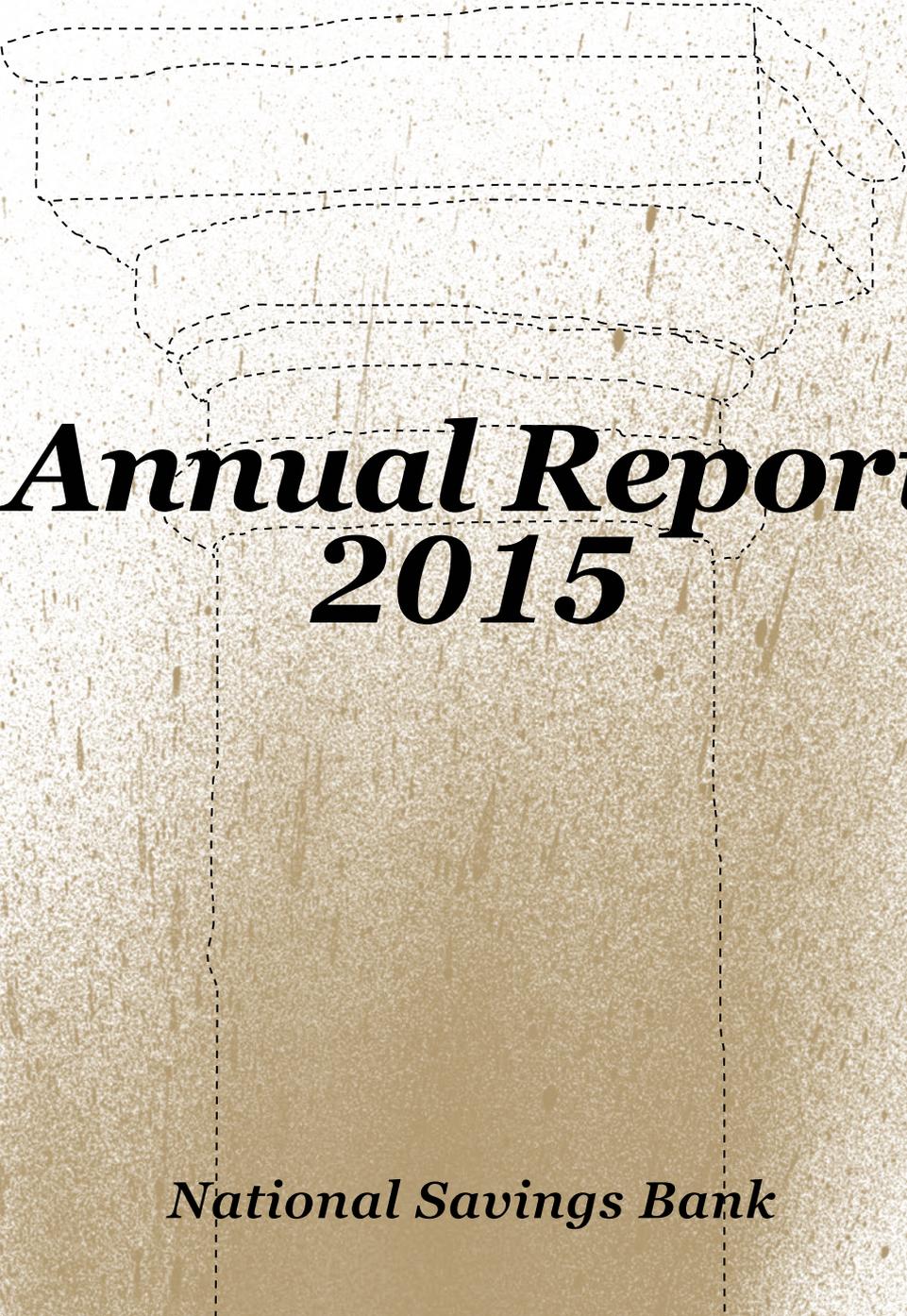


*A Unique Story*



***Annual Report  
2015***

*National Savings Bank*







A Unique Story

*Annual Report*  
**2015**



**NATIONAL SAVINGS BANK**

***Annual Report – 2015***

***A Unique Story***

*National Savings Bank*

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

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# ***Introduction***

*The story of the National Savings Bank is as unique as its history. Although the Bank was established in 1972 by an Act of Parliament, its beginnings reach as far back as the early 19th century, when the idea of a savings bank was first born. NSB was formed through the amalgamation of four long-standing institutions\* that were dedicated to providing financial services to all Sri Lankans – not just the affluent. It is this inclusiveness, as outlined in the letter from the Chairman which enables the people of our country to be more resilient in the face of the financial ups and downs of life.*

*The Bank is also a conduit by which the people of Sri Lanka become stakeholders in the country's development. The money deposited in this State-owned, specialised savings bank is reinvested to support national policies and initiatives that contribute to a prosperous Sri Lanka. In turn, the people's hard-earned savings are guaranteed by the Government. As discussed by the General Manager/CEO in his review, the Bank's keen focus on good governance, risk management and compliance was a key contributor to its success.*

*While meeting the expectations of all its stakeholders (see page 276 for more on stakeholders), NSB's mission has always been to provide customers with total financial solutions that optimise their savings and investment needs. To achieve this mission, the Bank embraced a set of core values that focus on responding promptly and acting creatively with trust, mutual respect and integrity. With these values at the heart of all they do, the Bank's employees played no small role in NSB's continued success and profitability.*

*The Bank's outstanding financial results, however, are just one part in its unique story. Another very important chapter is its focus on economic, social and environmental sustainability in the course of business (as discussed on page 280 under 'Materiality and Value Creation' and page 283 under 'Management Approach'). This is further underlined by the Bank's vision to be the most reliable and sought-after choice for savings and investment solutions.*

\*Ceylon Savings Bank, Ceylon Post Office Savings Bank, National Savings Movement and Savings Certificates Section of the Post Master General's Department

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## **Vision**

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

## **Mission**

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

## **Values**

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

# Highlights

## Financial

### Total Income Distribution

**Rs. 79,282**

Million



**Customers  
and Suppliers**

**Rs. 53,396**

Million

**Employees**

**Rs. 5,911**

Million

**Government**

**Rs. 11,015**

Million

**Retained**

**Rs. 8,960**

Million

**Interest Income  
Growth**

**Rs. 4,106**

Million

**Profit Before Tax**

**Rs. 13,034**

Million

**Profit After Tax**

**Rs. 8,672**

Million

**Total Assets**

**Rs. 848,079**

Million

**Shareholder's  
Funds  
(Capital and Reserves)**

**Rs. 32,424**

Million

**Return on Average  
Shareholder's  
Funds**

**31.1%**

**Return on  
Assets**

**1.6%**

**Net Interest  
Margin**

**3.3%**

**Liquidity Ratio**

**81.1%**

**Tier I Capital**

**17.9%**

(Statutory Minimum  
Ratio Required is 5%)

**Tier I & II Capital**

**16.4%**

(Statutory Minimum  
Ratio Required is 10%)

**Cost: Income Ratio**

**46.1%**

(With VAT)

## Government

**Only Government  
Guaranteed Bank  
in Sri Lanka**

**Contribution to  
Consolidated Fund/  
Dividends**

**Rs. 2,800**

Million

**Total Taxes**

**Rs. 6,799**

Million

**Total Levies**

**Rs. 1,416**

Million

## Employees

### Employee Strength

Year	2011	2012	2013	2014	2015
Number of Employees	3,275	3,128	2,943	3,358	<b>3,636</b>
Growth	7%	(4%)	(6.1%)	14%	<b>8%</b>

*Number of Graduates in the Bank*

**773**

*Employee Retention Rate*

**99%**

**100%**

*of Employees are Covered by the Collective Agreement*

*Male to Female Ratio*

**44 : 56**

## Customers

*Branches*

**245**

*Post Offices & Sub-Post Offices*

**4,063**

*ATMs*

**271**

*No. of Master and VISA Debit Cards Issued over*

**1.5**

*Million*

*First Sri Lankan Bank to Receive*

**(AAA) lka**

*Rating from Fitch Ratings Lanka Ltd.*

*Share of Sri Lanka's Rupee Savings Market*

**12.8%**

*Deposit Growth*

**8%**

*Loan Book Growth*

**22%**

## Society and Environment

*Facilitated higher education*

**Rs. 164.9**

*Million*

*Facilitated infrastructure projects*

**Rs. 31,261**

*Million*



# *Letter from the Chairman*

2015 has been an extraordinary year for the National Savings Bank. Yet again, we recorded an outstanding performance with profit before tax of Rs. 13 Billion, an increase of 24% over 2014. Our contribution to the Government for the year under review was Rs. 11 Billion. These record-breaking numbers become even more significant, when you consider that our growth was derived primarily from our core businesses.

## *Meaningful Financial Inclusion*

Since its inception, NSB has always focused on fostering a savings culture in Sri Lanka. This includes all segments of the society, with particular reference to ‘Everyday’ Sri Lankans. This year under review began another chapter in the same journey – a chapter in which we enhance ‘Financial and Social Inclusion’ of all Sri Lankans. Put very simply, it’s a reaffirmation of our commitment to provide products, services and guidance to the people of Sri Lanka in terms of financial needs. This facilitates prosperity but equally importantly, enables people of our country to weather financial storms life brings. This is who we are. It’s a responsibility we are proud to shoulder and one that we take very seriously.

## *Planning for Growth*

During the year under review, we took giant strides in growing the core business of the Bank. We also focused on diversification. For instance, we tested prospective business lines that have the potential of widening the Bank’s scope. These explorations follow our commitment to enhance wealth creation opportunities for our customers. As we look ahead for 2016 and beyond, we will focus on business continuity and diversification with a purpose that will sustain our growth momentum. After careful study, measures have also been initiated to enhance efficiency and productivity to ensure existing resources and infrastructure are better utilised. NSB will also use its carefully crafted ‘brand value’ for the betterment of our stakeholders, so that they will always take pride in being associated with our institution. Further improving our digital and automated systems is another key area we will be focusing on to improve our customer experience and increase our competitiveness in the market. This will go hand-in-hand with our ongoing plans to empower and train our people, so that they are able to make the most of business opportunities, while providing our customers with outstanding service.

## *Appreciation*

The Bank’s success would not be possible without the contributions of a number of people and groups including: our customers and external stakeholders, whose confidence and trust in us are vitally important and deeply appreciated; our staff, whose dedication and loyalty have been a vital contribution to the Bank’s profitability; the Post Master General and his staff, who ensure we remain relevant at grass roots level, the General Manager/CEO and his management team, for their competent and prudent management of the Bank’s operations; and my fellow Directors, for their wise counsel and support. I am also grateful to the Hon. Minister of Public Enterprise Development, Hon. Deputy Minister of Public Enterprise Development, Secretary, Ministry of Public Enterprise Development, Hon. Finance Minister, Hon. State Minister of Finance, the Secretary to the Treasury, the Governor of the Central Bank, the Auditor General and his staff, the Attorney General, the heads of other regulatory bodies and their teams for their generous support.



**Aswin De Silva**  
Chairman  
24th March 2016



# ***General Manager/CEO's Review***

National Savings Bank closed the year on an exceptional note, recording the highest profit before tax since its inception, surpassing Rs. 10 Billion for the second consecutive year. We are also privileged to have contributed Rs. 11 Billion to the Government by way of taxes, levies and dividends.

## ***Contributing to Success***

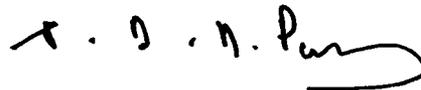
Our core business activities, of investing in Government Securities and retail lending, contributed 66% and 32% respectively to the increased profits. We have improved the asset quality of the Bank's credit portfolio, which reflected in the reduction of NPL ratio to 3.5% in 2015 from 7.6% in 2014. A clearer focus on under penetrated business areas, such as inward foreign currency remittances, has resulted in increased business volume. Prudently managing the interest cost enabled the Bank to maintain the net interest margin throughout the year, whilst enhancing the efficiency through a well managed operating cost structure.

## ***Managing for Profitability***

Our keen focuses on good governance, risk management and compliance were key contributors to the Bank's success. Long-term plans set in motion in 2015, included streamlining our Treasury function and increasing our reach and accessibility, particularly within rural Sri Lanka, through an improved relationship with the national postal network. Lending to needy sectors of the market and offering attractive interest rates are set to increase growth in our retail lending portfolio, while adding value to customers in this segment. Knowing that our customers are one of our greatest assets, we continued to extend a helping hand in their development and engage them in driving the business strategy of the Bank.

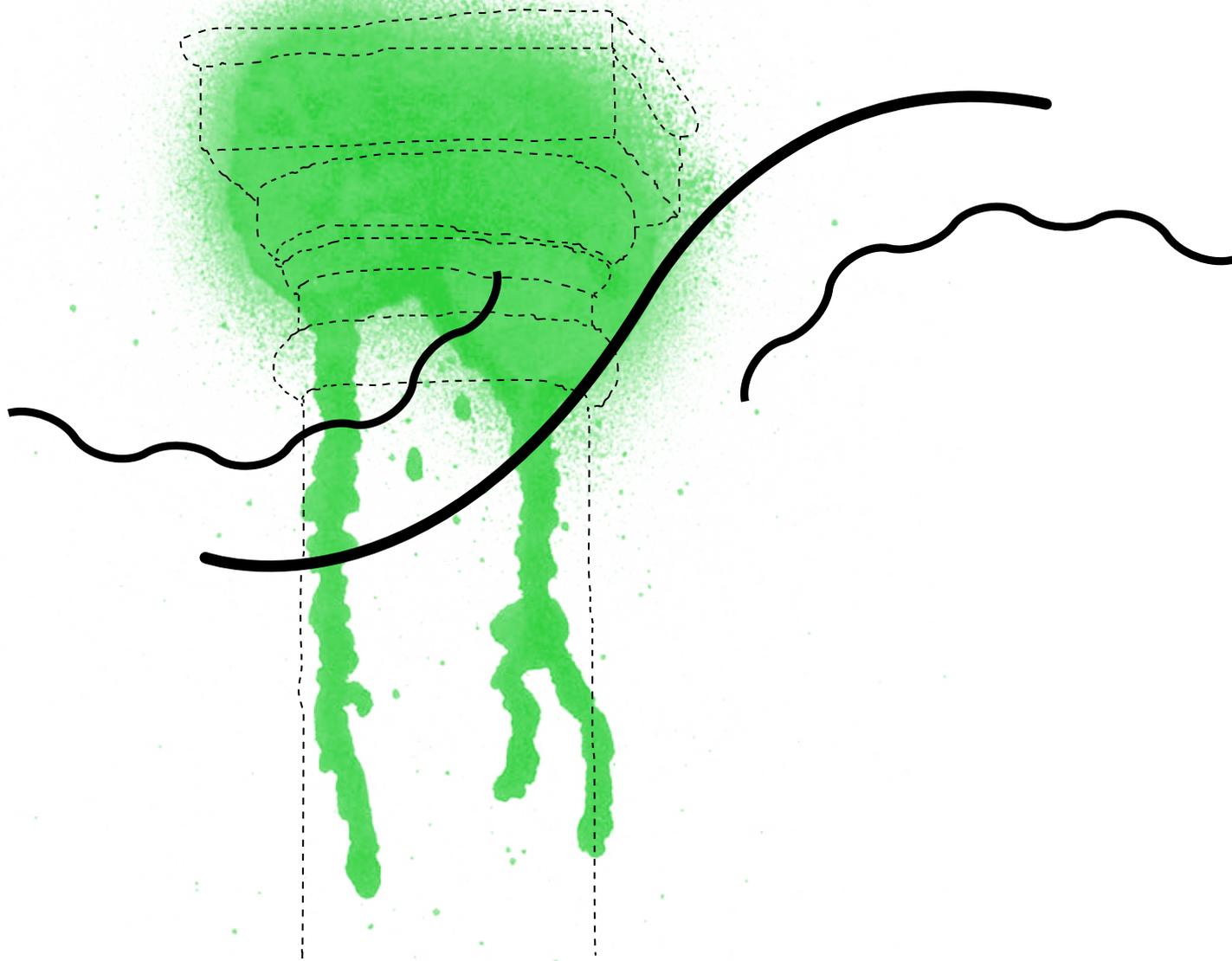
## ***Appreciation***

The commitment made and efforts put in by many parties, fulfilled our aspirations for success during this year: to mention briefly, the Chairman and the Board of Directors, Hon. Minister of Public Enterprise Development, Secretary to the Ministry and the Officials, Hon. Minister of Finance, Secretary to the Treasury and the Officials, the Central Bank of Sri Lanka, the Postmaster General and his Staff, the Attorney General's Department and the Auditor General's Department. I am grateful to our customers for the continuous confidence they have placed in NSB and thank all our stakeholders for their unstinted support. Finally, I would like to express deep appreciation for the loyalty, commitment and effort put in by each member of the NSB team and especially of those who have retired during 2015, after a dedicated service of long years. With the collective efforts of our employees at every level, I am confident that the Bank will go from strength to strength in the years to come.



