181,655</b>	<b>4</b>
<b>Total equity and liabilities</b>	<b>5,911,094</b>	<b>4,995,175</b>	<b>18</b>	<b>5,967,048</b>	<b>5,056,074</b>	<b>18</b>
<b>Contingent liabilities and commitments</b>	<b>450,799</b>	<b>531,222</b>	<b>(15)</b>	<b>450,799</b>	<b>531,222</b>	<b>(15)</b>
US Dollar conversion rate (Rs.)	131.8650	131.0000		131.8650	131.0000	

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	Rs. Million									
<b>Operating Results</b>										
Gross Income	21,213	24,439	30,830	41,247	49,803	50,070	46,545	52,903	65,573	77,890
Interest Income	20,196	23,956	30,370	40,834	49,046	48,142	47,096	52,531	64,248	74,023
Interest Expenses	13,480	16,536	22,188	31,190	36,067	31,487	29,296	39,142	54,141	52,642
Net Interest Income	6,716	7,420	8,182	9,643	12,979	16,655	17,800	13,389	10,107	21,380
Other Income	1,017	483	460	413	757	1,929	(578)	347	1,292	3,798
Operating Expenses, provisions & VAT	4,276	4,402	5,340	6,956	6,792	8,807	7,967	7,396	9,120	14,706
Profit before Tax	3,457	3,501	3,302	3,100	6,943	9,777	9,255	6,340	2,279	10,472
Income Tax	1,351	1,616	1,729	2,041	3,229	4,386	3,193	2,578	1,095	3,606
Profit after Tax	2,106	1,885	1,573	1,059	3,714	5,391	6,062	3,763	1,184	6,867
Contribution to the Government	3,100	3,573	3,974	4,287	7,277	10,107	7,970	6,327	4,731	11,043
<b>Assets</b>										
Cash & Short-Term Funds	861	480	533	1,146	855	1,355	1,398	1,466	1,546	1,927
Loans & Investments	212,116	224,642	256,705	277,157	335,520	395,334	455,914	492,009	632,187	757,182
Property, Plant & Equipment/ Leasehold Property/ Intangible Assets	1,564	1,934	2,513	3,006	3,584	4,971	5,247	5,264	5,692	5,594
Other Assets	7,574	8,522	10,453	13,010	14,463	2,733	3,415	10,075	14,943	14,764
<b>Total</b>	<b>222,115</b>	<b>235,578</b>	<b>270,204</b>	<b>294,319</b>	<b>354,422</b>	<b>404,393</b>	<b>465,974</b>	<b>508,813</b>	<b>654,368</b>	<b>779,466</b>
<b>Liabilities and Shareholders' Funds</b>										
Total Deposits	202,424	212,233	235,304	259,562	313,007	364,430	421,849	457,650	501,890	554,060
Repo/Borrowings	22	2,075	10,789	6,205	8,730	11,436	16,270	22,958	120,561	191,192
Differed Taxation	32	16	29	56	84	27	96	123	143	270
Other Liabilities	7,116	8,274	10,819	13,497	14,841	5,997	4,707	4,314	9,557	10,684
Shareholders' Funds	12,521	12,979	13,263	15,000	17,760	22,503	23,052	23,767	22,217	23,260
<b>Total</b>	<b>222,115</b>	<b>235,578</b>	<b>270,204</b>	<b>294,319</b>	<b>354,422</b>	<b>404,393</b>	<b>465,974</b>	<b>508,813</b>	<b>654,368</b>	<b>779,466</b>

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	Rs. Million									
<b>Ratios</b>										
Income Growth	9.6	15.2	26.2	33.8	20.7	0.5	7.0	13.7	23.9	18.8
Interest Margin	3.2	3.2	3.2	3.4	4.0	4.4	4.1	2.7	1.7	3.0
NIM/Gross Income	31.7	30.4	26.5	23.4	26.1	33.3	38.2	25.3	15.4	27.4
Personnel Cost/Gross Income	10.5	11.2	8.8	7.5	6.9	7.4	8.9	7.7	6.4	6.2
Overheads (Excluding Prov.)/ Gross Income	14.4	15.1	12.6	11.2	10.7	12.0	13.5	12.0	10.9	11.8
Profit Before Tax/ Gross Income	16.3	14.3	10.7	7.5	13.9	19.5	19.9	12.0	3.5	13.4
Contribution to the GOSL/ Gross Income	14.6	14.6	12.9	10.4	14.6	20.2	17.1	12.0	7.2	14.1
Cost to Deposits	2.0	2.3	2.2	2.4	2.7	2.7	2.0	1.7	1.6	2.1
Cost to Income with VAT	50.4	59.4	56.5	58.5	55.5	48.9	45.4	52.8	67.7	44.5
Cost to Income without VAT	39.4	46.7	44.9	46.1	38.8	32.4	36.4	46.1	62.2	36.4
Return on Average Shareholders' Funds (ROE)	17.6	14.8	12.0	7.5	22.7	27.3	26.6	16.1	5.1	30.2
Return on Average Assets (ROA)	1.6	1.5	1.3	1.1	2.1	2.6	2.1	1.3	0.4	1.5
Capital Adequacy - Tier I (Minimum 5%)	45.0	40.7	33.3	23.2	25.1	22.2	20.1	20.4	18.5	20.5
Capital Adequacy - Tier II (Minimum 10%)	21.8	11.8	12.2	17.7	21.5	19.2	17.7	19.1	16.7	19.0
Deposits as % of Assets	91.1	90.1	87.1	88.2	88.3	88.0	90.5	89.9	76.7	71.1
Profit per Employee (Rs. '000)	1,196	1,207	1,152	1,077	2,382	3,205	2,826	2,027	774	3,119
Deposit per Employee (Rs. '000)	70,043	73,184	82,073	90,157	107,378	116,513	128,809	146,308	170,537	164,997
<b>Other Information</b>										
No of Employees	2,890	2,900	2,867	2,879	2,915	3,050	3,275	3,128	2,943	3,407
No of Branches	128	130	130	137	157	186	210	219	229	236
Post Offices/Sub-Post Offices	4,043	4,048	4,042	4,045	4,055	4,053	4,058	4,053	4,063	4,063
Account Holders (Million)	14.6	15.1	15.5	15.6	16.3	16.7	17.0	17.4	17.9	18.3

	2008	2009	2010	2011	2012	2013	2014
	Rs. Million						
<b>Local Currency Deposits</b>							
Savings	71,667	79,280	94,118	105,108	106,177	113,165	<b>139,384</b>
Time	185,755	230,147	266,007	311,569	345,794	379,969	<b>408,309</b>
	257,422	309,427	360,125	416,677	451,971	493,134	<b>547,692</b>
Growth %	10.0	20.2	13.5	15.7	8.5	9.1	<b>11.1</b>
<b>Foreign Currency Deposits</b>							
Savings	826	1,255	1,517	1,750	1,963	2,101	<b>2,215</b>
Time	1,314	2,325	2,788	3,422	3,717	6,654	<b>4,153</b>
	2,140	3,580	4,305	5,172	5,679	8,755	<b>6,368</b>
Growth %	59.3	67.3	20.3	20.1	9.8	54.2	<b>-27.3</b>
<b>Total Deposits</b>	<b>259,562</b>	<b>313,007</b>	<b>364,430</b>	<b>421,849</b>	<b>457,650</b>	<b>501,890</b>	<b>554,060</b>
Growth %	10.3	20.6	13.5	15.8	8.5	9.7	<b>10.4</b>



**Savings Accounts** →**Ordinary Savings Account** →

Ordinary Savings Accounts can be opened on behalf of individuals/special funds/social organisations/bank guarantees/legal compensations and or as joint accounts with a minimum deposit of Rs.100/-. Any citizen over seven years of age can open a Savings Account for themselves. All Savings Account holders are entitled to a gratuity scheme upto Rs. One Million, an ATM Shopping Card or Platinum Card with Master/ Visa Card facility, standing order facility and loans against savings balance. Further, account holders can enjoy doorstep banking experience with SMS Banking and Internet Banking facility.

**Salary Earners' Savings Account (SESA)** →

Salary Earners' Savings Account (SESA) facilitates salary earners to receive the salary on the same day. SESA account holders are entitled to competitive rates on pawning advances and purchasing of cheques and they can also pay monthly bills and make withdrawals via these accounts. Further, with the assistance of SMS Banking and Internet Banking facilities, they can process numerous banking activities while they are at work and return save time. The SESA account holders are allowed to transfer funds and issue standing orders for NSB A/Cs free of charge.

**Hapan Children's Savings Account** →

Hapan Children's Savings Account is for children upto 16 years of age. The children aged 7 -16 can function the account by themselves, while children below 7 can open and operate the account, in care of their parents/guardians. Hapan Children's Savings Account holders are offered a 1% additional interest than the ordinary savings to encourage the good old habit of saving. The account holders who maintain a minimum balance of Rs. 2,500/- are also eligible for "Hapan Scholarship Awards". The Bank expects to conduct over 150 free scholarship seminars annually for grade five students in both Sinhala and Tamil mediums. Thus far, we have conducted over 1,200 free scholarships seminars during the past 14 years.