**S. D. N. Perera**

General Manager/CEO  
24th March 2016



# ***The 2015 Story***

***“We are passionate about  
fostering a Savings culture  
in Sri Lanka”***

The National Savings Bank (NSB) is unique, not because it is the only Government guaranteed Bank in Sri Lanka, but also because it is the first Sri Lankan Bank to be given the highest credit rating of AAA (lka) by Fitch Ratings Lanka Ltd. – a rating that signifies the Bank’s strong ability to fulfil its financial commitments.

What makes the Bank unique is its passion and commitment to ensure that all Sri Lankans are financially resilient; able to face and overcome any of the financial problems that life throws at them and capable of withstanding the ups and downs of global and local economies.

Given the economic uncertainties of the 2015 financial year, NSB’s story of fostering a savings culture in Sri Lanka is unique and relevant for the times.

## ***The Importance of Financial Resilience for Sri Lankans***

While many economies and markets around the world are looking up after the financial crisis of 2008, some are yet to achieve a level of stability that would bring about a renewed confidence among investors and the various publics.

### **Facing up to Volatility**

Concerns about the global economy, including China's performance in the future beside uneven economic development in emerging markets and developing economies, are affecting financial markets in terms of diminishing confidence and increased volatility.

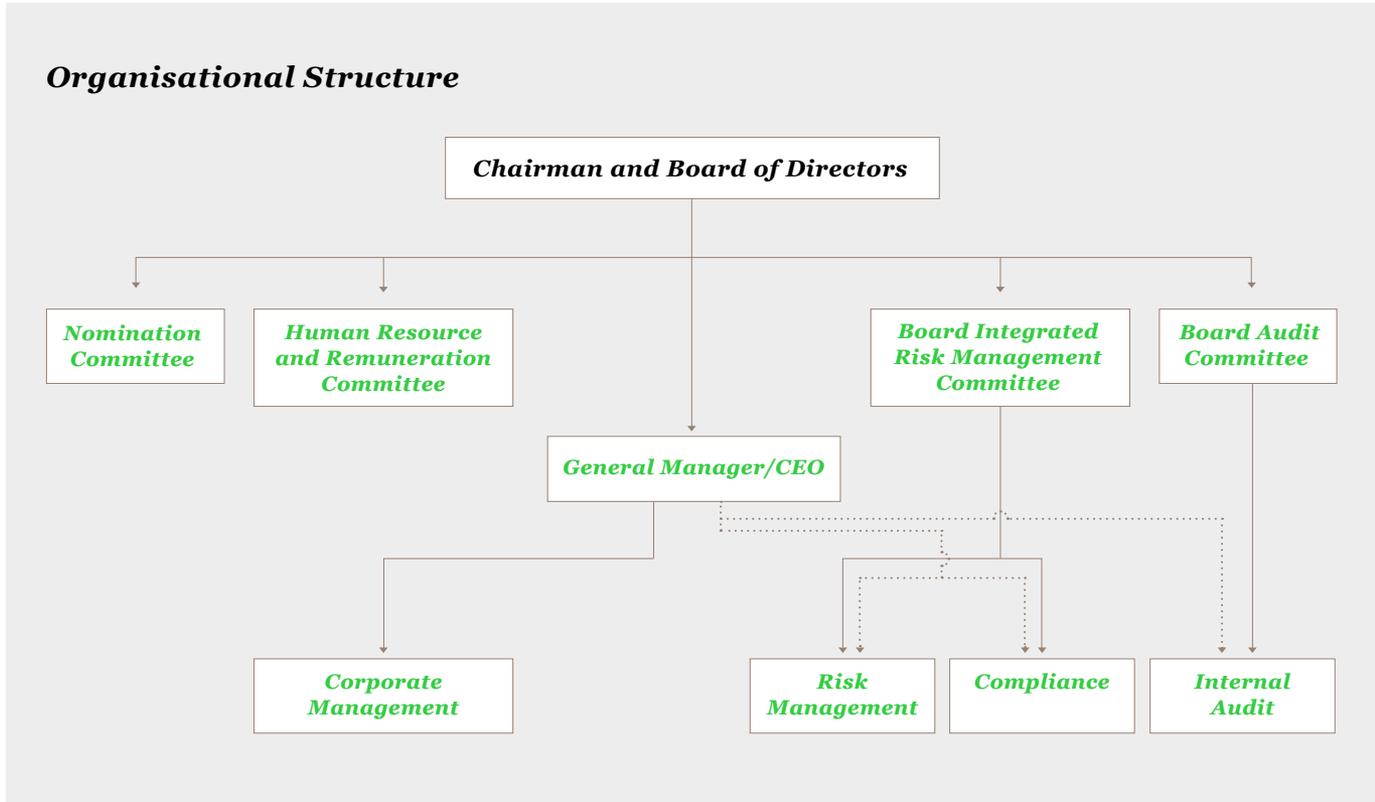
The Sri Lankan economy could also benefit from a boost in confidence. Over the last five years, Government Revenues in the country have seen a steady drop, declining to just 12.3% of GDP in 2014. According to Oxford Business Group, income tax collection is expected to fall a further 6.4% in 2016, increasing pressure on other income streams. Government investments in infrastructure, healthcare and education, will also see the country's expenses increase to 22.3% of GDP in 2016, up from 19.1% in 2015.

Given the uncertainty in both global and local economies, financial resilience has never been more imperative for Sri Lankans. NSB has always been focusing on creating a financially resilient Sri Lanka by promoting the concept of saving and asset creation. It is the only Bank whose deposits are fully guaranteed by the Government of Sri Lanka. NSB is the first local bank to receive AAA (lka) credit rating from Fitch Ratings Lanka and the only Bank to maintain the same for 13 consecutive years.

### ***Overview of National Savings Bank***

Given the uneven global and local economic backdrop, 2015 saw the National Savings Bank celebrate 43 years of pioneering service, diligently ensuring that all Sri Lankans are financially resilient. In fact, its role in creating and popularising a savings culture in the country over the last four decades, resulted in the Bank making a name for itself as Sri Lanka's flagship in championing savings to all segments of the population.

## Organisational Structure



## A Range of Savings Options

NSB has a range of Rupee savings accounts to serve the needs of the nation. From regular savings accounts and term deposits, to special accounts for children, youth, women and senior citizens, which offer attractive rates and benefits.

The Bank also offers foreign currency deposits through its *Ranmasu NRFC* (non resident foreign currency) account, which is mainly for Sri Lankans working overseas. The Bank's RFC (resident foreign currency) accounts are popular among customers who receive regular deposits from relatives working overseas and from other sources. NSB's Special Foreign Investment Deposit Account (SFIDA) offers attractive interest rates for customers living overseas who wish to invest in Rupee deposits.

### **Wide-Ranging Reach**

Customers can reach the Bank through its 245 branches, 4,063 post offices across the island and an extensive ATM network that provides MasterCard and Visa Debit Card facilities.

NSB has relationships with global money transferring companies, enabling faster, cheaper and secure remittances from all over the world.

The Bank is also a member of SWIFT and Eurogiro, a low cost, secure and speedy money transfer system.

### **Saving for Financial Resilience**

The idea of wealth accumulation through saving little by little for greater asset creation and asset building, has been one of the key driving forces that NSB has been championing since its inception in 1972. The Bank was established by the merging of four savings institutions, one of which was Ceylon Savings Bank, which opened in 1832, just two decades after the world's first recorded savings movement was initiated in Scotland. Steeped in such a distinguished savings culture, NSB today is a leader in the country's Rupee savings market with a market share of 12.8%.

Through countless public awareness projects and educational initiatives, the Bank has worked tirelessly to encourage people to save, not simply by putting aside extra money at the end of every month, but by determining a percentage of monthly income for saving and ensuring that amount is safely deposited first, before any other expenses are dealt with.

2015 has seen the Bank renewing its focus on fostering a savings culture in Sri Lanka with even greater enthusiasm, as it gears itself to meet the challenges and opportunities of 2016 and beyond.

The Bank is planning to implement some key initiatives in the coming year to further boost its growth momentum.

**“Given the local and global economic uncertainties, it is vital that we work towards fostering a savings culture in Sri Lanka.”**

*Global Challenges*

**3.1%**

**Global growth in 2015**

**Less indulgent monetary conditions in the US**

**Rebalancing in China with greater focus on consumption and services**

**Sluggish growth in emerging markets**

**Reduced global demand for manufacturing and trade**

*Sri Lankan Economic Challenges*

**5.8%**

**Low real GDP growth**

**1.5%**

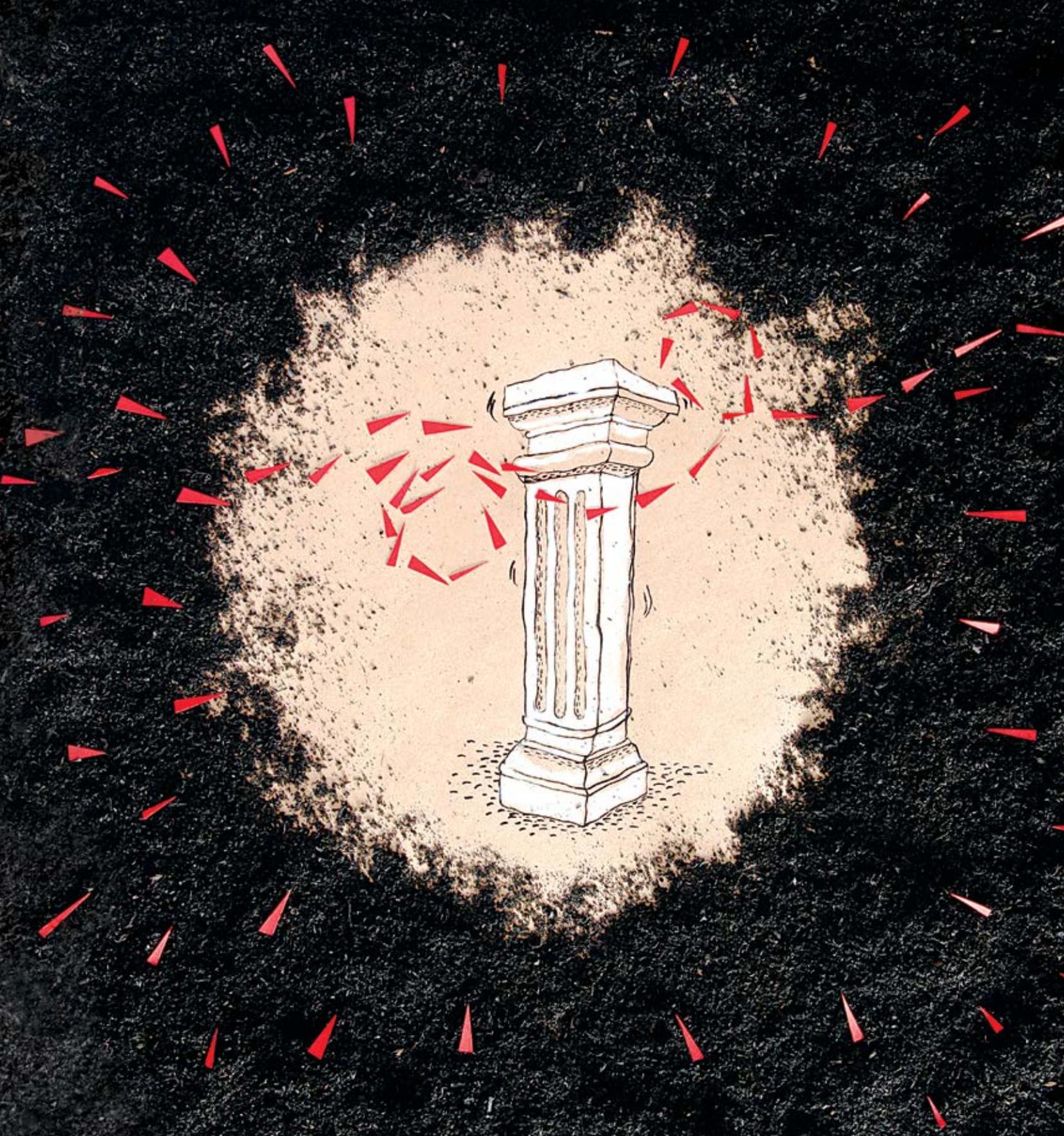
**Very low FDI average**

**9.03%**

**Rupee depreciation**

**Reduced demand for Sri Lankan exports**

**Steady drop in Government revenues**



***“We are the savings bank for  
all segments of society”***

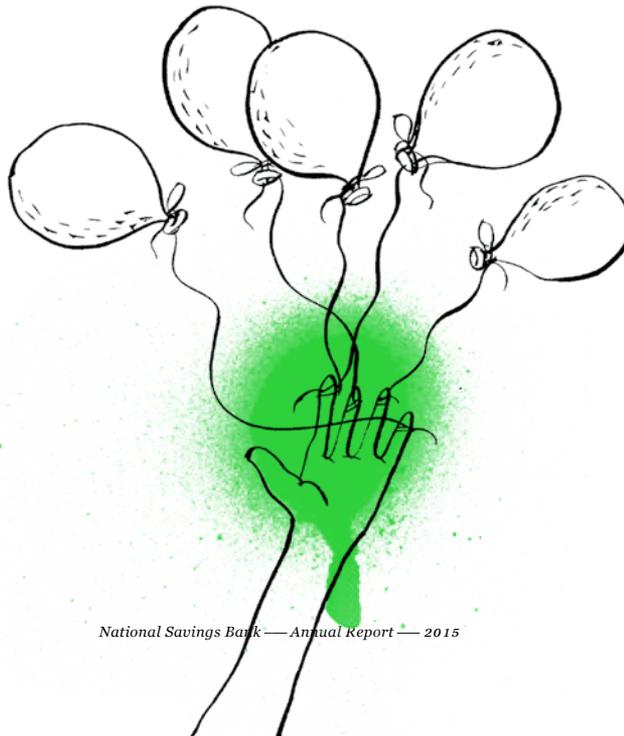
Based on its solid reputation and lengthy history as Sri Lanka’s premier bank for savings,  
NSB boasts a vast number of accounts out of 21 Million population of the Nation.

While a large number of these accounts are held by an older demographic of customers, many are also owned by children and youth, who wanted a solid and dependable bank in which to save money for their future. NSB is proud to be the Bank for the whole family, but at the same time, it has long-term plans in place to ensure that its customers are making the most of the Bank's complete range of products and services.

NSB understands its responsibility to cater to the needs of the multitasking, technically savvy younger generation only too well. Their faster-paced lifestyle has affected the entire work environment with more and more people from every generation, prizing convenience and efficiency in their bank of choice, as highly as profitability and security.

Given Sri Lanka's aging population and the increasing role the younger generation plays in the financial decisions and banking practices of the family, it is imperative that the Bank evolves to serve their financial needs as well. This is why, in 2015, NSB set out to be the Bank for all generations.

NSB will be looking at five key components in the near future: making banking easier and more convenient than ever before, upgrading information technology platforms, changing employee mindsets, enhancing employee skills and changing the perceptions of the public.



## ***Comprehensive Banking Solutions for Customers***

NSB believes banking is not where you go to but what you do, wherever you are. Towards this, NSB has taken a major commitment to offer financial solutions online in real time and to energise the delivery points that would facilitate convenient financial solutions at customer touch points.

### **Saving for a Successful Future**

As the nation's leading savings bank, NSB offers customers a range of savings accounts to suit every stage of life. For instance, children and youth are able to enjoy attractive interest rates on savings accounts such as *Hapan* and *Ithuru Mithuru*.

The *Ithuru Mithuru* savings account is for young people between the ages of 16 and 30. These customers are also offered promising interest rates. The *Sthree* Savings Account is exclusively designed for ladies of this day and age who play multiple roles in life. *Sthree* Accounts can be opened by ladies over 16 years of age with a minimum deposit of Rs. 500. *Sthree* account holders will benefit in many ways with attractive rewards (wedding gift, gift for child's birth) as well as lower interest rates for credit facilities.

NSB Pension + Account is a contributory retirement benefit scheme with a higher rate of return that helps customers plan finances for their retirement. These savings accounts were developed with Sri Lanka's aging population in mind. As the number of people over 60 years increases, the brunt of the financial responsibility for retired persons will fall on younger generations. The Bank designed this savings account so that today's working-age adults can begin implementing a well planned retirement savings plan and be financially independent.

NSB also offers a range of long-term and short-term fixed deposit facilities, including for senior citizens. Many allow the account holder to make withdrawals at anytime.

### **Creating Assets for a Prosperous Future**

While nurturing a savings culture, NSB is committed to facilitate opportunities to customers for asset creation, asset building and assets accumulation, which is key for a financially resilient future. Extending credit facilities for a home or vehicle, studying, travelling overseas, expanding a small business – these are activities that ultimately add to a person’s tangible and intangible assets and the Bank is keen to assist customers by providing them with loans and other facilities that make asset creation easier and more convenient.

The Bank’s housing loans cover purchase, construction, renovation, home improvements and the redemption of existing housing loans.

Again, to ensure greater convenience, the Bank offers an express service that allows the release of the housing loan to the customer within 4 to 10 working days and a documentation service to help with the paperwork that so many customers find a hassle.

One of the Bank’s significant strengths lies in its store of assets – an advantage that benefits the country because it allows NSB to be a major lender to state-owned enterprises and financial institutions.

### **Venturing Abroad for a Brighter Future**

When NSB customers explore opportunities overseas, whether for a new business, job or study opportunity, the Bank is right there with them, providing them with the financial support they need.

The Bank’s *Ranmasu* accounts facilitate those earnings overseas by allowing them to open savings or fixed deposit accounts with NSB. These customers enjoy interest in the currency in which the account is maintained and are exempted from taxes. They are also able to open NRFC (Non-Resident Foreign Currency) accounts for non-resident minors – a safe and secure way of saving for a child’s future.

Sri Lankan Nationals residing in the country and who receive remittances in foreign currency are eligible to open RFC (Resident Foreign Currency) accounts. These are savings and fixed deposit accounts that are made available in a wide range of foreign currencies.

NSB customers also benefit from the Bank's membership in Eurogiro, a low cost electronic money transfer system that connects several international banks and postal organisations.

NSB is the only Sri Lankan institution to be a member of this network.

NSB has established direct relationships with international exchange houses and banks to facilitate the transfer of funds from Sri Lankan nationals living or employed overseas to the accounts of family members and relatives at home. The Bank also acts as an agent in Sri Lanka for a range of global money transfer channels so that Sri Lankan expatriates from around the world can remit funds easily, safely and at a low cost.

The Central Bank of Sri Lanka has allowed NSB to provide money exchange services to customers at its branches. This allows the exchange of foreign currency notes to Sri Lankan Rupees and the purchase of foreign currency notes at competitive exchange rates at selected NSB branches.

### **More Convenient Banking Solutions**

Providing people with convenient and easy banking options has always been one of NSB's key aims. To this end, the Bank has crafted a number of solutions that are designed to allow customers greater freedom to pursue their day-to-day business and as appropriately the Bank has embarked on taking NSB, unique products and services to where people are with the introduction of NSB handheld POS banking in year 2009. Currently, there are 300 handheld POS machines in service across 245 branches of the Bank with dedicated banking officials taking the lead role. Equipped with POS machines, these officers reach remote villages, towns and key gathering points providing access to NSB's services in the most affordable way, whenever and wherever these customers need these services.

Apart from internet banking, mobile banking and SMS banking facilities, the Bank also offers NSB Speed Cash, a secure and fast over-the-counter fund transfer service. Through it NSB customers are able to transfer as little as Rs. 1,000 and as much as Rs. 2 Million to anyone, irrespective of whether they are a customer of the Bank or not. Customers can also visit any NSB branch to pay their utility bills.

The NSB debit cards – both Shopping and Platinum Cards – allow customers the ability to transact with up to 10 different NSB savings accounts through its island-wide ATM network and globally. Using the MasterCard or Visa Debit Card facility, customers can purchase goods from accredited merchants.

The NSB Easy Card is a Master Debit Card that allows customers easy access to funds from a loan facility against a fixed deposit. Unlike the conventional credit card, this service comes with no joining, annual, overdue or late payment fees.

The Bank offers students studying overseas, access to a truly international product; the International Student Identity Card or ISIC is a Master Debit Card issued by NSB in collaboration with ISIC Organisation. Every year, more than 4.5 Million students from 120 countries use their student cards to take advantage of offers on travel and shopping, worldwide.

Through NSB’s call centre, customers are able to contact the Bank on a 24x7 basis through telephone or web chat with questions or problems regarding all banking matters in either Sinhala, Tamil or English. The call centre employees are fully trained and empowered to respond to customer complaints swiftly and skilfully.

### **Upgrading IT Systems for Greater Efficiency and Convenience**

In today’s fast-paced world; speed, accuracy and competence are of the utmost importance to everyone. To facilitate the changing banking needs of its customers and to enhance efficiency at every level of the Bank, NSB is focusing on further streamlining its information technology systems and processes.

One area the Bank will be focusing on developing through technological innovation is banking on the go. With more and more customers switching to smartphones or tablets to make purchases, book tickets and hotel reservations, NSB has seen the need for increased usage mobile phone banking. The Bank’s Internet banking and SMS banking facilities will also be further enhanced, making it optional for customers to visit the branch for their transactions. Once the new IT systems are in place, they will be able to conduct a range of banking transactions as they go about their busy lives.

Employees of the Bank who visit homes and offices with mobile banking devices will also be better equipped to serve the banking needs of customers through improved IT products that the Bank is currently working on implementing. This will allow customers, the chance to conduct a range of banking transactions without visiting a branch.

### ***Changing Hearts and Minds within the Bank***

Over the last 43 years, NSB has accumulated a knowledgeable and dedicated team of employees who are attuned to the needs of the customer. Making use of this keen advantage, the Bank makes it a point to hire people who are keenly in tune with the community; people who understand the financial needs of the Bank's expansive customer base. In fact, NSB's employee community is a microcosm of Sri Lankan society.

#### **Employee Profile**

NSB boasts of a large number of employees, who have seen long service with the Bank. Over 800 have been employed for more than 15 years. Having joined at a young age, they have grown up with the Bank and internalised its values. They are a key stakeholder within the organisation who embody the strengths of the Bank – dependable, dedicated and hardworking.

NSB is also proud of its comparatively newer family members – having hired 473 people in 2015 alone. From school-leavers and graduates to experienced members of the nation's banking industry, they are all deeply rooted in the community and already have an intimate understanding of NSB and all it stands for, because so many of them are already customers of the Bank and have been so from childhood.

Given this background and the Bank's new aspiration – to be the Bank for all generations, in order to build a financially resilient Sri Lanka – NSB will be focusing on helping employees understand that while the values of the Bank remain unchanged, its new direction will warrant an adjustment in the way they perceive the Bank.

NSB will be working to ensure that its people look beyond the Bank's core business, which is savings. The healthy mix of long-service staff and newcomers among the employee population, ensures that NSB remains progressive and continues to have healthy internal discussions about the best way to bank.

The Bank's total number of permanent employees, as at 31st December was 2,813. Further, 823 staff members are employed on contract basis. 164 employees retired from the Bank in 2015 and six resigned.

All employees are covered by the collective agreement. Trade unions operating within the Bank include Jathika Sevaka Sangamaya, Ceylon Bank Employees' Union, Sri Lanka Independent Bank Employees' Union, Executive Officers' Association of NSB and All Ceylon Bank Employees' Union.

The Bank actively encourages extracurricular activities. Employees have formed their own religious and welfare societies and enjoy membership in the Sports Club and '*Kala Kawayaya*' (Arts Circle).

### **Creating Awareness**

The Bank understands that no amount of infrastructure development will have any impact, if the people within NSB are not behind the new technological innovations. So, led from the top, a comprehensive communication and awareness programme is currently underway within the Bank to help employees understand the important role technology plays in making life more convenient for customers.

Since its inception in 1972, NSB has always been the nation's savings bank. Over the years, the Bank has however, explored other business lines such as foreign currency trading and Trade Finance. In 2015, after ascertaining the feasibility of pursuing such avenues with renewed vigour, NSB began creating awareness of the Bank's full potential among employees, ensuring that they received the necessary training to make the best of new business opportunities.

NSB's Human Resources Department is working with Heads of Divisions to provide awareness training, starting with areas of the Bank that will see the most change soonest. This includes ensuring that all employees understand the full capability of the Bank as well as its potential.

## ***Harnessing Skills – Recruiting the Best and Training the Rest***

Given NSB's transformation plans, it is crucial that key positions within the Bank be held by professionals in the industry, who are capable of leading and facilitating change.

As it works towards enhancing its business position, NSB faces stiff competition from local private and State banks who have been major players in the market for the last 40 years or so. This is where the Bank's Government backing and its well-trained staff come in handy, giving NSB an edge over competition.

### **Training**

Effective skills training is one way in which the Bank hopes to ensure that all employees are ready for upcoming changes. This year too, senior managers were sent overseas for additional managerial and functional training in areas such as risk, investment and operations. In total, NSB invested over Rs. 23 Million in foreign and domestic training for employees during the year 2015.

Local training programmes included, short-term programmes, seminars and workshops, as well as long-term courses, diplomas and degrees. During the year under review, virtually all employees outside the executive suite participated in training programmes.

In 2015, employees logged a total of over 33,000 hours training in-house and regionally. Sixteen employees logged in nearly 368 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 30 employees, from banking assistants to executive level managers, took advantage of the Bank's offer to support their pursuit of long-term education 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 the Diploma in Banking and Finance Examinations of the Institute of Bankers of Sri Lanka.

## **Compensation and Benefits**

Attracting the best people in the industry and retaining those with the highest potential has not been difficult for NSB. The Bank's stellar reputation and employee friendly policies have contributed significantly to a work culture where people have really got behind the Bank's mission and truly made it their own. The fact that only six of 3,636 employees left the Bank during the year for reasons other than retirement, is a strong indicator of NSB's position as a coveted employer in Sri Lanka. The Bank's competitive pay, benefits and a non-discriminatory working environment work hand-in-hand with NSB's long-standing reputation as a rock steady organisation to attract and retain talented employees.

### **Employee Benefits**

NSB's salaries and non-salary benefits are attractive and on par with those offered by other state-owned banks. All are set by collective agreements, signed between the Bank and the employee unions. Employees are also entitled to an annual bonus plus a special bonus awarded, if the Bank achieves a pre-stated target.

Permanent employees enjoy benefits such as a comprehensive health plan, disability coverage, a pension plan and training. Other benefits include healthy, subsidised meals for Head Office staff and the use of holiday bungalows at discounted rates.

The Bank is also concerned with employee health. Staff enjoys access to an in-house medical centre at the NSB Head Office that is run 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.

The Welfare Division also sponsors seminars and workshops for employees on health related topics. Conducted by Professional Human Resource Experts, past workshops 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, spectacles and medicines. The Bank offers a friendly hand to employees who suffered from serious illnesses by granting financial assistance and paid leave for treatments. In 2015, the amount given to employees in terms of vehicle loans, increased significantly. Other staff loans, such as housing loans, were offered at concessionary rates.

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 or permanent or partial disability, while at work.

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 confinement. Fathers receive three days paternity leave.

### **Pension**

A total of 541 existing employees hired before 1st October 1995, are enrolled in a non-contributory pension scheme established in 1980. Employees joining on or after 2nd October 1995, are also entitled to the new pension scheme which is non-contributory. These employees also can contribute to a Widows' & Orphans' Fund under this scheme. Benefits are bestowed 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-years service milestone are entitled to a one-time gratuity. So far 2,258 employees have joined this pension scheme.

### **Work Environment**

This is why the Bank believes that one of its foremost duties is to create value by giving 4,542 Sri Lankans the opportunity to work in a safe, non-discriminatory environment that provides them with career advancement opportunities, a livelihood for their families and many other benefits.

The Bank does not consider gender when it grants promotions, assigns responsibilities or sets salaries and other financial and non-financial benefits.

Eight cases of alleged human rights litigations were reported and addressed during the year under review and 9 Labour Tribunal Cases were pending at the end of year 2015. Of the Bank's staff cadre, all permanent employees are covered by the collective agreement.