**Ithuru Mithuru Savings Account** →

To encourage the savings habit among the youth, we offer a cluster of benefits to young people between 16 - 30 years of age and they can maintain the account until the age of 35. Ithuru Mithuru Savings Account holders are entitled to an additional interest of 0.5% than the ordinary savings. They are also entitled to NSB Shopping Card with Master/ Visa Card facility. Students can apply for the ISIC International Student Master Card that brings discounts and other benefits, both locally and in 120 countries. An Ithuru Mithuru Savings Account holder can request for a *Buddhi* Higher Education Loan, Personal Loans, Auto Loans, Computer Loans and Housing Loans.

**Sthree Savings Account** →

Little drops of water make the mighty ocean, likewise your dream to strengthen the economy of your family by saving 'Sathen Sathe, Rupiyalen Rupiylala', will come true with Sthree Savings Account. Sthree Savings Account is exclusively designed for ladies over 16 years of age. Account holders are entitled to NSB Shopping Card with Master/ Visa Card facility. You can obtain loans against the balance in your Sthree Savings Account. Attractive interest rates are applicable to Personal Loans. You will also receive special interest concessions on *Ran Sahana* Pawning Facility, where you will be entitled to 0.5% less interest upto a pawning advance of Rs. 100,000/-. In addition, Sthree Account holders are entitled to a gift on their wedding day by way of a cash prize of Rs.25,000/- and they are eligible to receive a free *Prarthana* Children's Savings Certificate with a face value of Rs.100,000/- for one baby. You can open Sthree *Thepal* Savings Accounts and operate them through Post Offices and Sub-Post Offices islandwide.

**NSB Divi Surakum** →

The twilight years of life after 55 could be a challenge for anyone, whose income is not secured; NSB *Divi Surakum* is an ideal option that offers you a monthly pension installment (annuity) for life from the first month since reaching 55. If you are above 35, you can choose either the monthly deposit or the lump sum deposit option to draw your pension. If you are aged 55 to 64 years you

can make a lump sum deposit and be entitled for a pension. Married account holders can nominate their spouse and children below 18 years of age. An insurance cover is also available for the beneficiaries aged 55 to 75 years of age.

**NSB Pension+ Account** →

If you want to have a pension together with the money saved, you should open a NSB Pension+ Account. It is a contributory retirement benefit scheme with a higher rate of return along with a free life cover and a medical cover, upto Rs. One Million each. Any person over 16 can open a NSB Pension+ Account. The deposit amount and the period of contribution are at the choice of the customer. Retirement benefits can be drawn from the age of 55 as a pension for lifetime or for a predetermined period of time or as a lump sum or in any form of combination of these. (Conditions will apply.)

**Smile Savings Account** →

Being the banker of the underprivileged, NSB has introduced Smile Savings Account as an attractive account with many benefits to customers. Citizens above the age of 16 may open and operate the account individually or jointly, while the children aged 7 -16 can function the account by themselves and children below 7 can open and operate the account in care of their parents/guardians. You can make deposits and withdrawals at any NSB Branch or Post Office or Sub-Post Office.

**NSB Extra XL Savings Account** →

You will receive dual benefits by owning a NSB 'Extra XL' Bonus Savings Account. On one hand, the account promises an array of benefits and a high rate of interest similar to that of Fixed Deposits depending on the account balance, and on the other hand, it acts as a normal Savings Account, giving the account holder the flexibility to withdraw funds at any time. Any citizen over 16 years can open a NSB Extra XL Bonus Savings Account, the minimum balance you need to maintain to receive a bonus is Rs. 5,000/- and you are entitled to a 100% bonus with a deposit of Rs. 500,000/-. Account holders would be treated as VIP customers of the Bank and will receive an Easy Card as well.

**NSB Happy Savings Account** →

If you want a good interest while enjoying the freedom of withdrawing funds anytime, the best option for you is NSB Happy Savings Account with the highest interest rates for savings depending on the account balance. You can open this account with a minimum deposit of Rs. 1,000/- and in order to earn a higher interest, the balance of the account should be enhanced. There are no restrictions for withdrawals. You are eligible for the gratuity payment as well.

**Gift Token** →

This is the easiest and the best way to give gifts for your loved ones. Gift Tokens are available in various

denominations and are easy to purchase and encash whenever you need them. They accrue interest from the date of purchase and you can deposit Gift Tokens in any savings account. NSB Gift Tokens are available in a range of values from Rs. 100/- to Rs. 2,500/- at any NSB Branch.

**Friends Savings Account** →

Friends is a savings scheme that ensures the depositors with a monthly income for life. If you are above 18, a Friends Account will ensure you a monthly income for life, after a series of equal monthly payments or a lump sum. All you have to do is to open an account with a minimum deposit of Rs. 100/- or multiples thereof and deposit an equivalent amount monthly, for a specified period (approximately 98 installments) at the end of which you can commence drawing a monthly income equivalent to your monthly deposit, for the rest of your life. You are also eligible for an insurance cover to complete monthly payments in case of death/complete disablement.

**Pas Aurudu Savings Account** →

Any person aged above 16 years can open and operate a Pas Aurudu Savings Account and a higher rate of interest will be offered for higher amount of deposits. The account should be opened and maintained with a monthly deposit of Rs. 100/-, Rs. 200/-, Rs. 300/-, Rs. 400/-, Rs. 500/-, Rs. 1000/- or denominations, for 60 months. This amount could be deposited on any

convenient day within the particular month. Account holders are entitled to receive a gratuity payment up to Rs. One Million.

**Long-Term Deposit Schemes** →**NSB Fixed Deposit** →

A Fixed Deposit at NSB symbolises financial stability. If you are over 16 years of age, you can open a Fixed Deposits Account at NSB while minors below 16 years of age can open a Fixed Deposits Account in care of their parents/guardians. Fixed Deposits can be opened as joint accounts/special funds and also on behalf of social organisations.

While the minimum opening amount of the annual interest earning Fixed Deposit is Rs. 1,000/-, the minimum opening balance for the monthly interest earning Fixed Deposit is Rs. 25,000/-. You can open Fixed Deposit Accounts for 3, 6, 12 and 24 months, yielding an annual, a biannual or monthly interest. You can obtain loans against deposits or NSB Easy Card (Visa/Master enabled), which allows you a revolving credit facility of 80% against your fixed deposits.

**Triple A Fixed Deposit** →

This offers 3-year or 5-year long-term deposits with a high interest for farsighted depositors. The interest plus capital are payable at maturity and the instant credit facility is available.

**Gaurawa Fixed Deposit** →

Senior citizens over 55 years of age can open *Gaurawa* Fixed Deposit Accounts that pay a monthly interest, which will always be 0.5% more than that of normal monthly Fixed Deposits. The minimum deposit amount required is Rs. 25,000/- and the maximum limit in an account is Rs. 5 Million. Special benefits to you as *Gaurawa* Account holders include, 'service through special counters' where you will receive the assistance of Bank Officers when filling up forms etc. In the case of disabled customers, arrangements will be made to provide them with banking services at their residence. This service will be provided twice a month for the needy customers who reside within a radius of 15 km from the Branch.

**Savings Certificate** →**Prarthana Children's Savings Certificate** →

*Prarthana* Children's Savings Certificate is an ideal gift for a child; a long-term deposit scheme for kids with attractive interest rates which will be paid upfront; paid on the date of purchase and the Certificate will mature when the account holder reaches 16 years of age. The Certificates are available in the maturity values of Rs. 5,000/-, Rs. 10,000/-, Rs. 25,000/-, Rs. 50,000/- and Rs. 100,000/-. When you purchase a *Prarthana* Children's Savings Certificate, NSB gives you an assurance that the face value of the Certificate will not be affected by any adverse fluctuations of interest rates.

**National Savings Certificate** →

These certificates pay a high interest upfront and are available in various denominations for periods from 3 months to 4 years. Anyone over 7 years can purchase NSB National Savings Certificates in the value of Rs. 500/-, Rs. 1,000/-, Rs. 5,000/-, Rs. 10,000/- and Rs. 25,000/-.

**Credit Services** →**“Ge Dora” Housing Loans** →

A loan scheme that provides facilities to construct, renovate, purchase or repair houses, purchase bare land or redeem an existing housing loan obtained from a reputed financial organisation. Permanently employed salary earners or income tax payers, both resident and non-resident are eligible to benefit from this scheme. NSB charges the lowest rate of interest you can expect for housing loans-

- i. **Express Service**  
Making your busy life easier, our unique Express Service releases Housing Loans in just 4 or 10 working days.
- ii. **Alankara**  
Alankara Housing Loans are to improve the appearance of your house. Loans are available for landscaping, interior decor, pantry cupboards and other improvements.
- iii. **Documentation Service**  
As a value added service, we will undertake arranging your Housing Loan Documents on behalf of you at a nominal fee.

**Ithurum Nivasa Housing Loans** →

Even if you are not a permanent employee, you can still apply for a Housing Loan at NSB. *Ithurum Nivasa* Housing Loan is for the self-employed and for seasonal income earners aged between 18 and 55 years. All you have to do is to start saving by opening an *Ithurum Nivasa* Housing Loan Savings Account and deposit a monthly sum between Rs. 1,000/- to Rs.12,000/- in multiples of Rs. 1,000/- for a continuous period of 12 months. You can obtain a loan ranging from Rs. 90,000/- to a maximum of Rs. 1 Million subject to your repayment capacity.

**NSB Auto Loans** →

Auto Loans are granted up to 75% of the purchasing price of unregistered vehicles and up to 60% of the purchasing price of registered vehicles for personal use of salaried employees in public and reputed private sector organisations or taxpayers. You can purchase unregistered/registered non-commercial motor vehicles except motor bicycles and three-wheelers. The vehicles purchased with the assistance of NSB Auto Loan should be manufactured within the last 6 years and registered within the past 24 months from the date of application with only one registration prior to the loan application. You can also request for a facility to redeem an existing loan. Loans will be released within two or three days with no hidden charges. Early settlement is allowed with no penalty.