630 employees received promotions in 2015. 269 employees celebrated 30 years or more with the Bank, while a further 584 have passed the 15-year milestone.

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%.

### **Family Culture**

Employees who have been with the NSB family for long, are appreciated every year through the Bank's long service awards scheme. Employees who have reached 25 and 35-year service milestones are presented with gold coins and a salary raise, as a reward for their loyal service on Achievers.

NSB endeavours at all times to support the success of its employees' families. The annual Achievers' Day 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 performances in sports and other extracurricular activities recognised and rewarded. Outstanding children receive prizes in cash or kind.

The Bank sponsors special events for employees and their families, including an *Avurudu Pola* conducted twice a year, New Year Celebratory Ceremonies, *Vesak Bhakthi Gee* and a Christmas programme of Carol Singing.

Every year, NSB organises an annual get-together for all employees. The event includes a colours night to honour employees who excelled at sports during that year.

Another much anticipated annual event is the Sinhala and Tamil New Year, where employees get together to celebrate the *Avrudhu Uthsawaya* in April.

### ***Changing the Perceptions of the Public***

The National Savings Bank is the 4th highest banking brand in Sri Lanka in terms of deposit base and asset base. It is the only Bank to be awarded a AAA (lka) Fitch Rating for the 13th consecutive year. In 2015, LMD gave NSB a brand rating of AA and ranked it Fifth Most Valued Brand in Sri Lanka. NSB is the only Bank to have a 100% Government guarantee on deposits and interests.

Perhaps taking advantage of public perception, as being the safest place for people's savings, NSB is keen to create and facilitate greater inclusion of its financial services to all segments of Sri Lankan society.

On the personal banking side, the Bank is keen to create awareness of many other products and services it provides – from savings accounts and time deposits to credit facilities and foreign currency products. Whether it is the purchase of a house or a vehicle, opening a small business, sending a child overseas for higher education – NSB strives to show that it offers all these banking services and more under one umbrella.

Apart from personal banking, the Bank is strong in other areas as well. For instance, NSB's exchange income improved substantially in 2015. This was a direct result of the Bank strengthening up the dealing room that caters not just to Government Securities and Stock Market activities but also ventures into foreign exchange activities as well. The Bank's solid performance in this field resulted in NSB being awarded membership in the Sri Lanka Forex Association as a player in the foreign exchange market.

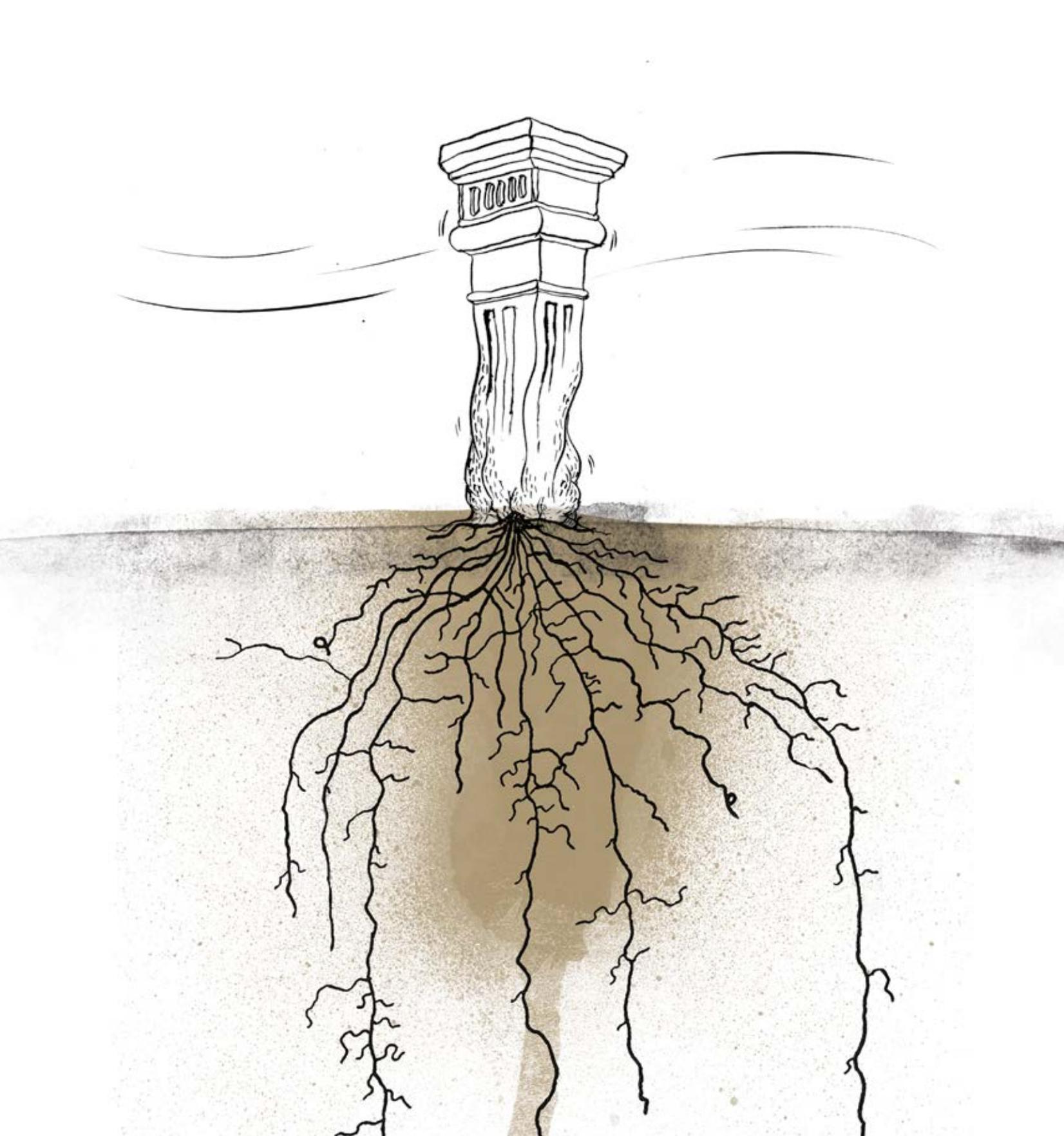
During the year under review, a fully fledged Dealing Room was set up in the Treasury Division to handle Rupee and foreign exchange transactions, position squaring, NOSTRO Accounts Maintenance and the quoting of exchange rates, which were operated by International Banking Division. The number of dealers were increased and they were provided with necessary training in order to further fortify this area. To ensure strict internal controls and compliance, back office activities were brought into the purview of the Finance and Planning Division. The Bank is currently in the process of procuring an Advanced Treasury Management System to enhance the management of its Treasury Division. Assets and Liabilities Management (ALM) function was also separated under a special ALM Unit which was set up in the Treasury Division.

NSB entered into the international financial market with the US Dollar denominated Bond issue in 2013 and 2014, which was a significant milestone of the Bank. The Bank maintained a favourable relationship with investors, while maintaining the international credit rating of the Bank.

In summary, here is a quick look at our Strategic Priorities for 2016

### **Key Priorities for 2016 and Beyond**

- 1. Reinforce the Bank's core business** by maintaining the market share of 10.77% in deposits through local and foreign currency accounts, the mobilisation of the Bank's branch and postal network, efficient treasury management, further diversification and increased lending
- 2. Forge new business relationships** to increase international remittances and international banking operations
- 3. Grow fee-based banking services** focusing on card centre operations, treasury bills bonds and equity investment activities at branches to reduce overdependence on net interest income
- 4. Venture into a new business line**, namely, Trade Finance
- 5. Enhance corporate image** through effective marketing communication
- 6. Improve productivity** through integrated IT infrastructure and training & development of employees.



***“We aim to ensure that  
all Sri Lankans are able to weather life’s  
financial storms”***

The Bank’s increase in profitability in 2015, has been attributed to five key factors: growth in core business, signifying a 26% increase in net interest income, improvement in asset quality, increased business volume through a clearer focus on under penetrated business areas, enhanced efficiency and productivity through a well managed operating cost structure and wider reach and accessibility through an improved relationship with the national postal network, particularly within rural Sri Lanka.

## ***The Global Economy***

Despite making up 70% of global growth, economic development in emerging markets and developing economies continued its downward trend in 2015. Future economic growth is mildly promising with global growth, estimated at 3.1% in 2015, expected to rise to 3.4% and 3.6% in 2016 and 2017 respectively.

Some challenges outlined by the IMF (International Monetary Fund) include: The US turning away from more indulgent monetary conditions, rebalancing in China as the country focuses on consumption and services rather than investment and manufacturing, sluggish growth in emerging markets and decreased commodity prices.

Global trade was adversely affected by reduced global demand for manufacturing and trade, a steep drop in emerging markets imports and economic distress in several developing markets.

Global growth could face some serious hurdles, unless timely interventions can be made to manage these challenges.

## ***The Sri Lankan Economy***

Sri Lanka stands apart from most other South Asian nations, in that it does not have a demographic dividend: the accelerated economic growth that usually results from declining birth and death rates. With over 28% of its population projected to be over 60 years old by 2050, it is imperative that the country focuses on increasing its labour force, employment rates and productivity to ensure sustained growth.

The new formula to measure GDP, adopted in July 2015, saw the country's GDP grow by 4.8% during the year compared to 4.9% real GDP growth in 2014. These improvements were registered amidst challenges from both domestic and external forces.

### **GDP Growth (Real Output)**

[ % ]

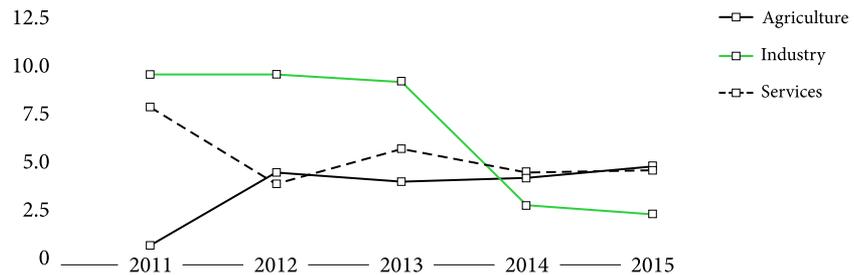


2015 was a year in which many local and foreign investors took a cautious approach, waiting to see the outcome of the country's general election in August. The 2016 budget which was released in November 2015, included reduced investment ownership restrictions and a range of tax incentives, all aimed at boosting foreign direct investment (FDI).

### **Annual Gross Domestic Product 2015**

#### **Sectorial Classification of GDP (Real Output)**

[ % ]



The services sector was the highest contributor to GDP development, registering growth of 5.18% in the first nine months of 2015. The expansion of wholesale and retail trade, transport, real estate and financial services activities were the key drivers of growth in the services sector.

The Rupee depreciated in 2015, despite the Central Bank having eased the monetary policy in December 2012. Low interest rates prevailed, contributing to a swell in imports.

China, Germany, India, Italy, UK and USA received 54% of the country's exports during the year 2015. Slow growth in these economies meant reduced demand for Sri Lankan exports.

### ***The Sri Lankan Banking Sector***

In 2015, the banking industry recorded accelerated growth in assets and profitability, increasing branch and ATM networks throughout the island. This speedy growth was largely due to the rapid acceleration in loans, advances and consumption related activity.

It was backed by low interest rate regimes and the availability of relatively short-term funding from domestic and foreign sources.

The profitability of the industry further improved during the period under review, while the capital position continued to be well above the minimum regulatory requirement, reflecting its loss absorbing capacity in times of distress. The industry has been in compliance with the new capital requirements under Basel III.

At 31st December 2015, the total assets of licensed specialised banks in Sri Lanka was recorded at Rs. 1,103 Billion, with NSB holding 76.60% of market share. Total income was down by 2.5% from 2014 for licensed specialised banks, but NSB's grew by 6.43% for the same period.

### ***NSB's Financial Performance in 2015***

Profit before tax (PBT) for 2015 rose by 24%, compared to 2014, to reach Rs. 13 Billion. Profit after tax (PAT) for the same period was reported at Rs. 8.7 Billion. These profits were recorded amidst prudent provisioning for any adverse impact on declining gold market prices.

	2015 Rs. Million	2014 Rs. Million	Growth Rs. Million	%
Operating profit before VAT and NBT	15,471	12,508	2,963	24
Profit before Income Tax	13,034	10,472	2,562	24
Profit after tax	8,672	6,867	1,805	26

There was an increase in quarterly profits, when compared with the 1st half of the previous year. The Bank was able to maintain its quarterly profits during the 2nd half of the year with the prevailed unfavourable market conditions. The Bank maintained a good net interest margin and an optimal cost structure.

Quarter ended	2015			
	31st March	30th June	30th September	31st December
Operating profit before VAT and NBT (Rs. Million)	3,564	3,892	3,427	4,588
Growth (%)	87.9	173.2	(12.1)	(13.2)
Profit before Income Tax (Rs. Million)	2,980	3,267	2,870	3,917
Growth (%)	92	180.9	(12)	(12.9)
Profit after Tax (Rs. Million)	1,840	2,015	1,742	3,075
Growth (%)	63.9	187.3	5.9	(9.6)

The total assets of the Bank as at 31st December 2015 stood at Rs. 848 Billion, indicating a growth of 9%.

The Bank was able to significantly improve its non-performing loans ratio to 3.5% by end of 2015 from 7.6% at end 2014.

The interest income of the Bank grew by 6% to reach Rs. 78.1 Billion. Interest expenses recorded a marginal decrease of 3%, mostly due to the favourable impact of repricing of fixed deposits, partly offset by an increase in the normal savings base during the period under review. As a result, the Net Interest Income of the Bank increased by 26% compared to 2014, to reach Rs. 27 Billion.

During the period under review, the total deposit base of the Bank grew by 8% to reach Rs. 596 Billion while savings deposits recorded an impressive growth of 15% to reach deposit base of Rs. 163 Billion.

The Bank contributed Rs. 11 Billion to the Government by way of taxes and dividends.

NSB's Tier I capital adequacy ratio stood at 17.9%, while total capital ratio was 16.4% as at 31st December 2015.

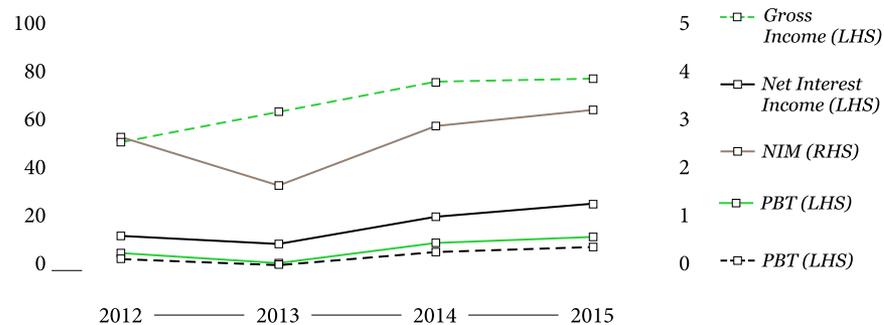
**Gross income** of the Bank consisted of interest income, fee and commission income, net gain/(loss) from trading, net gain/(loss) from financial investments and other operating income (net). Gross income for the year was Rs. 79,282 Million, which showed a marginal increase of Rs. 1,392 Million or 1.8% against the previous year.