**Personal Loans**

If you are a permanent employee in the Government or private sector you can obtain a personal loan for foreign tours, education purposes, purchase of household equipment, medical treatments, etc. against personal guarantors. Pensioners aged up to 70 years can also apply for a personal loan up to three times of their pension that could be repaid within 18 months against personal guarantors.

**‘Diriya’ Personal Loan for Small and Medium Scale Entrepreneurs** →

This loan is specifically designed to cater to the needs of irregular income earners or those who are not in a position to prove their income by way of pay slips. Sri Lankan citizens between 18-60 years will be eligible for the above loan. At least one business/production/service cycle should have been completed by the applicant prior to applying for the loan. Loans are granted up to Rs. 500,000/- with two guarantors and up to Rs. 2.5 Million against property mortgage which is payable by 5 years with a maximum grace period of 9 months.

**NSB Buddhi Personal Loan Scheme for Educational Purposes** →

‘NSB Buddhi’ personal loan scheme is designed to provide financial assistance to people who seek local or international higher education in either academic or professional spheres. Students who have enrolled for higher education programmes

at a local or foreign university/college/academy or any other higher educational or professional institute will be eligible to apply for ‘NSB Buddhi’ loan scheme. The applicants aged between 18-50 years can apply for 75% of the full course fee up to a maximum of Rs. 10 Million for higher education at foreign universities and Rs. 5 Million for higher education at local universities. The loan is repayable in 10 years for foreign education and in 5 years for local education. Further, there is a grace period of 3 months in excess of the course period if necessary.

**Ran Sahana Pawning Service** →

You can obtain instant loans for short-term credit needs at comparatively low rates of interest, against the security of jewellery and fully automated machinery is used to check your valued gold articles. Part payment on pawned articles is also possible. Extended Private Pawning Service is available after 3.30 p.m. on working days with prior arrangement.

**Project Loans** →

Loans are granted for infrastructure and other development projects for the purposes of direct lending to financial institutions, loan syndication and project lending. The facility could be requested by the private sector as well. Prospective clients can meet our Senior Management to discuss the facilities expected.

**E-Card Facilities** →**NSB Easy Card** →

NSB Easy is a Master Card Credit Facility which is issued against your fixed deposit at a low annual interest rate of 2.5 % above the FD rate. The individuals or joint account holders of over 18 years, who maintain a fixed deposit for a period of 12 months or more (monthly or annual interest rates) under automatically renewed basis, are eligible to obtain this facility which exempts Joining Fee, Annual Fee, Overdue and Late Payment Fees. This card offers you Master Debit Card facilities as well.

**Shopping Card/  
Platinum Card** →

Money to be encashed at your convenience: NSB enables you to make use of the ATM facility 24 hours a day and 7 days a week with Master/Visa Card facility. You can withdraw up to Rs. 40,000/- from a Shopping Card and Rs. 80,000/- from a Platinum Card or purchase goods from any merchant with Master/Visa Card International Network up to Rs. 100,000/- from a Shopping Card and Rs. 150,000/- from a Platinum Card within 24 hours.

Your single NSB ATM card allows you to transact with 10 different accounts through its islandwide network of ATMs globally connected with over 10,000 ATMs. Further, facilities such as fund transfers, issue of statements and change of PIN etc., will also be provided by the ATM. All ATMs are equipped with security cameras.

**ISIC Card** →

The ISIC (International Student Identity Card) is a Master Debit Card issued by National Savings Bank in collaboration with ISIC Organisation for NSB *Ithuru Mithuru* Savings Account holders. The ISIC is the only internationally recognised student ID and thus ISIC holders become members of a truly global club. Every year, more than 4.5 Million students from 120 countries use their student card to take advantage of offers on travel and shopping, worldwide. *Ithuru Mithuru* account holders can apply for student loans up to Rs. 10 Million. The ISIC will enable students to enjoy the best value added services, benefits and discounts all around the world.

**Foreign Currency  
Products** →**NSB Ranmasu Non-Resident Foreign Currency Account (NRFC)** →

Sri Lankan nationals employed abroad and those who hold foreign passports are eligible to open NRFC Accounts with NSB in the form of Savings or Fixed Deposits for periods of 1, 3, 6 or 12 months in US Dollars (USD), Euros (EUR), Sterling Pounds (GBP) and Australian Dollars (AUD).

Prospective migrants could visit any NSB Branch or the International Division at Head Office and obtain an account number prior to the departure, to channel funds to the correct account. Interest is paid in the currency in which the account

is maintained and is exempted from tax. NRFC Accounts could also be opened for non-resident minors whose parents are employed abroad.

**NSB Ranmasu Resident Foreign Currency Account (RFC)** →

Sri Lankan nationals, resident in Sri Lanka, who are in possession of foreign currency or who receive remittances in foreign currency are eligible to open RFC Accounts in the form of Savings and Fixed Deposits for periods of 1, 3, 6 and 12 months, in US Dollars (USD), Euros (EUR), Sterling Pounds (GBP) and Australian Dollars (AUD). Interest is paid in the currency in which the account is maintained and is exempted from tax. RFC Accounts could also be opened for resident minors whose parents are employed abroad.

**Special Foreign Investment Deposit Account (SFIDA)** →

A Special Foreign Investment Deposit Account could be opened as a Savings and Fixed Deposit Account in the currencies of USD, EUR, GBP and AUD or Sri Lankan Rupees by citizens of foreign states, Sri Lankan citizens resident abroad, corporate bodies incorporated outside Sri Lanka and Foreign Institutional Investors such as Country funds, Mutual funds and Regional funds. These accounts too are tax-exempted.

**Eurogiro** →

NSB joined the Eurogiro Network in early 2008 and prides itself of being the sole Eurogiro Member in Sri Lanka. Eurogiro is a low cost electronic money transfer system pioneered by Western Postal Organisations and Banks. Our membership at Eurogiro facilitates transferring funds through Deutsche Postbank (Germany), Korea Post (Korea), Israel Post (Israel), Poste Italiane (Italy), Thai Post Bank (Thailand) and La Banque Postale (France).

**Foreign Inward Remittances** →

Sri Lankan nationals living/employed abroad can remit funds to their own family members' and relatives' LKR/NRFC/RFC Accounts at NSB or to any other account at any other bank in Sri Lanka via Exchange Houses and Banks with whom NSB has already established relations regarding fund transfers.

**Web-based Remittances** →

We are also agents in Sri Lanka for global money transfer channels such as 'MoneyGram' 'INSTANT CASH', 'XPRESS MONEY', 'UNISTream', 'EzRemit', and 'Transfast'. Sri Lankan expatriates all over the world can remit funds easily, safely and at a low cost through these money transferring companies.

**Money Exchange Services** → **Utility Bill Payments** →

We have been permitted by the Central Bank of Sri Lanka to provide money exchange services to our customers. Accordingly, we have commenced this business initially at 10 selected branches. Therefore, customers who possess Foreign Currency Notes can exchange them to Sri Lankan Rupees and also customers who travel abroad can purchase foreign currency notes at selected NSB Branches at competitive exchange rates.

**Other Services** →**Speed Cash** →

NSB Speed Cash is a secured and fast over-the-counter fund transfer service which facilitates transfer of funds between any two parties. Whether you are an account holder or not, NSB Speed Cash service is available for you. The minimum amount of cash, a person could transfer through 'NSB SpeedCash' is Rs. 1,000/-, and the maximum amount is Rs. 2 Million. Only one transaction is permitted per person per day.

**Gratuity Payment Scheme** →

NSB also offers a Gratuity Payment Scheme up to Rs. One Million where payments are made at the death of account holders to their nominee/s or heir/s. On the basis of the balance in their accounts, any active account holder, aged between 18 to 70 years with a minimum balance of Rs. 15,000/-, will be entitled to this facility.

Utility Bill Payment Services are available at NSB and you can pay utility bills at any of our branches. Bills will be updated online as soon as you pay your bill. You can pay the following bills at NSB:

- Electricity Bills of Lanka Electricity Company (LECO) and Ceylon Electricity Board (CEB);
- Telephone Bills of Sri Lanka Telecom (SLT), Dialog CDMA, Dialog TV, Lanka Bell, Mobitel, Dialog and Airtel (postpaid only);
- Water Bills;
- Insurance premiums of Union Assurance, Aviva NDB Insurance, Ceylinco Insurance and Allianz Insurance, HNB Assurance;
- Credit Card bills of HSBC;
- Fees of Institute of Bankers of Sri Lanka (IBSL) and Association of Accounting Technicians of Sri Lanka (AATSL).

**Internet Banking** →

NSB Internet Banking is the latest addition to the E-banking facilities provided by us. You can enjoy a wide range of banking facilities including balance inquiries (Savings, Fixed Deposits, NRFC/RFC, Postal accounts, Housing Loans, Easy Card, Loans against Savings), fund transfers to NSB and other bank accounts, Speed Cash and Utility Bill Payments with a 24/7 service from anywhere in the world at any time via the Internet.