**Net fee and commission income** which is 27% over the previous year, stood at Rs. 364 Million against Rs. 286 Million in 2014. The increase was the result of high-quality customer centric services rendered by the Bank.

**Income, Profits and NIM** →

[ Rs. Billion ]

[ % ]



**Net gain/(loss) from trading** recorded a decrease of 84%, which turned to Rs. 298 Million in 2015 from Rs. 1,905 Million in 2014. During 2014, capital gains were made due to low interest regime prevailed with the broad interest spread of the Bank's Government Security portfolio. However, the continuation of the low interest regime in 2015, narrowed the interest spread resulting in lower capital gain.

**Net gain/(loss) from financial investments** was recorded at Rs. 28 Million, which is a decrease of 98% against Rs. 1,349 Million in 2014. The reason behind this drastic drop was a recovery of fully impaired investment in 2014. In 2015, the Bank managed to realise a profit of Rs. 28 Million on the disposal of investments available-for-sale.

**Other operating income** rose to Rs. 353 Million, showing an increase of 37% on Rs. 258 Million in 2014. Dividend income from strategic investments held under available-for-sale portfolio and gain on revaluation of foreign exchange contributed mainly towards this success.

**Impairment charges** were calculated using the incurred loss methodology, after the implementation of the Sri Lanka Financial Reporting Standards. The calculations are done under two main categories; namely individual and collective impairment and are based on pre determined impairment triggers.

The impairment charge for the year under review was Rs. 2,139 Million, compared with a charge of Rs. 3,476 Million in 2014. This is a remarkable decrease of 38%, which is above the industry average. Continuous reduction in gold prices caused a massive increase in provision for impairment in 2014. NSB was able to dispose of unredeemed gold articles as a recovery measure. The Bank followed stringent recovery procedure to reduce the level of its non-performing assets.

	2015 %	2014 %	Change %
Individual impairment	—	—	—
Collective impairment as a percentage of total loans and advances	<b>1.125</b>	1.732	(35.05)
Total impairment as a percentage of total loans and advances	<b>1.125</b>	1.732	(35.05)

**Other operating expenses** for the year stood at Rs. 10,415 Million, compared to Rs. 9,194 Million for the year 2014. This is an increase of 13%.

A revision of the collective agreement for 2015-2017 succeeded in the reviewing year and was followed by the introduction of a new pension scheme for employees recruited after 1st October 1995. Due to the strategic expansion of business operations, recruitment was a must. As a result, personnel expenses shown under other operating expenses increased by 23% in 2015. Other expenses increased by 2% from Rs. 4,397 Million in 2014 to Rs. 4,504 Million in 2015.

**The overall effective tax rate** of the Bank was 33.46% in 2015, compared to 34.43% in 2014. The Bank's provision on Value Added Tax on financial services, Nation Building Tax on

financial services and Income Tax were Rs. 2,062 Million (up from Rs. 1,745 Million in 2014), Rs. 375 Million (up from Rs. 291 Million in 2014) and Rs. 4,361 Million (up from Rs. 3,605 Million in 2014) respectively. In terms of percentage, these taxes increased by 18%, 29% and 21% respectively, due to the increase in the Bank's operating profit.

**Contribution to the Government** is a must for the Nation's savings bank and NSB continues to contribute towards national development by means of a special fee, dividends and contributions to the National Insurance Trust Fund. Rs. 1,333 Million was the special fee for 2015. For the same year, the Bank paid Rs. 2,800 Million as dividends and Rs. 84 Million as the contribution to the National Insurance Trust Fund. The comparative figures for special fees, dividends and contribution to National Insurance Trust Fund were Rs. 1,333 Million, Rs. 4,000 Million and Rs. 69 Million respectively for 2015.

**Other Comprehensive Income** was recorded at Rs. 1,356 Million in 2015. As a result of the revaluation of immovable property, a Rs. 1,231 Million revaluation gain was booked. Gains on cash flow hedges and re measuring of available-for-sale financial assets were the other contributors towards gain in this category. However, losses on fair value gains transferred to the Income Statement on disposal of available-for-sale (AFS) and actuarial losses on retirement benefit plan reduced the gain. In 2014 NSB, recorded a loss of Rs. 1,745 Million in Other Comprehensive Income, due to the net result of the actuarial valuation of the pension benefit plan.

**Utilisation of funds** resulted in the Bank being able to grow its asset base by 9% in 2015, to reach Rs. 848,079 Million, up from Rs. 779,466 Million in 2014. Demand for credit from State and Private Sectors, steered the asset growth in industry as well as Bank. However, the Bank's growth rate of assets is comparatively low due to utilisation of funds more in investments than in lending low interest rates that prevailed in the market.

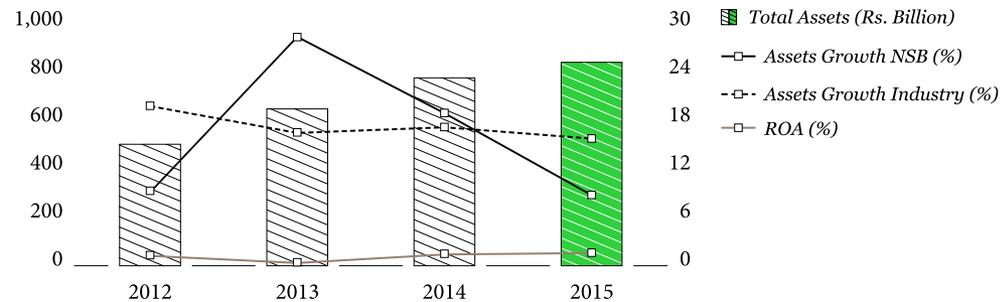
61% of NSB's asset base consisted of financial investments held-to-maturity worth Rs. 515,303 Million. This increased only marginally by 1% from Rs. 510,341 Million in 2014. The funds, sourced by US Dollar Bond issue, were originally invested in Treasury Bonds, until the identification of investments.

The loan portfolio of the Bank, comprising loans and receivables to customers and loans and receivables to banks, increased by 22% from Rs. 222,696 Million in the previous year, to Rs. 271,751 Million in 2015. The corporate lending portfolio gained a 29% increase, while the retail lending portfolio showed a 16% growth in 2015. Funds raised from US Dollar Bonds were disbursed as loans during the year resulting in a remarkable 35% growth.

### **Assets Growth and ROA**

[ Rs. Billion ]

[ % ]



Other financial assets held for trading marked a growth against the previous year of 82%, up to Rs. 13,543 Million. This was a strategic investment move to materialise capital gains.

An appreciation in Property, Plant & Equipment resulted in the revaluation of the freehold land and buildings of the Bank. Revaluation was done by a professionally qualified team of valuers, according to the guidelines issued by the Central Bank of Sri Lanka.

### **Composition of the Bank's Asset Base and Asset Quality**

97.2% of the asset base of 31st December 2015 (31st December 2014-97.4%), is composed of financial assets of which 33% consisted of loans and receivables (2014-29.3%). The investments portfolio was 67% (2014-70.7%). The management strategies to increase the return on assets within the statutory framework of the Bank led to an increase in the loans and receivable portfolio, while the quality of the assets was improved. The non-performing asset ratio was reduced from 7.6% to 3.5%. The non-financial assets mainly comprised Property, Plant & Equipment and other receivable from General Treasury and withholding tax receivable.

# ***“By focusing on being the Bank for all generations we help our stakeholders create assets and become more financially resilient”***

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## ***Ordinary savings account***

The basic savings account, designed to safeguard the money and appreciate the value of savings.

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## ***Hapan children’s savings account***

Savings account that encourages to save and build a secured future for children.

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## ***Ithuru Mithuru savings account***

Specially designed savings account for the younger generation to reap all the benefits, while saving for a flourishing future at the same time.

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## ***Sthree savings account***

The savings account, designed exclusively for women, which will lend a hand to shoulder the responsibilities and to become the heiress to a better tomorrow.

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## ***NSB Pension + account***

A retirement plan with a steady source of income, allowing to enjoy the best of life after retirement.

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## ***Fixed deposits***

Term deposits with the highest competitive interest rates in the market.

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## ***Gaurawa account***

The senior citizens to be taken care of by offering a good return for their life time savings.

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## ***NRFC/RFC accounts***

Savings and Term deposits, available in foreign currencies and to be opened by resident and non-resident Sri Lankans.

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## ***Alankara, Ithurum Niwasa and Gedora Housing Loan Schemes***

Housing loan facilities with many special features, which enable the Sri Lankans to make their dream homes a reality.

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## ***Personal Loan Scheme***

A personal loan will be offered to purchase consumer goods, bear healthcare expenditure, travel overseas, higher education or any other acceptable personal need.

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## ***Loans against deposits – Speed loans***

Without en cashing the fixed or savings deposits, a speed loan against the deposit can be obtained.

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## ***Auto loan***

NSB Auto Loan is there to help its customers own a vehicle at the lowest interest rate and convenient repayment options.

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## ***NSB Ran Sahana***

A golden hope in urgent financial difficulties indeed.



**NSB**  
Savings Accounts

**Kafan**  
CAPITAL INVESTMENT SAVINGS ACCOUNT

NSB

**NSB**

**Alankara**  
Home Loans

**Gaurania**

**NSB**  
Fixed Deposit

NSB

**NSB**

**Ge Dora**

**ANY LOAN**

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SRI LANKA POST

**NSB**  
**Birubi**

PERSONAL  
**LOAN**  
SCHEME

**NRF/RFC**  
NSB

**NSB**  
**Pension+**

## Sources of Funds

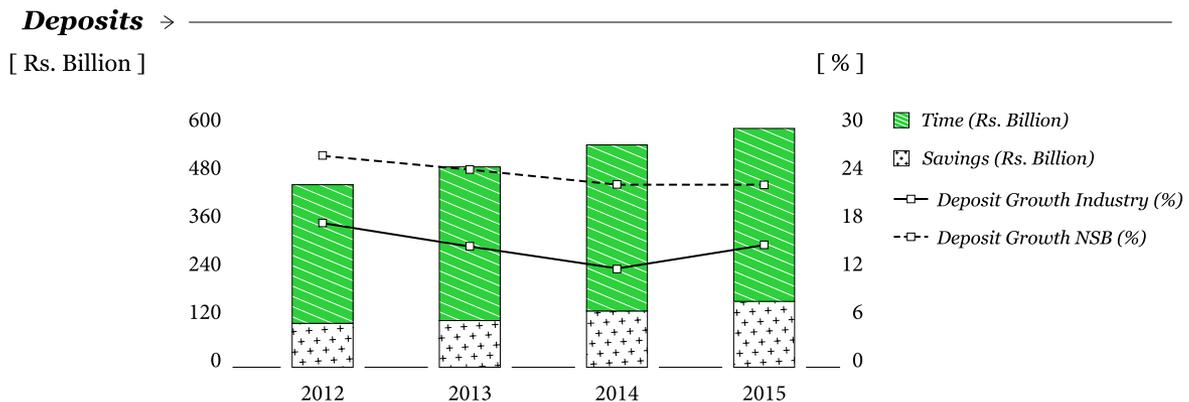
### **Liabilities**

Total liabilities booked by the Bank at the end of 2015 were Rs. 815,655 Million. This was an increase of 8% against Rs. 756,206 Million booked in 2014.

Customer deposits were the leading source of funds, growing by 8% from Rs. 554,060 Million in 2014 to Rs. 595,776 Million in 2015, after transferring Rs. 3,062 Million in unclaimed deposits to reserves. Due to the lower interest rate gap between fixed deposits and savings deposits, the Bank was able to move towards acquiring low cost funds, which in turn resulted in an improved deposit mix.

Securities sold under repurchase agreements and US Dollar denominated Bonds issued, have been merged as other borrowings. REPO borrowings increased by 6% from Rs. 56,829 Million in 2014 to Rs. 60,127 Million in 2015. As a result of excess liquidity prevailing in the market, low cost funds were substantially available. The Bank utilised these funds to cater to the increased demand for credit. US Dollar Bonds issued by NSB, remained unchanged in US Dollar value. However, as a result of the 9% depreciation of the Sri Lankan Rupee against the US Dollar, the booked values of US Dollar Bonds increased to Rs. 146,898 Million in 2015, up from Rs. 134,273 Million in 2014. These Bonds consist of US \$ 750 Million Bonds which will mature in 2018 and US \$ 250 Million Bonds, which will mature in 2019.

Retirement benefits for employees represent 47% in other liabilities, which comes to Rs. 5,793 Million. The liabilities were booked following the actuarial valuation conducted in 2015.

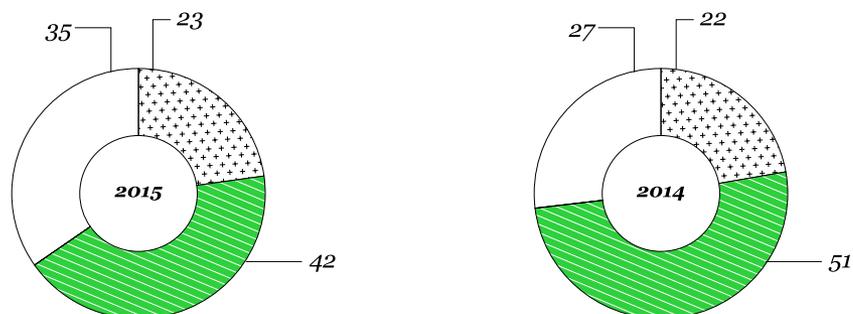


## Value Addition and Distribution

	2015 Rs. Million	2014 Rs. Million
<b>Value Addition</b>		
Income from Banking Services	78,129	74,023
Cost of Services	(51,146)	(52,643)
Value Added by Banking Services	26,983	21,380
Non-Banking Income	1,043	3,798
(Provisions)/Reversal	(2,140)	(3,476)
	<b>25,886</b>	<b>21,702</b>
<b>Distribution to Employees</b>		
Personnel Costs	5,911	4,797
<b>To Government:</b>		
Income Tax	4,361	3,605
Value Added Tax	2,062	1,745
NBT on Financial Services	375	291
Contribution to the Consolidated Fund	2,800	4,000
Special Fees paid to Government	1,333	1,333
Contribution to National Insurance Trust Fund	84	69
	<b>11,015</b>	<b>11,043</b>
<b>Retained for Expansion and Growth:</b>		
Earnings	8,651	5,558
Depreciation	309	304
	<b>8,960</b>	<b>5,862</b>
	<b>25,886</b>	<b>21,702</b>

### Distribution of Value Addition

[ % ]