**SMS Banking** →

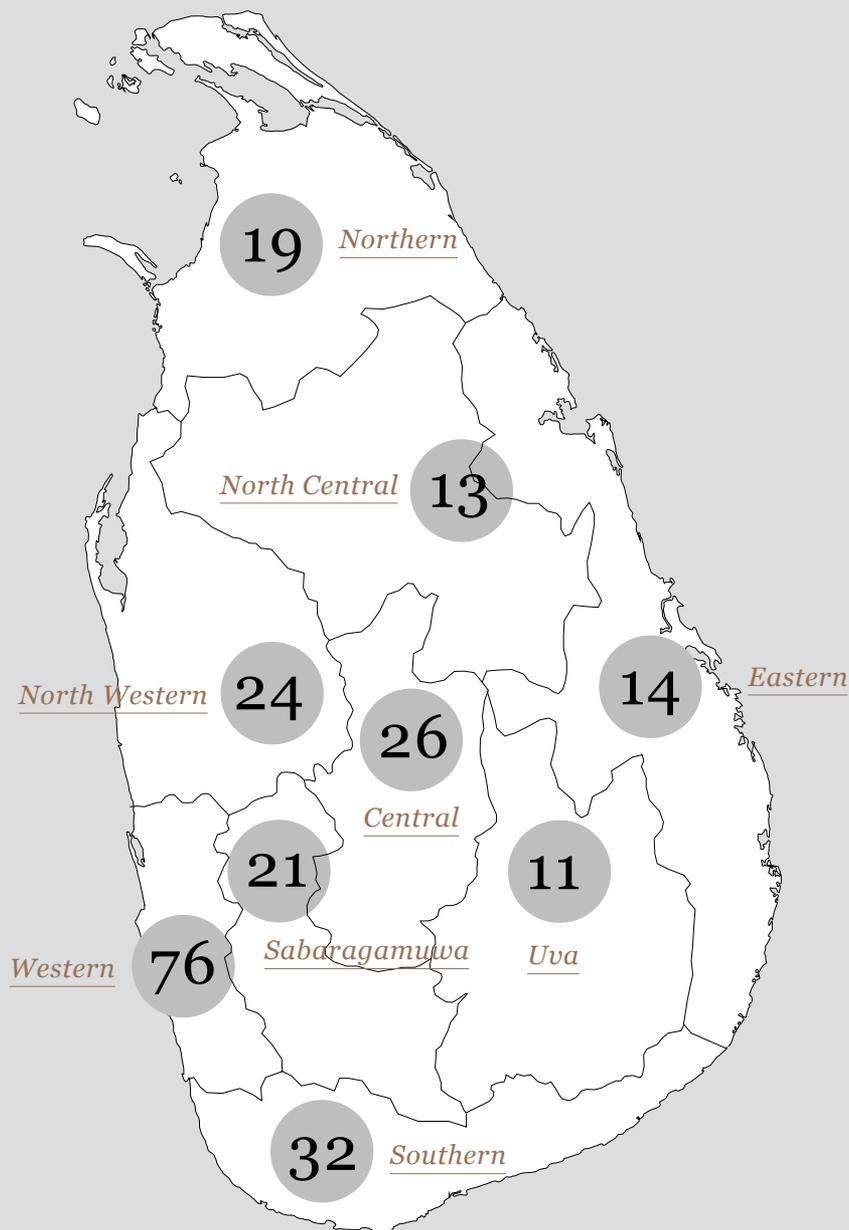
You can view your savings account balance at any time from your mobile phone. Since SMS Banking is available for Savings Accounts Holders, you can enjoy a number of banking facilities such as balance inquiries, fund transfers to NSB and other bank accounts, Speed Cash and Utility Bill Payments via the same.

**Mobile Banking** →

Point of Sale Banking or Door Step Banking is available for you with the latest mobile banking technology. Our sales team visits houses, shops, schools and weekly fairs making your life much more easier; hence you can deposit money with NSB while being at home, school or workplace.

**NSB Call Centre** →

NSB Call Centre is established for facilitating inquiries related to banking activities. You can obtain information and make inquiries related to NSB Products and Services by contacting the Call Centre via telephone, e-mail, Skype or Web chat. Our well-trained Call Centre agents do not only provide information but also deliver a superior customer service for your convenience.

Central Province →

1. Dambulla
2. Digana
3. Galewela
4. Gampola
5. Hatton
6. Kandy
7. Kandy City Centre
8. Kandy 3
9. Kandy 2
10. Katugastota
11. Matale
12. Alawathugoda
13. Mulgampola
14. Nawalapitiya
15. Nuwara-Eliya
16. Pilimatalawa
17. Pundaluoya
18. Pussellawa
19. Rikillagaskada
20. Talawakelle
21. Wattegama
22. Naula
23. Ginigathhena
24. Delthota
25. Geliya
26. Ragala

Eastern Province →

27. Akkaraipattu
28. Ampara
29. Ampara 2
30. Arayampathy
31. Batticaloa
32. Chenkaladi
33. Kalawanchikudi
34. Kalmunai
35. Kantale
36. Palugama
37. Pothuvil
38. Sammanthurai
39. Trincomalee
40. Valaichchenai

**Northern Province** →

41. Atchuwely
42. Chankanai
43. Chavakachcheri
44. Chunnakam
45. Jaffna
46. Jaffna 2
47. Karainagar
48. Kayts
49. Kilinochchi
50. Manipay
51. Mannar
52. Nelliady
53. Point Pedro
54. Thirunalveli
55. Vavuniya
56. Vankalai
57. Mallavi
58. Kodikamam
59. Mullaitivu

**North Western Province** →

60. Alawwa
61. Anamaduwa
62. Chilaw
63. Hettipola
64. Ibbagamuwa
65. Galgamuwa
66. Kuliypitiya
67. Kurunegala
68. Kurunegala 2
69. Madampe
70. Marawila
71. Mawathagama
72. Narammala
73. Nattandiya
74. Nikaweratiya
75. Polgahawela
76. Puttalam
77. Wariyapola
78. Wennappuwa
79. Melsiripura
80. Bingiriya
81. Giriulla
82. Rideegama
83. Dankotuwa

**North Central Province** →

84. Anuradhapura
85. Anuradhapura 2
86. Galnewa
87. Hingurakgoda
88. Kaduruwela
89. Kahatagasdigiya
90. Kebithigollewa
91. Kekirawa
92. Medawachchiya
93. Nochchiyagama
94. Tambuttegama
95. Medirigiriya
96. Eppawala

**Sabaragamuwa Province** →

97. Aranayake
98. Balangoda
99. Bulathkohupitiya
100. Deraniyagala
101. Eheliyagoda
102. Embilipitiya
103. Kahawatta
104. Kalawana
105. Kegalle
106. Kegalle 2
107. Kuruwita
108. Mawanella
109. Pelmadulla
110. Rambukkana
111. Ratnapura
112. Ruwanwella
113. Warakapola
114. Yatiyantota
115. Nivithigala
116. Kiriella
117. Godakawela

**Southern Province** →

118. Akuressa
119. Ambalangoda
120. Ambalantota
121. Angunakolapelessa
122. Baddegama
123. Beliattte
124. Deniyaya
125. Devinuwara
126. Dickwella
127. Elpitiya
128. Galle
129. Galle 2
130. Habaraduwa
131. Hakmana
132. Hikkaduwa
133. Imaduwa
134. Kamburupitiya
135. Karapitiya
136. Matara
137. Matara 2
138. Middeniya
139. Morawaka
140. Neluwa
141. Sooriyawewa
142. Tangalle
143. Tissamaharama
144. Uragsmanhandiya
145. Walasmulla
146. Weeraketiya
147. Weligama
148. Kekanadura
149. Hambanthota

**Uva Province** →

150. Badulla
151. Bandarawela
152. Hali-Ela
153. Bibile
154. Buttala
155. Mahiyangana
156. Moneragala
157. Passara
158. Welimada
159. Wellawaya
160. Badalkumbura

**Western Province** →

161. Aluthgama
162. Athurugiriya
163. Avissawella
164. Bambalapitiya
165. Bandaragama
166. Battaramulla
167. Beruwala
168. Boralesgamuwa
169. Borella
170. Bulathsinhala
171. City
172. Dehiwela
173. Delgoda
174. Delkanda
175. Divulpitiya
176. Gampaha
177. Gampaha 2
178. Ganemulla
179. Hanwella
180. Head Office
181. Homagama
182. Horana
183. Ingiriya
184. Ja-Ela
185. Kadawatha
186. Kaduwela
187. Kahathuduwa
188. Kalubowila
189. Kalutara
190. Kalutara 2
191. Katubedda
192. Katunayake
193. Kelaniya
194. Kiribathgoda
195. Kirindiwela
196. Kochchikade
197. Kollupitiya 2
198. Kotahena
199. Kottawa
200. Mahabage
201. Maharagama
202. Malabe
203. Maligawatta
204. Matugama
205. Meegoda
206. Minuwangoda
207. Mirigama
208. Moratumulla
209. Moratuwa
210. Mt. Lavinia
211. Mulleriyawa New Town
212. Mutwal
213. Narahenpita
214. Nawala
215. Negombo
216. Nittambuwa
217. Nugegoda
218. Panadura
219. Peliyagoda
220. Pettah
221. Piliyandala
222. Kirulapone
223. Puwakaramba
224. Raddolugama
225. Ragama
226. Rajagiriya
227. Veyangoda
228. Wadduwa
229. Wattala
230. Wellampitiya
231. Wellawatta
232. World Trade Center
233. Yakkala
234. Thalawathugoda
235. Baduraliya
236. Pugoda

Citi Bank NA →

Wall Street, New York,  
NY 10005, USA.  
Tel: 12125591000  
www.citibank.com  
SWIFT: CITIUS33

Deutsche Postbank →

AG.,Friedrich-Ebert-Allee  
53113 Bonn,  
Germany.  
Tel: 114-126, 492289200  
www.postbank.de  
SWIFT: PBNKDEFF

Commonwealth Bank →

Sydney, NSW 2001.  
Australia  
GPO Box 5227,  
Tel: 61 293782000  
www.commbank.com.au  
SWIFT: CTBAAU2S

Deutsche Bank Trust  
Company →

Americas,  
No. 60, Wall Street,  
New York, NY 10005,  
USA  
Tel: 1 212 2502500  
Tel: 1 212 7970291  
www.deutsche-bank.com  
SWIFT: BKTRUS33

Bank of Ceylon →

No. 01,  
Devonshire Squire London  
EC2M4WD  
Tel: 0207 377 1888  
Tel: 44 2073775430  
www.info@bankofceylon.co.uk  
SWIFT: BCEYGB2L

Woori Bank →

1-203, Hoehyeon-dong,  
Jun9-9u, Seoul  
Tel: 82 - 2 -21252001  
www.wooribank.com  
SWIFT: HVBK KR SE

Deutsche Bank AG →

P.O.B 60202  
Frankfurt am Main, Germany.  
Tel: 496991000  
Tel: 49 6991034225  
www.deutsche-bank.com  
SWIFT: DEUTDEFF

Banca Popolari Di  
Sondrio →

Piazza Garibaldi 16  
23100,  
Sondriom SO,  
Italy  
Tel: 390 342 528.111  
Tel: 390 342 528 204  
www.info@popso.it  
SWIFT: POSOIT22

National Australia Bank →

330, Collins Street  
Melbourne, VIC 3000.  
Australia  
Tel: 61386413500  
www.national.com.au  
SWIFT: CTBAAU2S

Unicredito SPA →

Estero F.S.D. - Via Volta 1, 20093  
Co109nO  
Monzese, MI, Italy  
Tel: 390288621  
Tel: 39 02 88623340  
WNW. unicreditgroup.e'U  
SWIFT: UNCRITMM

Hana Bank →

55, Eulji-ro,  
Jung-gu  
Seoul  
Republic of Korea  
Tel: 82-02-2002-1111  
www.hanabank.com  
SWIFT: HNBKRSSE

**Al Ahalia Exchange** →

P.O. Box 2419,  
Abu Dhabi, U.A.E.  
Tel: 97126269341  
www.alahaliamoneyexchange.com

**Al Rostamani International Exchange** →

Al Rostamani International  
Exchange,  
P.O. Box 10072, Dubai, U. A. E.  
Tel: 97146098152  
www.alrostamaniexchange.com  
ariemgt@alrostamanigroup.ae

**CB Unistream Bank** →

20, Verhnyaya Maslovka str,  
bldg. 2, 127083,  
Moscow, Russia  
Tel: 74957445555  
www.unistream.com  
relations@unistream.com

**Al Ansari Exchange** →

P.O. Box 325,  
Abu Dhabi, U.A.E.  
Tel: 97126108 888  
www.alansariexchange.com  
info@alansari.ae

**Arabian Exchange Co.** →

P.O. Box 3535,  
Doha-Qatar  
Tel: 9744438200  
www.arabianex.com  
arabianex@qatar.net.qa

**Citi Global Remittance** →

Baharain Financing Co.  
P.O. Box 243, Manemo  
Kingdom of Baharain

**Al Dar For Exchange Works** →

P.O. Box 24048,  
Doha State of Qatar  
Tel: 9744550455

**City International Exchange** →

Abdullah Dashti Building,  
Abdullah Mubarak Street,  
P.O. Box 21804,  
Safar 13079, Kuwait  
Tel: 9652448507  
citex@qualitynet.net

**Al Fardan Exchange- Abu Dhabi** →

P.O. Box 498, Amin Khourl Building,  
Liwa Street, Abu Dhabi, U.A.E.  
Tel: 971026223222  
exchange@alfardangroup.com  
farhaj.ali@alfardanexchange.com

**Asia Express Exchange** →

P.O. Box 881-RUWI,  
PC 112, Muscat,  
Sultanate of Oman  
Tel: 96824781727  
slankaex@omantel.net.com

**Colombo International** →

Money Transfer  
Colombo Money Transfer Services  
Pty Ltd., 3 Clow St, Dandenong,  
Victoria 3175,  
Australia  
Tel: (03)97923065  
info@colombomoneytransfer.com.au

**Al Fardan Exchange-Qatar** →

Alfardan Centre, Grand Hamad  
Avenue, P.O. Box 339, Doha, Qatar  
Tel: 97444408408  
afx@alfardan.com.qa

**Bahrain Exchange** →

P.O. Box 29149,  
Safat 13152, Kuwait  
Tel: 965824000  
www.bec.com.kw  
baexco@bec.com.kw

**Al Mulla International** →

Al Mulla Group Head Office,  
Free Trade Zone,  
Shuwaikh, Kuwait  
Tel: 96522250888

**Bahrain Finance Co.** →

P.O. Box 243, Manama  
Kingdom of Bahrain

**Dollarco Exchange** →

P.O. Box 26270,  
Safat 13123, Kuwait  
Tel: 9652412767  
dollarco@qualitynet.net

**Al Rajhi Bank** →

P.O. Box 28,  
Riyadh 11411,  
Kingdom of Saudi Arabia  
Tel: 96612116000  
www.alrajhibank.com.sa

**Bank Al Bilad** →

P.O. Box 140,  
Riyadh-11411, Saudi Arabia  
Tel: 96614798888  
www.bankalbilad.com.sa

**Emirates International Exchange** →

P.O. Box 7190,  
Dubai, U.A.E.  
Tel: 600522248  
www.emiratesexchange.ae

**Habib Exchange-Abu Dhabi** →

Central Office, Hamdan Street,  
P.O. Box 2370, Abu Dhabi, U.A.E.  
Tel: 6272316  
www.habibexchange.com  
hecoad@emirates.net.ae

**Habib Qatar International Exchange** →

P.O. Box 1188, Mushirib Street,  
Doha Qatar  
Tel: 974424373  
www.habibqatar.com  
habib@qatar.net.qa

**IME (M) SDN.BHD** →

Ground Floor,  
No. 22, Jalan Medan Pasar 50050,  
Kuala Lumpur, Malaysia  
Tel: 03-20727260  
www.ime-txnremit.com

**Wall Street Exchange** →

East Wing, Building 2,  
Office No. 203, DAFZA,  
P.O. Box 3014, Dubai, U.A.E.  
Tel: 97143602288  
www.instantcashworldwide.com  
rahat@instantcashworldwide.com

**Kapruka (PVT) Ltd.** →

1/1324, Centre Road,  
Clayton, VIC 3168, Australia  
Tel: 610395445060  
www.kapruka.com.au

**Kuwait Asian International Exchange** →

Kuwait Asian International  
Exchange,  
Qaiseria No. 1, Shop Number 48,  
Fahaheel, Kuwait  
Tel: 96523910522  
kuaiew@yahoo.com

**Majan Exchange** →

P.O. Box 583, Postal Code: 117,  
Sultanate of Oman  
Tel: 24794017  
majanech@omantel.net.om

**Money Gram** →

1550, Utica Avenue South,  
Minneapolis, MN 555416, U.S.A.  
Tel: 9525913000

**National Exchange Co.** →

Via Ferruccio, 3000185,  
Roma, Italy  
Tel: 390644341221  
www.nationalexchange.it  
nec@nationalexchange.it

**Instant Cash** →

East Wing Building 2  
Office No. 203, DAFZA  
Dubai Airport Free Zone  
P.O. Box 3014, Dubai UAE  
Tel: 00971 42990011  
info@instantcashworldwide.com

**National Money Exchange** →

P.O. Box 29760, Safat 13158 Kuwait,  
State of Kuwait  
Tel: 2462680  
nmekwt@qualitynet.net

**Oman & UAE Exchange Centre** →

P.O. Box 1116, Postal Code: 131, Al  
Hamriyah, Sultanate of Oman  
Tel: 96824796533  
omanuaex@omantel.net.om

**Samba Financial Group** →

King Abdulaziz Road, P.O. Box 833,  
Riyadh 11421, Saudi Arabia  
Tel: 96614774770  
www.samba.com.sa

**Trans Fast Remittance LLC** →

Ammus, Paptamali Road,  
Irianjala Kuda, Trichur District,  
Kerala, India  
Tel: 919946000780

**UAE Exchange Centre- Abu Dhabi** →

P.O. Box 170, Level 02,  
Al Sayegh Center, Sheikh Hamdan  
Street, Abu Dhabi, U.A.E.  
Tel: 97126105555  
www.uaexchange.com  
hq@uaexchange.com

**UAE Exchange Centre- Kuwait** →

P.O. Box 26155, Safat 13122, Kuwait  
Tel: 9652459417  
www.uaexchangekuwait.com  
kuwait.ho@uaexchange.com.kw

**Valutrans Spa** →

Viale Manza  
20, 20127  
Milano  
Italy  
Tel: 0039022846140

**Delma Exchange** →

Al Donah  
Abu Dhabi  
United Arab Emirates  
Tel: 0097126225544

**Xpress Money Services Ltd.** →

Dubai  
Al Ameri Building  
6th Floor  
Opposite Grand Millennium Hotel  
TECOM  
Sheikh Zoyed Road  
P.O. Box 653996  
UAE  
Tel: 0097125102222  
customer.relations@xpressmoney.com