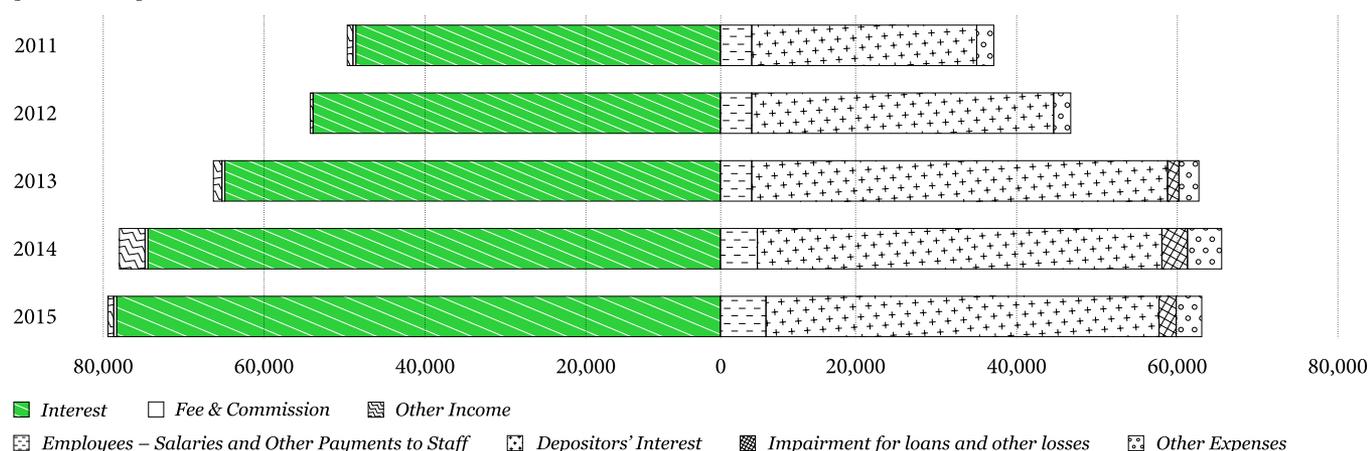
To Employees
  To Government
  Retained for Expansion and Growth

## Sources and Utilisation of Income

	2015 Rs. Million	2014 Rs. Million
<b>Source of Income</b>		
Interest	78,129	74,023
Fee & Commission	475	356
Other Income	678	3,511
<b>Total</b>	<b>79,282</b>	<b>77,890</b>
<b>Utilisation of Income</b>		
Employees - Salaries and Other Payments to Staff	5,911	4,797
Depositors' Interest	51,146	52,642
Impairment for loans and other losses	2,140	3,476
Other Expenses	3,281	3,134
	<b>62,478</b>	<b>64,049</b>
Net Income before Government Taxes and Levies	<b>16,804</b>	<b>13,841</b>
<b>Government</b>		
VAT, NBT and Income Taxes	6,799	5,641
Consolidated Fund	2,800	4,000
Special Fees paid to Government	1,333	1,333
Contribution to National Insurance Trust Fund	83	69
	<b>11,015</b>	<b>11,043</b>
To Reserves	5,789	2,798
<b>Total</b>	<b>79,282</b>	<b>77,890</b>

### Sources and Utilisation of Income >

[ Rs. Million ]

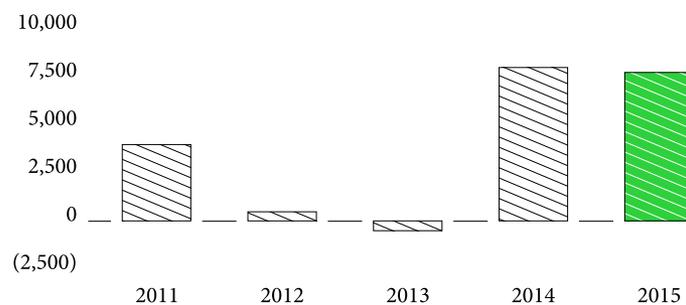


## Economic Value Added Statement

	2015 Rs. Million	2014 Rs. Million
<b>Invested Equity</b>		
Shareholders' Funds	32,424	23,260
Add : Cumulative Loan Loss Provision/Provision for Impairment	3,092	3,925
	35,516	27,185
<b>Earnings</b>		
Profit after Taxation	8,672	6,867
Add : Loan Losses and Provisions	2,140	3,476
	10,812	10,343
Cost of Equity based on 12 months Weighted Average Treasury Bill Rate plus 2% for the Risk Premium	8.65%	8.60%
Cost of Average Equity	3,071	2,338
Economic Value Added	7,741	8,005

### ***Economic Value Added Statement*** >

[ Rs. Million ]



### **Equity and Reserves**

The total equity of the Bank increased by Rs. 9,164 Million from Rs. 23,260 Million by end 2014 to Rs. 32,424 Million at end 2015, recording an equity appreciation of 39%. The retained profit of the Bank for the year was Rs. 8,672 Million, out of which Rs. 2,800 Million was contributed to the General Treasury as dividend. The freehold land and buildings of the Bank were revalued at year end by Chartered Valuers, in accordance with the direction from the Central Bank, adding a revaluation surplus of Rs. 1,231 Million to the Bank's equity.

Rs. 3,062 Million from account balances that had lain dormant for over 10 years, were transferred to Unclaimed Deposit Reserve in terms as per S 47 of the National Savings Bank Act No. 30 of 1971.

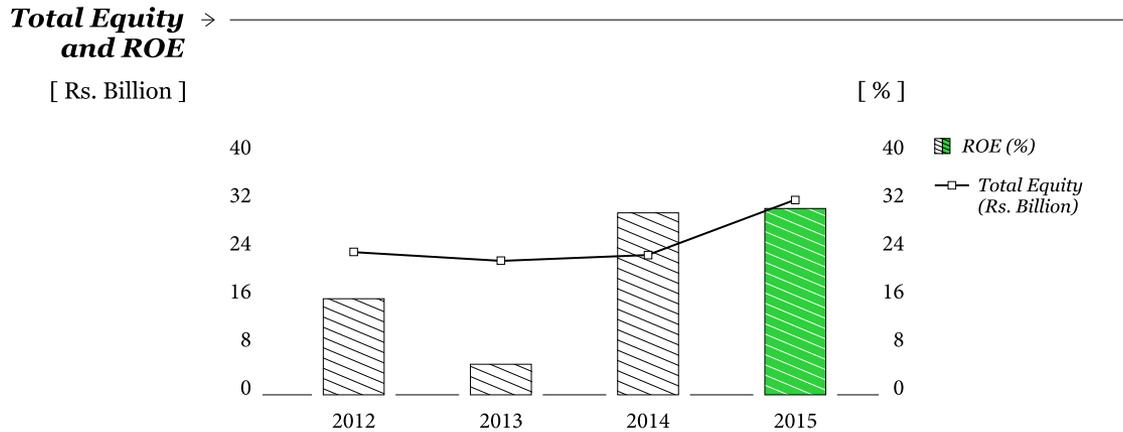
### **Financial Indicators**

**Cost to income ratio** was recorded at 37.4% in 2015, with a minimal increase of 0.72%. The reduction in interest expenses progressively nullified the hit on operational costs, due to the revision of the collective agreement. This was also the result of rigorous cost minimisation measures implemented by the Bank.

**Non-Performing Advances (NPA) Ratio** was calculated using Central Bank Guidelines. In 2014, the industry experienced an unprecedented growth in NPA ratio, due to a reduction in the price of gold. Using proactive strategies, the Bank managed to curtail the NPA ratio to 3.5% in the current year, down from 7.6% in 2014. The burden on pawning advances was reduced by waiving interests and auctioning articles. The reduction of NPA ratio by 4.15% is a remarkable achievement.

Provision cover ratio grew by 10%, enabling the ratio to move from 24.1% in 2014 to 34.1% in the current year.

**Return on Assets (ROA) and Return on Equity (ROE) Ratios** were marked at 1.6% (1.5% - 2014) and 31.2% (30.2% - 2014), respectively for the reviewing year.



### Capital Adequacy Ratio

The Bank's core capital ratio (Tier I) and the total capital ratio (Tier I & II) were sustained at 17.9% and 16.4% respectively at end 2015. This is a very strong capital position, compared to the statutory requirement of 5% and 10% corresponding to Tier I and Tier I and II capital. However, the Capital Adequacy of the Bank has deteriorated marginally from ratios of 20.5% and 19% respectively, which prevailed at the beginning of 2015.

The main reasons for this were the increase in credit risk with more personal lending and the deduction of equity investments in banks and financial institutions.

The capital ratios are expected to improve with the increase in capital reserves due to the revaluation of the Bank's properties as at end 2015. It will then be included under capital adequacy on the approval of the Central bank.

### **Liquid Assets Ratio**

At end 2015, the liquidity ratio of the Bank was 81.1%, which was well above the statutory requirement of 20%.

The Bank's liquidity position always remains high in meeting its statutory provision of 60% of deposits, being invested in Government Securities. However, the liquidity ratio of the Bank has changed from 91.5% on 31st December 2014 to 81.1%, due to the diversification of NSB's investments portfolio into lending. This had a favourable impact on the Bank's income.

### ***Operational Review***

2015 saw a greater focus on branches and customer reach. Having opened nine new branches, the Bank ended the financial year under review with a total of 245 branches.

The number of ATMs also increased to 271. Through a comprehensive network of branches, postal outlets and ATMs, the Bank now has a total of 4,579 physical locations, through which customers are able to reach the Bank.

NSB focused on converting loss-making branches to profit makers. The Bank relocated four branches, moving them to more prominent locations. All new branches also received a trendy new makeover, to ensure that they remain attractive and welcoming to customers of every generation.

In 2015, the Bank ensured that all main branches extended banking hours till 6.00 pm while all other branches continued to remain open until 3.30 pm.

With the popularity of safety lockers remaining high, the Bank increased the number of lockers available for customers to deposit their precious items.

Branch employees received special focus from the Bank's Training Division, with continuous skills enhancement carried out throughout the year.

## **Deposits**

Banks play a substantial role in mobilising savings to promote investments and growth and NSB is no different.

The Bank recorded a total mobilisation of Rs. 45.8 Billion at end 2015, which is 63.6% of the annual mobilisation target of Rs. 72 Billion. Despite this, total mobilisation for 2015 reduced by Rs. 13.6 Billion or 23% over 2014.

The branch sector, postal sector and NRFC/RFC sectors have achieved 64%, 72% and 44.6% of their annual mobilisation targets respectively.

The branch sector mobilisation for the year is Rs. 43.5 Billion, which includes Rs. 23.2 Billion in the mobilisation of Savings deposits and Rs. 20.3 Billion in mobilisation of Time deposits. The Branch sector achieved 64% of its annual mobilisation target of Rs. 68 Billion by end 2015.

The postal sector mobilised Rs. 1.3 Billion against the annual mobilisation target of Rs. 1.75 Billion at end 2015, which is an achievement of 72%. Continuous promotional programmes carried out during the year were the main reason for this achievement resulting in an increase of Rs. 425.7 Million over the previous year.

The Deposits mix (Savings Deposits to Time Deposits), which stood at 26%: 74% at the beginning of the year, improved to 28%:72%. The Bank's deposit base had grown by 7.5% by end 2015.

A sum of Rs. 3.1 Billion was transferred to the Bank's Unclaimed Deposit Reserves in 2015, leaving a total deposit balance of Rs. 595.8 Billion at the end of the year in review.

### **Retail Loans**

Total retail loans portfolio rose by 16.29% to reach Rs. 141,590 Million by the year's end, up from Rs. 121,759 Million on 1st January 2015.

In 2015, housing and property loans increased by Rs. 5,212 Million to reach Rs. 60,114 Million, while personal loans increased phenomenally by 158.96% to Rs. 35,593 Million, up from Rs. 13,745 Million at the beginning of the same year.

NSB concentrated efforts on providing loans for defence personnel, granting over 4,000 loans in 2015. The Bank's aim was to relieve members of the armed forces of the burden of debt incurred from the higher interest loans obtained from commercial banks. The majority of these loans were provided to Naval Forces personnel but plans are in place to grant loans equally to all three Forces.

The Bank also expanded its loan schemes; namely, the scheme for higher education, vocational training and the introduction of green financing (solar power loans). Through the *Charika* loan, greater focus was given to loan facilities for retirees to fulfil their personal, medical and leisure requirement.

Loans against deposits, pawning and auto loans saw negative growth.

The non-performing pawning segment eased up during the year, however, the Bank was able to recover these loans by waiving interest. This move positively impacted the increase in profits by reducing the impairment provision at the end of the year.

**Non-Performing Loans (NPL)** improved significantly in 2015, lowering the NPL ratio to 3.5% at the end of the year, from 7.6% at the beginning of the year. This was a result of a better loan evaluation process, improved follow-up of loans and the institution of legal actions when due.

The automobile market is heavily patronised by long-standing leasing companies, which are now the natural choice of the auto loan customer. Heavy competition and relaxed terms prevailed in the market for auto loans and was the main factor for negative growth during the year when vehicle registration was at a zenith.

### **Corporate Loans**

The Bank's corporate loans encompass major financial institutions and State-Owned Enterprises (SOEs) of the country.

As a percentage the biggest gains in corporate loans were from loans to Banks, which rose sharply by 322% to Rs. 18,986.90 Million, up from Rs. 4,498.70 Million at the beginning of the year.

The highest amount was lent to state-owned enterprises, increasing from Rs. 60,053.70 Million at the beginning of the year, to Rs. 65,114.80 Million at year's end. Despite this and due to the change in focus during the year in review, the loans granted to State-owned enterprises were not disbursed at the expected phase.

The Bank was able to keep the momentum of infrastructure funding, by granting around Rs. 5 Billion in infrastructure loans for economic development.

In total, Corporate Lending saw growth of 28.9% over the 12 month period under review, increasing by Rs. 21,538.5 Million, to Rs. 96,153.20 Million by 31st December. In addition, the planned debenture issue was postponed due to adequate liquidity in the Bank.

The Bank also rescheduled the loans of customers who are unable to pay back, helping them to settle the loans.

### **International Banking**

International banking saw 44.6% of the mobilisation target achieved, recording Rs. 1,003 Million. The main reason for this achievement is the popularity of NSB's SFIDA account, which allows the customer to earn higher interest on the Sri Lankan Rupee and to make withdrawals in Rupees or foreign currency.

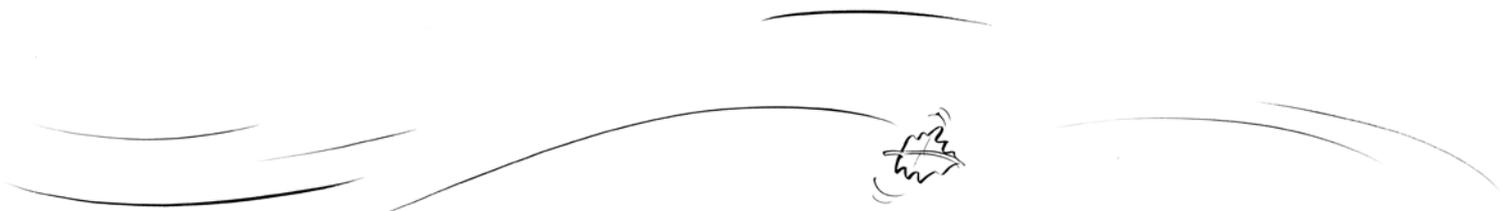
The Bank plans to deploy representatives in Oman, Qatar and Saudi Arabia to secure a larger share of foreign currency deposits. NSB will also focus on European markets over the next few years.