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G4-LA4	Minimum notice periods regarding operational changes including whether these are specified in collective agreements	Employee Capital	65
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<b>Aspect Equal Remuneration for Women and Men</b>			
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	Employee Capital	66
<b>Aspect Labour Practices Grievance Mechanisms</b>			
G4-LA16	Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms	Employee Capital	67
<b>Human Rights</b>			
<b>Aspect Non-Discrimination</b>			
G4-HR3	Total number of incidents of discrimination and corrective action taken	Employee Capital	67
<b>Aspect Freedom of Association and Collective Bargaining</b>			
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk and measures taken to support these rights	Employee Capital	65
<b>Aspect Human Rights Grievance Mechanisms</b>			
G4-HR12	Number of grievances about Human Rights impacts filed, addressed and resolved through formal grievance mechanisms	Employee Capital	67

GRI Indicator	Description	Reported in	Page No./ Explanations
<b>Society</b>			
<b>Aspect Local Communities</b>			
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes	Social & Environmental Capital	70 and 71
<b>Aspect Anti- Corruption</b>			
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	Risk Management	140-143
<b>Aspect Compliance</b>			
G4-SO8	Monitory value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Business Model	45
<b>Aspect Anti-competitive Behaviour</b>			
G4-SO7	Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes	Business Model	45
<b>Aspect Supplier Assessment for Impact on Society</b>			
G4-SO9	Percentage of new suppliers that was screened using criteria for impacts on society	Business Model	45
<b>Aspect Grievance Mechanisms for Impacts on Society</b>			
G4-SO11	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	Business Model	45
<b>Product Responsibility</b>			
<b>Aspect Product and Service labelling</b>			
G4-PR3	Type of product & service Information required by the organisation's procedures for product and service information and labelling and percentage of significant product and service categories subject to such information requirements	Customer Capital	60-62
G4-PR5	Results of surveys measuring customer satisfaction	Business Model	45
<b>Aspect Marketing Communication</b>			
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes	Business Model	45
<b>Aspect Customer Privacy</b>			
G4-PR8	Total number of substantial compliance regarding breaches of customer privacy and losses of customer data	Business Model	45
<b>Aspect Compliance</b>			
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Business Model	45

**A**

**Accounting Policies** →  
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

**Accrual Basis** →  
Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

**Amortisation** →  
The systematic allocation of the depreciable amount of an intangible asset over its useful life.

**Amortised Cost** →  
Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or uncollectability.

**Available-for-Sale Financial Assets** →  
Available-for-sale financial Assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

**C**

**Capital Adequacy Ratio** →  
The relationship between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

**Capital Expenditure** →  
Total of additions to property, plant & equipment.

**Capital Gain (Capital Profit)** →  
The gain on the disposal of an asset calculated by deducting the cost of the asset from the proceeds received on its disposal.

**Capital Reserves** →  
Capital reserves consist of revaluation reserves arising from revaluation of properties owned by the Bank and Reserve Fund set aside for specific purposes defined under the Banking Act No. 30 of 1988 and shall not be reduced or impaired without the approval of the Monetary Board.

**Carrying Value** →  
Value of an asset or a liability as per books of the organisation before adjusting for fair value.

**Cash Equivalents** →  
Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Collective Agreement** →  
A tripartite agreement entered into among the NSB, Ministry of Finance and Trade Unions.

**Collectively Assessed Loan Impairment Provisions** →  
Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the Reporting date. Loans (housing, personal, auto loans etc.) are assessed on a portfolio basis.

**Commitments** →  
Credit facilities approved but not yet utilised by the clients as at the Reporting date.

**Concentration Risk** →  
Risk arisen from uneven distribution of counterparty and portfolio exposures to business sector or geographic region.

**Contingencies** →  
A condition or situation existing at Reporting date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

**Corporate Governance** →  
The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and the direction of entity, the supervision of executive actions and accountability to owners and others.

**Cost/Income Ratio** →  
Operating expenses excluding impairment provision and provisioning for fall in value in dealing securities as a percentage of net income.

**Cost Method** →  
A method of accounting whereby the investment is recorded at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee.

**Credit Ratings** →  
An evaluation of a corporate's ability to repay its obligation or the likelihood of not defaulting, carried out by an independent rating agency.

**Credit Risk** →  
Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

**Customer Deposits** →  
Money deposited by account holders. Such funds are recorded as liabilities.

**D**

**Dealing Securities** →  
Marketable securities that are acquired and held with the intention of reselling them in the short-term.

**Debenture** →  
A medium-term debt instrument issued by a corporate entity.

**Deferred Tax** →

Sum set aside for tax in the Financial Statements that will become payable in a financial year other than the current financial year.

**Depreciation** →

The systematic allocation of the depreciable amount of an asset over its useful life.

**Derecognition** →

Removal of previously recognised financial assets or financial liability from an entity's statement of financial position.

**Derivative** →

Financial contract of which the value is derived from the value of underlined assets.

**E****Economic Value Added (EVA)** →

A measure of productivity which takes into consideration cost of total invested equity.

**Effective Income Tax Rate** →

Provision for taxation divided by the profit before taxation.

**Effective Interest Rate** →

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

**Equity Method** →

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

**Equity Risk** →

Risk of depreciating equity investments due to stock market dynamics.

**Exchange Gain/Loss** →

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last Reporting date and the settlement/ Reporting date. Also arises from trading in foreign currencies.

**F****Fair Value** →

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**Financial Asset** →

Is any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

**Financial Asset or Financial Liability at Fair Value through Profit or Loss** →

Financial asset or financial liability that is held-for-trading or upon initial recognition designated by the entity as 'at fair value through profit or loss'.

**Financial Instrument** →

Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial Liability** →

Is a contractual obligation to deliver cash or another financial asset to another entity.

**Foreclosed Properties** →

Properties acquired in full or partial; satisfaction of debts.

**Foreign Currency Risk** →

Risk exists in transaction other than the local currency. Adverse movements in foreign exchange rates may decline the value of Assets/Liabilities held in terms of foreign currency.

**Foreign Exchange Contract** →

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

**G****General Provisions** →

These are provisions made on loans and advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

**Group** →

A group is a parent and all its subsidiaries.

**Guarantees** →

Three party agreement involving a promise by one party (the guarantor) to fulfill the obligations of a person owing a debt if that person fails to perform.

**H****Hedging** →

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rates and prices of commodities etc.).

**Held-to-Maturity Investments (HTM)** →

Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

**Held-for-Trading (HFT)** →

Debt and equity investments that are Purchased with the intent of selling them within a short period of time (usually less than one year).

**I****ICCAP** →

Process by which the Bank ensures additional capital is provided for banking risks other than those covered in Pillar I.

**Impairment** →

This occurs when recoverable amount of an asset is less than its carrying amount.

**Impaired Assets Portfolio** →

Impaired assets portfolio is the total of the individually significant impaired loans and individually insignificant loans which are overdue above 180 days.

**Impairment Allowances** →

Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified as individual (specific) or collective (portfolio) impairment allowance.

**Impairment Charge/ (Reversal)** →

The difference between the carrying value of an asset and the sum of discounted future cash flows generating from the same asset.

**Impaired Loans** →

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

**Individually Assessed****Impairment** →

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

**Intangible Asset** →

An asset that is not physical in nature. Corporate intellectual property (items such as patents, trademarks, copyrights, business methodologies), goodwill software and brand recognition are all common intangible assets in today's marketplace.

**Interest in Suspense** →

Interest suspended on non-performing loans and advances.

**Interest Margin** →

Net interest income expressed as a percentage of average interest earning assets.

**Interest Rate Risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

**Interest Rate Swap** →

An interest rate Swap is a derivative in which one party exchanges a stream of interest payments for another party's stream of cash flows.

**Interest Spread** →

Represents the difference between the average interest rate earned and the average interest rate paid on interest earning assets and interest bearing liabilities, respectively. variables such as interest rates, exchange rates, credit spreads and other asset prices.

**Investment Properties** →

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

**Investment Securities** →

Securities acquired and held for yield or capital growth purposes and are usually held-for-maturity.

**K****Key Managerial Personnel** →

Key managerial personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

**L****Liquid Assets** →

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange and Treasury Bills.

**Liquid Assets Ratio** →

Assets that are held in cash or in a form that can be converted to cash readily (as prescribed by the Central Bank of Sri Lanka) divided by the total liabilities including contingent liabilities.

**Liquidity Risk** →

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

**Loans and Receivables** →

Conventional loan assets that are unquoted (originated or acquired).

**Loss Given Default (LGD)** →

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

**M****Market Risk** →

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

**Materiality** →

The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of Financial Statements.

**N****Net Interest Income** →

The difference between the interest income from investment portfolio and the interest paid on deposits.

**Non-Performing Loans (NPL)** →

The loans which are in default for more than three months.

**NPL Ratio** →

Total non-performing loans and advances (net of interest in suspense) divided by total loans and advances portfolio (net of interest in suspense).

**O****Off-Balance Sheet Transactions** →

Transactions that are not recognised as assets or liabilities in the Statement of Financial Position, but which give rise to contingencies and commitments.

**Operational Risk** →

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

**P****Parent** →

A parent is an entity that has one or more subsidiaries.