In 2015, NSB exceeded the expected remittance growth and is looking to introduce e-remittance facilities to better meet customer needs. The Bank also plans to establish and strengthen the relationships with exchange houses.

During the year in review, the cash payout limited to branches was extended to post offices. In 2015, the Central Bank granted the approval to engage in the outward remittance business. In 2016, this facility will be extended to all branches, contributing to the fee based income of the Bank.

The number of new customers in this area improved significantly. New relationships were secured, particularly in South Korea and new NSB representatives were deployed throughout the year in review.

The Bank continued to carry out promotional campaigns and also conducted training programmes for migrant workers on how best to handle their earnings. NSB also organised forums for the family members of migrant workers, educating them on how to remit and save money.



### **Government Securities Portfolio**

The Central Bank of Sri Lanka continued its monetary policy easing programme throughout 2015.

The liquidity level in the market declined, due to the lower interest rate prevailing at the beginning of the year. Limit restrictions on the Standing Deposit Facility were removed. The policy rate reduction in April marginally controlled the upward pressure on the short-term interest rates. However, by mid-year, the liquidation of foreign holdings of Government Securities by investors had put pressure on Government Securities rates to move up, in parallel with short-term interest rates. With the improved liquidity level in the market, the short-term interest rates were restored to normal levels during the latter part of the year.

Market interest rates showed a mixed result during the year. With the lower liquidity level that prevailed in the market during the first quarter of the year, the Treasury rates started to increase. This trend was fuelled by the increase of primary Treasury Bill auction rates. The 3, 6 and 12 month T-Bill rates increased by 71 basis points, 99 basis points and 129 basis points respectively during the year.

The total Government Securities portfolio of the Bank was Rs. 514,003 Million at the beginning of January 2015. This volume increased to Rs. 525,173 Million at the end of 2015. Accordingly, the Government Securities portfolio increased by Rs. 11,170 Million (an increase of 2.2%) during the period.

The total income from the Government Securities portfolio was Rs. 51,628 Million. This was Rs. 50,682 Million for the same period in 2014. The Fair Value through Profit and Loss (FVTPL) portfolio was Rs. 3,662 Million at the beginning of the year and it was Rs. 9,871 Million at the end of 2015. The portfolio realised gain and unrealised loss were Rs. 390.5 Million and Rs. 106.1 Million respectively. The average portfolio's yield was 10.8% at the beginning of the year and 10% at the end of 2015, indicating the reinvestment yield was lower than the yields of matured securities. However, in the current increasing yield curve scenario, the average yield of the portfolio is expected to increase.

**“Our greatest asset is our people, and they’ve signed up to ensure financial resilience for all Sri Lankans”**

**Total number of Permanent Employees**

**2,813**

**Number of Promotions in 2015**

**630**

**Permanent Employees Covered by the Collective Agreement**

**100%**

**New Recruitments in 2015**

**473**

**Number of Graduates at the Bank**

**773**

**Category of Employees**

Corporate Management

**12**

**0.25%**

Executive Management

**16**

**0.46%**

Middle Management

**103**

**3.78%**

Junior Management

**443**

**15.79%**

Supervisors

**836**

**29.54%**

Banking Assistants

**1,340**

**47.75%**

Others

**63**

**2.42%**

**Categorisation of Employees Based on Experience**

0 to 5 years

**893**

5 to 15 years

**1,067**

15 to 30 years

**584**

More than 30 years

**269**



### **Equity Portfolio**

During this period, NSB contributed a total turnover of Rs. 1,742 Million to the market turnover of the Colombo Stock Exchange (CSE), representing 2,980 buy and sell transactions.

The Bank's total exposure of equity investment was Rs. 8,058 Million as at 31st December 2015, which was an increase of Rs. 252 Million, compared to Rs. 7,806 Million as at 31st December 2014.

During the year 2015, the fair value of trading portfolio depreciated by Rs. 383 Million due to prevailed capital market condition. Fair value of AFS portfolio increased by Rs. 432.4 Million, due to appreciation of fair value of RDB shares and current year acquisition of RDB shares at a price lower than fair value.

By the end of December 2015, the Bank had realised a total capital gain of Rs. 134.9 Million and received a dividend of Rs. 274 Million, generating a total return for the period of Rs. 408.9 Million accordingly.

In 2015, NSB invested 37% in the Banks Finance and Insurance (BFI) sector, 21% in the Diversified Holdings (DIV) sector, 10% in the Hotel & Travel sector and the balance in other sectors.

In 2015, ten stocks were added to the equity portfolio and 12 stocks were partially disposed during the year.

During the year 2015, the Bank invested Rs. 900 Million in the equity market and disposed shares with a book value amounting to Rs. 698 Million. As a result, the book value of the total portfolio increased by Rs. 202 Million as at 31st December 2015.

### **NSB Fund Management Company Ltd.**

NSB Fund Management Company Ltd. is a fully owned Subsidiary of NSB. It commenced business on 1st March 2000 with an initial share capital of Rs. 150 Million, as a dedicated Primary Dealer appointed by the Central Bank to deal exclusively in primary and secondary market transactions of Government Securities.

Under the diversification programme of the Central Bank for Primary Dealers, in 2014 the Company obtained a license from the Securities and Exchange Commission (SEC) to function as a Stock Dealer/Stock Broker for Debt Securities and also received the Trading Membership for Debt Securities of the Colombo Stock Exchange (CSE).

The Net Assets of the Company as at 31st December 2015, was Rs. 1,785 Million including retained earnings, special risk reserve and available-for-sale reserve, amounting to Rs. 1,635 Million.

The Company also serves as a designated agent, appointed by the Central Bank for the issues of Sri Lanka Development Bonds (SLDB) denominated in US Dollars.

The Company provides the following services to its Parent, NSB.

- Bidding at Primary Auctions and the settlement of funds and securities of successful bids.
- Handling fund transfers through RTGS real time gross settlement systems.
- Acceptance and delivery of Government Securities from counterparties for NSB and repositioning them in the Central Depository System.

The value of the Government Securities portfolio held by the Company, as at 31st December 2015, was Rs. 8,308 Million. Operating income of the Company for 2015 was Rs. 325 Million and the profit after tax was Rs. 174 Million.

## ***Special Initiatives***

In 2015, NSB undertook a range of initiatives aimed at improving the customer experience.

### **Home Owners**

While the Bank's housing loans are already a popular product among customers, NSB developed new structured loans – housing loans at lower interest rate with flexible terms, during the financial year under review.

This product was designed to give the customer a more accommodating experience, when banking with NSB. The flexibility of the product allows the Bank's home loan customers the chance to build up their asset portfolio with greater convenience and ease.

NSB employees visited homes and offices to create awareness of the benefits of the Bank's housing loans. They also participated in various home improvement exhibitions to promote home loans.

The Bank entered into a memorandum of understanding with Sri Lanka Building Co-operative Society (SLBCS), a co-operative society engaged in constructing private residencies and commercial buildings to finance housing needs - constructions, renovations and improvement of houses or premises. Further, the Bank extended the Public Sector Housing Loan scheme towards Pirivena teachers to support the Government's move towards developing Pirivena education.

### **Children**

In 2015, NSB launched a new deposit-to-deposit campaign for all *Hapan* Children's Savings account holders to nurture the habit of saving. Every new *Hapan* Children's Savings Account opened during thrift month or deposits made to existing accounts, was matched by the Bank to a maximum of Rs. 500.

The *Paata Paata Hapankam* art competition for school children, was a huge success this year. The theme for the art competition was “Thrift and Savings, their impact on the country’s development” and held under five age categories for school children. The preliminary round of the competition was held at Zonal Educational Office Level and the first 25 winners were awarded with a merit certificates. These selected drawings Zonal Level, were forwarded to the Provincial Education Office level competition and 25 winners from each category were awarded. From the Provincial Level winners, 15 winners from each Province under five categories and altogether 135 winners from 9 provinces, were invited to Colombo and a national level final competition was held on 18th October at the National Art Gallery. The best entries were put on display at the Colombo Art Gallery and a programme devoted to the extraordinary talents of these children was aired on Rupavahini, the State TV channel.

### **Depositors**

As the savings bank for the nation, NSB took further steps to facilitate banking at branches. The branch administration structure was changed and the planning and monitoring process strengthened to ensure more effective and efficient service to customers. The business hours at main branches were extended to 6.00 pm and the number of staff in each branch increased to offer customers – especially working people – greater flexibility and convenience. The Bank increased its safety deposit locker facilities to cater to growing demand. The number of handheld POS machines was also increased, so that employees could reach more people through doorstep banking.

### **Women**

In 2015, our *Sthree* account holders who made a deposit of Rs. 2,500 on International Women’s Day, received a 7.5% discount voucher to purchase goods from a reputed merchant.

Loyal customers in this segment, were also treated to exclusive cookery programmes with a leading demonstrator.

With World Bank records indicating that the number of self-employed women are increasing in Sri Lanka, the Bank also conducted awareness programmes for this customer segment, advising them of the benefits of NSB's *Diriya* loan Scheme, which offers them concessionary terms.

### **Other Special Initiatives**

During the year under review saw a range of other special initiatives aimed to benefit all loyal customers of the Bank.

NSB Visa/Master debit cardholders enjoyed discounts from a range of merchants in 2015. NSB employees seized every opportunity during the year to cross-sell debit cards to customers.

A special '100 Day Deposit' fixed deposit was introduced to benefit customers and create awareness about the benefits of savings.

The Bank's employees launched a successful door-to-door promotional campaign, visiting homes to create awareness about the postal savings scheme.

To celebrate World Postal Day, NSB awarded plaques, certificates and gifts as tokens of appreciation to all high-performing employees of the Postal Department, who worked tirelessly during the year to promote this banking facility.

The much anticipated *Avurudhu Wasana* celebration of the Sinhala and Tamil New Year was another success in 2015. This year customers received the gift of a stainless steel jug and tray.

On 16th March, the day of the Bank's 43rd anniversary, NSB offered an additional 1% interest rate on fixed deposits. Customers also benefitted from the celebration of special days on the calendar.

As a result of these and other initiatives, the Bank was able to improve its deposit and credit bases, increase the number of customers, strengthen brand loyalty and further enhance the Bank's corporate image.

## ***Improving Asset Creation***

As it journeys towards financial resilience for all Sri Lankans, NSB initiated five key actions that will see it through to 2016 and beyond.

### **Diversification**

In 2015, the Bank began exploring ways to allocate capital, in order to reduce exposure to any one particular asset or risk. This diversification was aimed at increasing fee income through new business lines.

### **Optimising Reach**

Through its branch, ATM and postal networks, the Bank already enjoys an extensive reach, being able to serve Sri Lankans in every nook and corner of the country. In 2015, NSB focused specifically on making more efficient use of the postal network.

### **International Banking**

While NSB has enjoyed a strong reputation for being a savings bank that serves Sri Lankans locally, its prowess as a Bank for Sri Lankans working overseas is slightly less-well known. During the year in review, the Bank focused on its International Banking Division, working to enhance the products and services offered to customer base.

### **Expanding Management Purview**

In 2015, following the proposals of National Budget, NSB is studying on the proposed acquisitions. This will widen its scope for business expansions.

### **Strengthening Core Banking Operations**

During the year under review, the Bank began work on a core banking system, that would serve as a platform for all its digital systems. Once completed, it will allow NSB to provide customers with faster, more efficient service while, internally, enabling the faster collection of data and management information.

## ***Towards a Sustainable Future – Supporting Communities and the Environment***

Being profitable is of course a prerequisite for any business and more so, for a national savings bank. NSB's roots, however, have always been firmly rooted on the idea of benefitting the community. From its inception, the Bank has been focused entirely on serving the public good.

NSB's use of electricity is primarily for lighting, powering and air conditioning the Bank's Head Office, branches, call centre, holiday bungalows and disaster recovery centre. In order to continue maintaining a low carbon footprint, NSB began using CFL energy saving lamps in all branches. New VRV-type air conditioning systems have also been introduced in all new branch buildings to reduce power consumption and increase the comfort of customers and staff.

With its strong reputation as the Bank that saves and its deep roots within communities throughout Sri Lanka, NSB is ideally placed to be an effective agent in the country's journey towards a sustainable Sri Lanka.

### **Community Outreach**

The Bank's employees have worked tirelessly to support the local communities, within which they operate. Activities in this area include the support of senior citizen clubs and *Ayojana Kawa*, which promotes saving with NSB and obtaining credit facilities at a concessionary rate.

In 2015, the Bank focused on groups of people with special physical needs too, contributing to sponsor the Sri Lanka National Volleyball Federation for the Disabled Championship.

NSB provided financial relief to members of the Armed Forces, granting over 4,000 loans in 2015. The Bank offers special interest rates for deposits made by the Sri Lanka Army with the Bank to provide financial assistance to various projects carried out by the Army Benevolent Fund for the welfare of army personnel.

### **Institutional outreach**

NSB's goal of spearheading Sri Lanka towards financial resilience is especially relevant, given the country's emergence from a 30-year old period of civil strife. Rebuilding social capital is a key aspect of NSB's mission – not just between individuals or individuals and the Bank, but by reaching out to individuals through other national institutions.

### **Migrant worker outreach**

NSB has always considered Sri Lankans as their main customers, wherever they happen to work. To assist those who plan to leave the island for foreign employment, the Bank conducted numerous training programmes to educate them on remitting money.

Bank employees also taught the families of absent workers how to maintain good financial discipline in their homes and save money for their future needs. These programmes were conducted 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**

While the Bank is keen to be a profitable institution to benefit all its stakeholders it also focuses on the long-term development of the entire country. In 2015, NSB was proud to shoulder several high value long-term projects, which 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, Bibile, Mahiyanganaya in Uva, Kirinda at deep down South, Seeduwa, Udugampola from Western Province were funded by the Bank, yielding benefits to the entire Nation.

NSB funded projects aimed at minimising soil erosion and inundation in the Colombo District. The implementation of the *Weras Ganga* project was funded by NSB to protect the environment and propagate natural bird habitats and fauna in the capital of Sri Lanka, to improve the living condition of its city dwellers.

### **Cultural Donations**

Sri Lanka is a multicultural, multiethnic country with a rich history that stretches back to prehistoric times. Believing devoutly that diversity is strength, the Bank supports a range of cultural and religious festivals and events. These include national level initiatives, religious festivals and events organised by local organisations, such as temples and foundations in memory of respected Sri Lankans.

### **Children/Education**

#### *Seminars and Training Programmes for School Children*

NSB conducted over 200 free educational seminars across the country, in both Sinhala and Tamil for students preparing for the Grade 5 Government scholarship Examination. This is an initiative that began 14 years ago. The seminars were conducted by highly qualified educators to help school children develop their academic skills, personality and attitudes.

#### *Scholarships for students who obtain merit results at Grade five Government Examination*

As part of its social responsibility, NSB rewards students who excel at the Grade 5 scholarship examinations. The top fifteen scorers in each district and those who secured the highest national ranks in 2015, received their scholarships at the BMICH. The top fifty differently abled students in this category are also felicitated for their efforts.