**Portfolio** →

A pool of investments including investment in Government Securities, loans and advances, equities, etc.

**Probability of Default (PD)** →

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

**R****Return on Average Assets (ROAA)** →

Net income expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

**Return on Average Equity (ROAE)** →

Net income, less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

**Related Parties** →

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly as per the Sri Lanka Accounting Standard No. 30 on 'Related Party Disclosures'.

**REPOs** →

Repurchase agreements. Securities sold to lenders with the commitment to buy back on a later date at a fixed price plus interest.

**Return on Average Equity (ROAE)** →

Net income, less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

**Revenue Reserve** →

Reserves set aside for future distribution and investment.

**Risk-Weighted Assets** →

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per Rupee among all types of assets. The risk inherent in off-balance sheet instruments is also recognised, first by adjusting notional values to balance sheet (or credit) equivalents and then by applying appropriate risk-weighting factors.

**Rupee Loan** →

Rupee securities issued by the Central Bank of Sri Lanka on behalf of the Government of Sri Lanka.

**S****Shareholders' Funds** →

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

**Single Borrower Limit** →

33% of the regulatory capital base.

**Statutory Reserve Fund** →

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

**Stress Test** →

Integrated test that shows to varying degrees whether the Bank can withstand unforeseen scenarios of varying severity.

**Subsidiary** →

An entity, including an unincorporated entity such as a partnership, which is controlled by another entity known as the parent.

**Substance Over Form** →

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

**Stress Test** →

Integrated test that shows to varying degrees whether the Bank can withstand unforeseen scenarios of varying severity.

**Swaps (Currency)** →

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement. Alternatively a simultaneous spot sale and forward purchase of a currency.

**T****Tier I Capital** →

Consists of the sum total of ordinary share capital, statutory reserve fund and general reserves.

**Tier II Capital** →

Supplementary capital representing 50% of the revaluation reserve and general provisions.

**Total Capital** →

Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

**Treasury Bill** →

A short-term debt instrument issued on auction basis by the Central Bank of Sri Lanka on behalf of the Government of Sri Lanka.

**U****Unit Trust** →

An undertaking formed to invest in securities under the terms of a trust deed.

**V****Value Added** →

Wealth created by providing banking and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to Government by way of taxes and retained for expansion and growth.

**Name of The Bank**

National Savings Bank

**Legal Form**

A Government owned Bank incorporated in Sri Lanka by the National Savings Bank Act No. 30 of 1971 and was granted the status of the Licensed Specialised Bank in terms of the Banking Act No. 30 of 1988.

**Registered Office and Head Office**

'Savings House',  
No. 255, Galle Road,  
Colombo 03, Sri Lanka.  
Tel: 94-11-2573008-15  
Fax: 94-11-2573178  
E-mail: nsbgen@nsb.lk  
Website: <http://www.nsb.lk>  
Swift Code: NSBALKLX

**Service Outlets**

236 Branches  
2,287 School Bank Units  
260 ATMs

**Agency Network**

653 Post Offices and 3,410 Sub-Post Offices throughout the Island.

**Credit Rating**

The Bank has been assigned AAA (Ika) long-term credit rating by the Fitch Rating Lanka (Pvt) Ltd.

B+ Stable International Credit Rating from Standard and Poors

BB- Stable International Credit Rating by Fitch Ratings

**Board of Directors**

Aswin De Siva – *Chairman*  
(From 9th February 2015)

Ms. W.A. Nalani – *Chairperson*  
(Up to 19th January 2015)

D.L.P.R. Abeyaratne – *Director*

Mahinda Siriwardana – *Director*  
(From 25th February 2015)

Bradley Emerson – *Director*  
(From 11th February 2015)

Suranga Naulage – *Director*  
(From 9th February 2015)

Ajith Pathirana – *Director*  
(From 20th March 2015)

S.T. Abeygunawardena –  
*Working Director*  
(Up to 12th January 2015)

S.R. Attygalle – *Director*  
(Up to 24th February 2015)

Lionel P. Fernando – *Director*  
(Up to 13th January 2015)

Sumith Wijesinghe – *Director*  
(Up to 2nd February 2015)

H. Madiwela – *Director*  
(Up to 27th January 2015)

**General Manager/CEO**

S.D.N. Perera  
(From 12th March 2015)  
(Acting General Manager/CEO  
from 20th June 2014 to  
11th March 2015)

H.M. Hennayake Bandara  
(Up to 19th June 2014)

**Board Secretary**

Ms. Y.F. Deen

**Board Audit Committee**

Bradley Emerson – *Chairman*  
(From 12th March 2015)

Lionel P. Fernando – *Chairman*  
(Up to 13th January 2015)

Mahinda Siriwardana – *Member*  
(From 12th March 2015)

S.R. Attygalle – *Member*  
(Up to 24th February 2015)

H. Madiwela – *Member*  
(Up to 27th January 2015)

**Human Resources & Remuneration Committee**

Aswin De Silva – *Chairman*  
(From 12th March 2015)

Ms. W.A. Nalani – *Chairperson*  
(Up to 19th January 2015)

D.L.P.R. Abeyrathne – *Member*  
(From 12th March 2015)

S.R. Attygalle – *Member*  
(Up to 24th February 2015)

H. Madiwela – *Member*  
(Up to 27th January 2015)

**Board Nomination Committee**

Aswin De Silva – *Chairman*  
(From 12th March 2015)

S.R. Attygalle – *Chairman*  
(Up to 24th February 2015)

Mahinda Siriwardene – *Member*  
(From 12th March 2015)

Sumith Wijesinghe – *Member*  
(Up to 2nd February 2015)

S.T. Abeygunawardena – *Member*  
(Up to 12th January 2015)

**Board Integrated Risk Management Committee**

D.L.P.R. Abeyaratne – *Chairman*

Bradley Emerson – *Member*  
(From 12th March 2015)

Mahinda Siriwardene – *Member*  
(From 12th March 2015)

Lionel P. Fernando – *Member*  
(Up to 13th January 2015)

Sumith Wijesinghe – *Member*  
(Up to 2nd February 2015)

**Compliance Officer**

Ms. I.K.L. Sasi Mahendran

**Auditors**

Auditor General

**Subsidiary**

NSB Fund Management Co. Ltd.

**Registered Office and Head Office**

1st Floor, 'Savings House'  
National Savings Bank,  
No. 255, Galle Road,  
Colombo 03, Sri Lanka.  
Tel: 94-11-2564601, 2467731  
Fax: 94-11-2564706  
E-mail: nsbfmc@nsb.lk  
Swift Code: NSBFLKXXXX

**Board of Directors**

Aswin De Silva – *Chairman*  
(From 12th March 2015)

Ms. W.A. Nalani – *Chairperson*  
(Up to 19th January 2015)

D.L.P.R. Abeyaratne – *Director*

Suranga Naulage – *Director*  
(From 12th March 2015)

S.D.N. Perera – *Director*  
(From 26th July 2014)

S.T. Abeygunawardena – *Director*  
(Up to 12th January 2015)

Lionel P. Fernando – *Director*  
(Up to 13th January 2015)

H.M. Hennayake Bandara –  
*Director*  
(Up to 20th June 2014)

**Chief Executive Officer**

N.K. Dahanayake

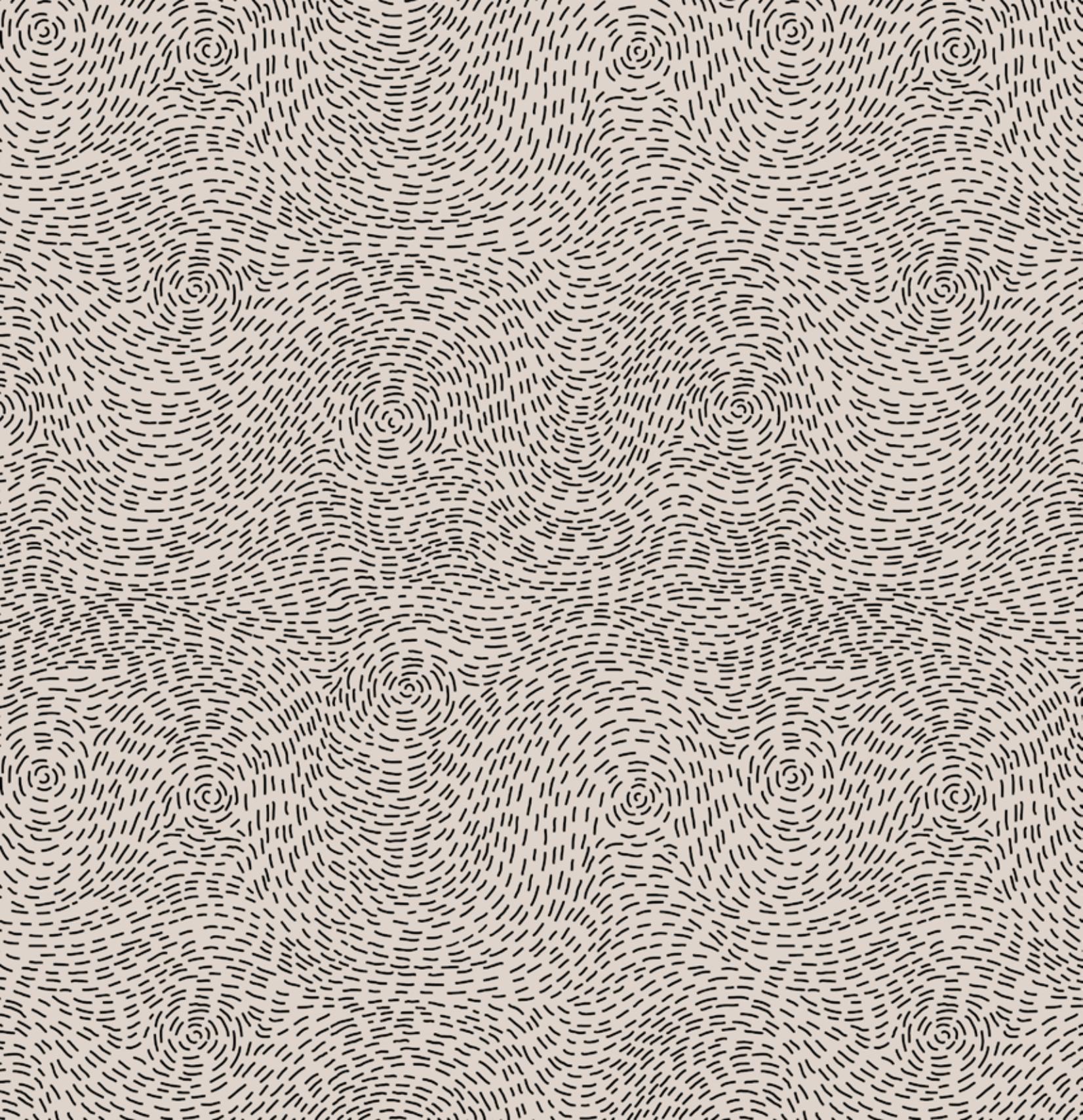
**Auditors**

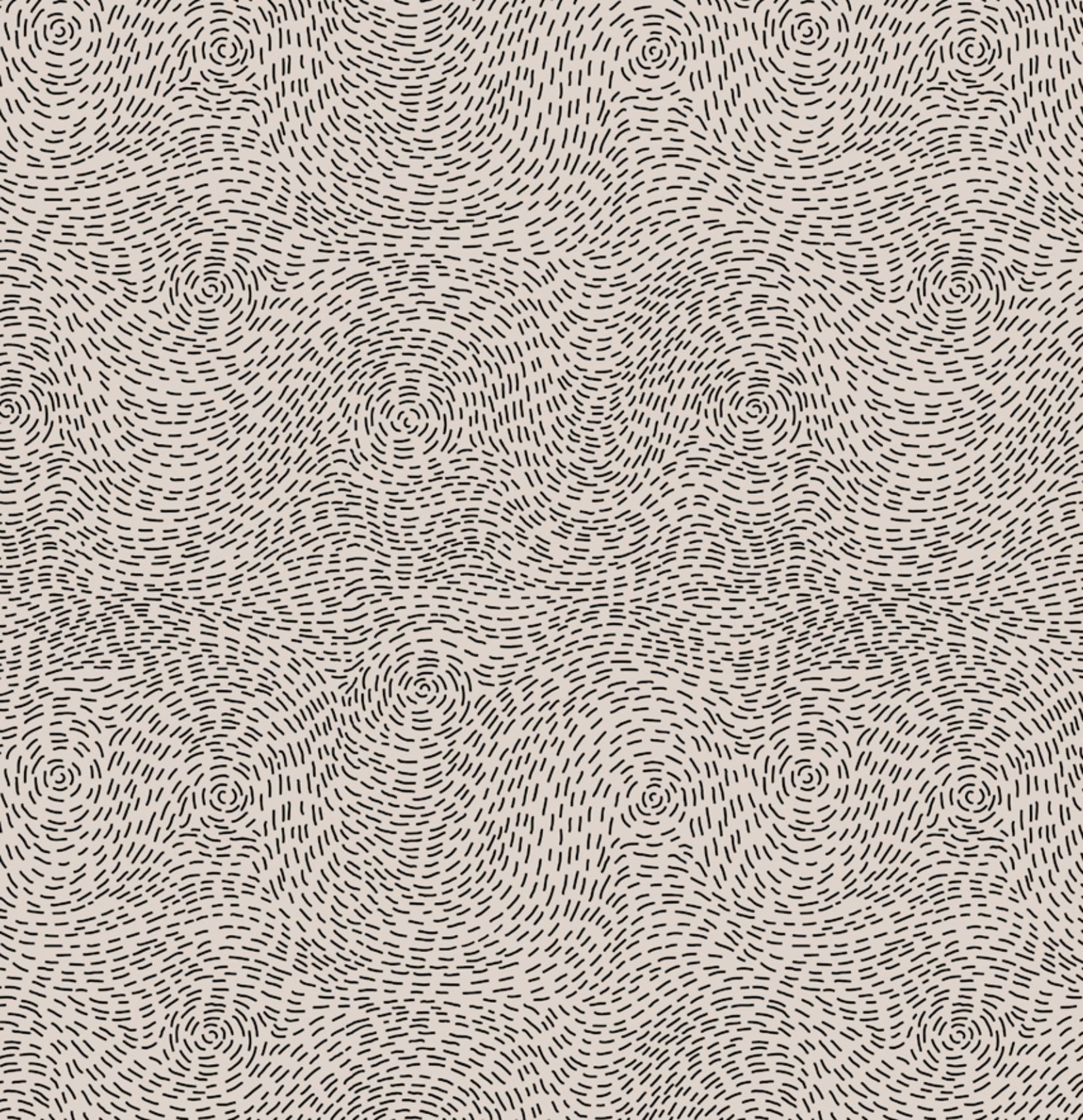
Ernst & Young Co.

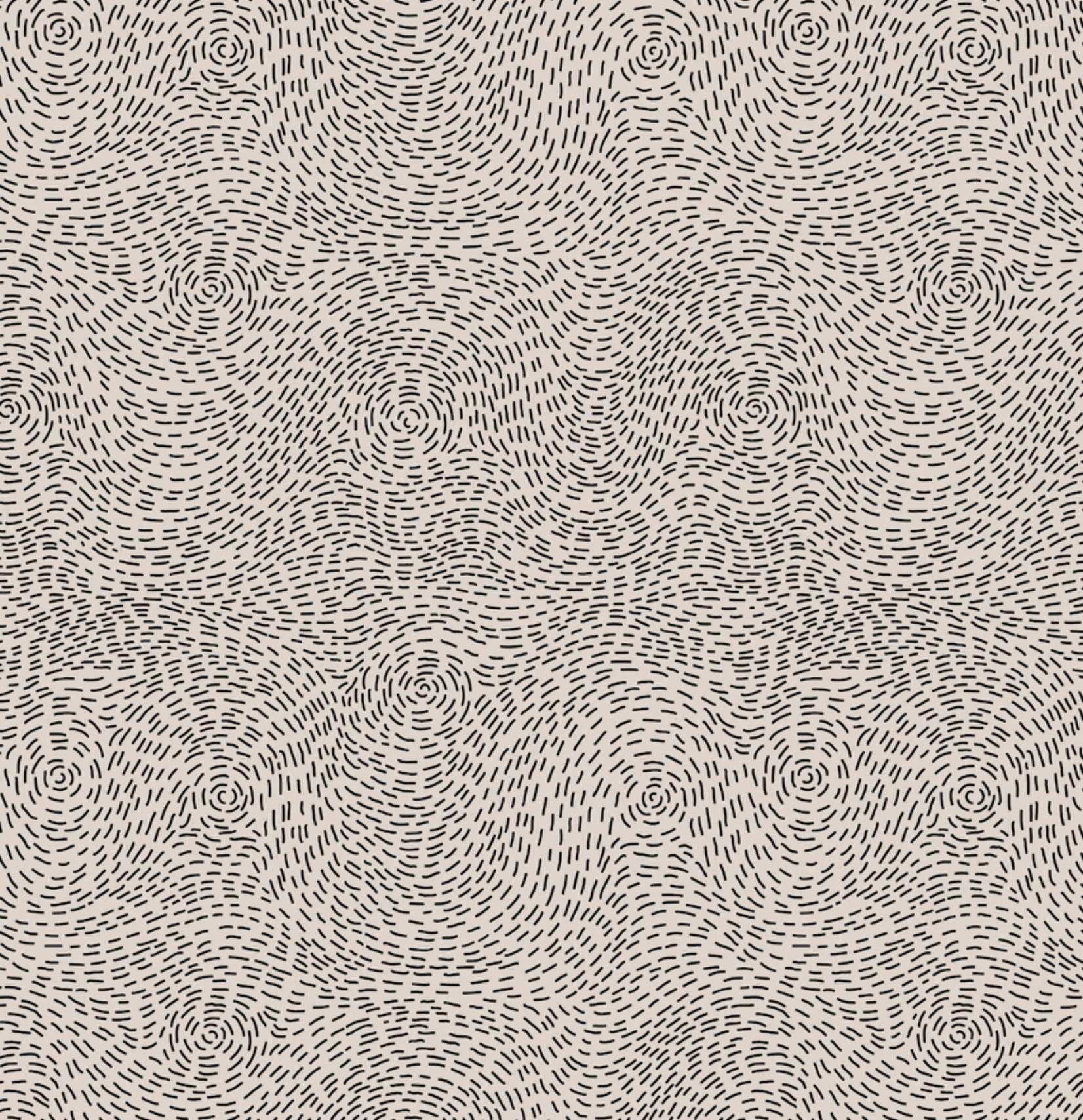
**Company Secretary**

Ms. Y.F. Deen









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