Other Grade 5 students who obtained merits, were recognised and awarded for their achievements at their respective NSB branches. This programme has been implemented continuously since 2004.

#### *Kumarathunga Munidasa Sisuwarama Scholarship Awards*

In memory of Kumarathunga Munidasa and in collaboration with his foundation, a scholarship fund has been established to reward the most outstanding student in the subject of Sinhala language and Literature at the G.C.E. (Ordinary Level) Examinations.

#### *Kiyawanno Dinanno*

To improve the reading habit of the population, the Ministry of Education organised a National Competition on Reading. The Bank supported this worthy venture by offering a sponsorship.

## **Environment**

### *Landscaping Project of National Hospital of Sri Lanka*

In commemoration of the 150th Anniversary of the National Hospital of Sri Lanka, NSB sponsored a landscaping project for the H-Zone of the Hospital. The Bank also initiated a plan to plant trees in the landscaped area.

The Bank also placed mini billboards in the H-Zone that created awareness about the importance of caring for the environment and maintaining good health. The project was aimed at creating a soothing, healthful oasis for the patients and their families.

### *One Million Tree Story*

The Chartered Institute of Management Accountants (CIMA) invited NSB to join in a CSR project titled, 'One Million Tree Story.' The project will initially support the planting of 5,000 trees with the participation of the Institute's students and members. The Bank bore the cost of 5,000 trees, a cost of which includes maintenance for a period of two years.

## **Sports**

### *Financial Aid for developing sports in Sri Lanka*

The Bank contributed towards the development of sports in Sri Lanka. This socially responsible project will culminate in the development of the country's largest sports academy, located on a 19 acre plot of land in Makandura, Kurunegala.

## **Healthcare**

### *'Save by Saying No to Tobacco and Alcohol'*

NSB conducted a massive awareness campaign to eradicate the habit of tobacco and alcohol consumption and to promote a savings led culture in every household. Supported by an intense advertising campaign, the project included awareness messages, road shows and seminars during the month of October and was supported by the National Authority of Tobacco and Alcohol.

### *Helpage Eye Camps*

HelpAge Sri Lanka, an approved charity organisation, conducts Mobile Medical Camps for medically vulnerable elderly persons in Sri Lanka and the Bank sponsors selected programmes and provides facilities to conduct such camps around the country. The project mainly focuses on underprivileged elders in rural and suburban areas. HelpAge engages in various activities including medical examinations, donation of bifocal spectacles and reading glasses and facilitates cataract operations.

### *World Eye Donation Day*

The Eye Donation Society received financial aid from the Bank to commemorate World Eye Donation Day.

## **Awards**

NSB received the runner-up award in the Banking Sector category at the National Business Excellence Awards conducted by the National Chamber of Commerce of Sri Lanka. The Bank emerged Winner in the Banking Sector category and Overall Winner at the Great HR Quiz 2015, organised by the Institute of Personnel Management (IPM – Sri Lanka).

The NSB Annual Report 2014 won Gold for written text in the Banks for Savings and Loans category, Gold for printing and production in the same category and Silver for Non-Traditional Annual Report at the ARC Awards 2015. The Annual Report also won Silver in the Financial Institutions category at the Annual Report Awards 2015 of CA Sri Lanka and was the First Runner-Up at the SAFA Best Presented Annual Report Awards 2014 in the Public Sector Banking category.

# ***Governance***

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## ***Board of Directors***



### ***Mr. Aswin De Silva***

Chairman

Mr. Aswin De Silva's, diverse banking experience, spanning well over 15 years, 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).



### ***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 M. Com with the University of Kelaniya too.

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 is a member of the Board of Directors of the Sri Lanka Social Security Board.

He served as Acting Chairman of NSB during the period from 23rd May 2012 to 5th August 2012. He also serves on the Board of NSB Fund Management Company.



### ***Mr. A.K. Seneviratne***

Director

Mr. Seneviratne, the Director General of Department of Fiscal Policy, Ministry of Finance, is an Ex Officio Director appointed to the Board on 27th May 2015.

He holds a Bachelor of Chemistry (Special) Honours Degree from the university of Kelaniya and Postgraduate Diploma in Business and Financial Administration from The Institute of Chartered Accountants of Sri Lanka. Mr. Seneviratne obtained his Masters in Business Administration from University of Colombo.

Mr. Seneviratne started his career as the Credit Officer, SLIDA in 1995. Joined the Ministry of Finance and Planning in 1996 and served in the capacities of Assistant Director, Deputy Director, Director, Additional Director in the Departments of Fiscal Policy and the Department of National Budget.

He holds the Directorships in Ceylon Shipping Corporation, Independence Televisions Network and Delarue Lanka Currency and Security Print (Pvt) Ltd.



### ***Mr. Suranga Naullage***

Director

Mr. Naullage was appointed to the Board on 9th February 2015. He is a retired Senior Manager with 36 years of experience in the Banking service. He holds a B.Com Special Degree from the University of Kelaniya and a Certificate in Banking and Finance from the Institute of Bankers of Sri Lanka.

He is a former Assistant Secretary on Industrial Relations, Ministry of Finance and a former Member of the National Labour Advisory Council. Mr. Naullage has served in the capacity of a Director at the National Institute of Labour Studies and Jobs Net (Pvt) Ltd.

He also serves as a Director of the NSB Fund Management Company Ltd. and as a Member of the Committee for Formulation of a Government Pension Scheme. He is also appointed as a Director of National Salaries and Cadre Commission.



## ***Mr. Ajith Pathirana***

Director

Mr. Pathirana is the immediate past 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 County.

Mr. Pathirana was appointed to the Board on 20th March 2015.



## ***Mr. Chandima Hemachandra***

Director

Mr. Hemachandra was appointed to the Board on 2nd November 2015. He holds a BSc. in Mathematics for Business - Mathematics and Computer Science from Middlesex University, UK. He obtained memberships in British Computer Societies (MBCS), Australian Computer Societies (MACS) and Association of Professional Bankers (APB).

He is the Chief Technology Officer at Scicom (MSC), Berhad, Malaysia, since 2011.

He is an information technology professional with over twenty five (25) years of experience, broad-based knowledge and skills in implementing large-scale and highly technologically complex projects in major financial institutions in UK, Malaysia, Sri Lanka and Kenya.

Prior to joining Scicom, he worked as the Chief Information Officer (CIO) at the Government owned Sri Lanka Insurance Corporation (SLIC), the oldest and one of the largest insurance service providers in Sri Lanka.

He brings to the table, a sound knowledge of information and communication technology and software development skills and a highly successful background in managing large and complex ICT projects. He has provided consultancy services to many Government/Private institutions and has been serving as an Advisor to three National Advisory Councils in Sri Lanka.

In his early years, he worked as a System Analyst with British Hartford-Fairmount Engineering, UK. Thereafter, he held the positions of Chief Manager ICT at Commercial Bank of Ceylon, the Head of ICT and Banking Operations (Deputy General Manager/ CIO) at Hatton National Bank in Sri Lanka and the Head of ICT (CIO) at Cfc Stanbic Bank, the East African Headquarters of Standard Bank Africa in Nairobi, Kenya.



## **Mr. Anil Rajakaruna**

Director

Appointed to the NSB Board on 2nd November 2015. Mr. Rajakaruna holds First in Laws (LLB, Part 1) from the University of Colombo. He is an Attorney-at-Law with 21 years experience. He holds a Diploma in External Affairs from the Centre for Bandaranayake International Studies.

This is the 2nd term of Directorship with NSB as he was the Working Director of the Bank during 2002-2004 period.

## **S.D.N. Perera**

General Manager/CEO

Mr. S.D.N. Perera was 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.

Mr. Perera was 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 31 years experience in the Bank as a Legal Officer and worked as the Company Secretary for NSB Fund Management Company Ltd., from the time of its incorporation in 1999. Appointed as the Secretary to the Board of Directors with effect from 1st February 2013. She also serves as the Secretary to all four Board Sub-committees.

# Corporate Management



1

***S.D.N. Perera***

General Manager/CEO



2

***Jagath Gamanayake***

Senior Deputy General Manager



3

***K. Raveendran***

Research and Development



7

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

Operations



8

***R.M. Gunathilaka***

Risk Management



9

***P.A. Lionel***

Treasury



4

***K.B. Wijeyaratne***

Finance and Planning



5

***Ms. C.S. Jesudian***

Credit



6

***Ms. B.P.J. Gunasekera***

CEO – NSB Fund Management Co.



10

***M. Kiritharan***

Legal



11

***G.A.R. De Zoysa***

Information Technology



12

***C. Abeywickrama***

Strategy and Marketing

# *Executive Management*



1

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

Retail Credit



2

***A.C. Gamage***

Operations I



3

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

Finance



4

***P.A. Abeysooriya***

IT – System and Security



9

***K.K.V.L.W.  
Karunathilake***

Operations II



10

***P.S.  
Wasanthathilaka***

IT – Planning and  
Supporting



11

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

IT – Applications and  
Development



12

***J.M. Seneviratne  
Banda***

Recoveries



5

**Ms. Y.F. Deen**

Secretary to the Board of  
Directors



6

**Ms. S.W.  
Gunasekera**

Support Services



7

**W. Piyaratne**

Audit



8

**Ms. M.Y. Gunasekera**

Human Resource Development



13

**Ms. K.P.D.M.  
De Silva**

Postal Banking



14

**Ms. H.R. Silva**

Operations III



15

**S.H.M. Mubarak**

International



16

**K.M.W.M.  
Karunarathne**

Engineering

# Chief Managers

## Regional Managers

- 1  
**T.L.A. Wijerathne**  
Regional Manager – Region 6
- 2  
**A.L.A. Haleem**  
Regional Manager – Region 3
- 3  
**Ms. B.K.G.B.M. Karunarithne**  
Regional Manager – Region 1
- 4  
**P.H. Andrahennadi**  
Regional Manager – Region 4
- 5  
**M.T.A.J.F. Gomis**  
Regional Manager – Region 2
- 6  
**Ms. H.M.S.L. Fernando**  
Regional Manager – Region 5

## Branch Operations

- 7  
**Ms. W.P.U.A. de Silva**  
Chief Manager – Wellawatte
- 8  
**Ms. R.A.N.N. Wijesinghe**  
Chief Manager – Homagama
- 9  
**H.M.G.P.J. Herath**  
Chief Manager – Borella
- 10  
**J.A.U. Gamage**  
Chief Manager – Kurunegala
- 11  
**K.M. Piyarathne**  
Chief Manager – Kandy
- 12  
**K. Kamalanathan**  
Chief Manager – Negombo
- 13  
**Ms. H.R. Karunamuni**  
Chief Manager – Kalutara
- 14  
**K.D. Nimal**  
Chief Manager – Maharagama

15  
**W.G.R. Fonseka**  
Chief Manager – Kirulapone

16  
**Ms. D.D. Wickramasinghe**  
Chief Manager – Regional Office 4

17  
**Ms. T.C. Ranjanie**  
Chief Manager – Moratuwa

18  
**R. Weerakkody**  
Chief Manager – Piliyandala

19  
**Ms. A.J. de Mel**  
Chief Manager – Panadura

20  
**P.A. Perera**  
Chief Manager – Kadawatha

21  
**T.G. Wimalasena**  
Chief Manager – Nugegoda

22  
**Ms. K.H. George**  
Chief Manager – Head Office Branch

## Asset Management

23  
**J.K. Wijesinghe**  
Chief Manager – Asset Management

24  
**Ms. S.W.A. Weerasinghe**  
Chief Manager – Asset Management

## Audit

25  
**U. Wattuhewa**  
Chief Manager – Audit and Vigilance

## Branch Management

26  
**T.M.D.G.D. de Alwis**  
Chief Manager – Branch Management

27  
**W.M.R.B. Weerakoon**  
Chief Manager – Branch Management

28  
**M.L. Dayarathne**  
Chief Manager – Development

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## Credit

29

**Ms. E.D. Seetha**

Chief Manager – Credit

30

**P.T.A. Perera**

Chief Manager – Credit

31

**Ms. K.G. Damayanthi**

Chief Manager – Credit

32

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

Chief Manager – Pawning

33

**Ms. R.C. Samarasinghe**

Chief Manager – Credit

34

**Ms. R.P.A.M.P.  
Rajanayake**Chief Manager – Risk  
Management

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## Finance and Planning

35

**Ms. S.A.B.M.  
Bandaranayake**Chief Manager –  
Superannuation

36

**Ms. M.A. Gomes**

Chief Manager – Planning

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## Human Resource Development

37

**K.S. Weerasena**

Chief Manager – Training

38

**Ms. M.N.A. Fernando**

Chief Manager – Personnel

39

**K.A.P. Perera**

Chief Manager – Personnel II

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## International Banking

40

**P.K.G.B. Perera**Chief Manager – International  
Banking

41

**M.V.G. Susil Kumara**Chief Manager – International  
Banking

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## IT and Support Services

42

**G.M.S.P. Fernando**

Chief Manager – IT

43

**Ms. C.W. Pathirana**

Chief Manager – Supplies

44

**M.C. Rajapaksha**

Chief Manager – IT

45

**A.K.L. Illesinghe**Chief Manager – Network and  
Communication

46

**L.C. Senanayake**

Chief Manager – Hardware

47

**K.T.S.S. Gunawardena**

Chief Manager – Security

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## Compliance and Legal

48

**Ms. I.K.L. Sasi  
Mahendren**

Chief Manager – Compliance

49

**Ms. M.A.P. Muhandiram**

Assistant Board Secretary

# ***Corporate Governance***

Corporate Governance is a combination of structure and relationships that determine the direction and performance of an entity. It is a mechanism by which an entity is directed and controlled, whilst balancing the interest of all its stakeholders. A good governance system, therefore, focuses on highest standard of business ethics, compliance with all applicable legal and regulatory requirements through well-constructed policies and procedures and outstanding stakeholder management.

The Board of Directors (BOD) is central to corporate governance. The Board's relationship with its shareholders, employees, customers and all other stakeholders are vital to the governance framework. Further, the Board's commitment towards initiating best practices, safeguarding accountability and promoting fairness, whilst complying with legal requirements is fundamental in upholding good governance in the entity.

In the current context, corporate governance is crucial for sustainable growth in the view of the fact that it directly links with the reputation of the entity. The focus on stakeholders promotes stronger relationships and enhances the confidence. Good governance further leads to flow of quality information, facilitating ethical and transparent decisions enabling organisations to flourish amidst the competition.

In this intense business environment, corporate governance is not an option but an imperative. The history has evidenced that lapse in governance has lead to collapse of major companies around the globe. Therefore, commitment of each and every member of the organisation is significant in establishing a good governance structure in the organisation.

## ***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 based on 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 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 discussing with relevant regulatory bodies on the implementation and complying with governance regulations.
- Overseeing internal control systems including internal audit, compliance and risk management functions independent of the 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 NSB Act, Banking Act, Finance Act, Financial Transaction Reporting Act, Prevention of Money Laundering Act, Exchange Control Act and other regulations

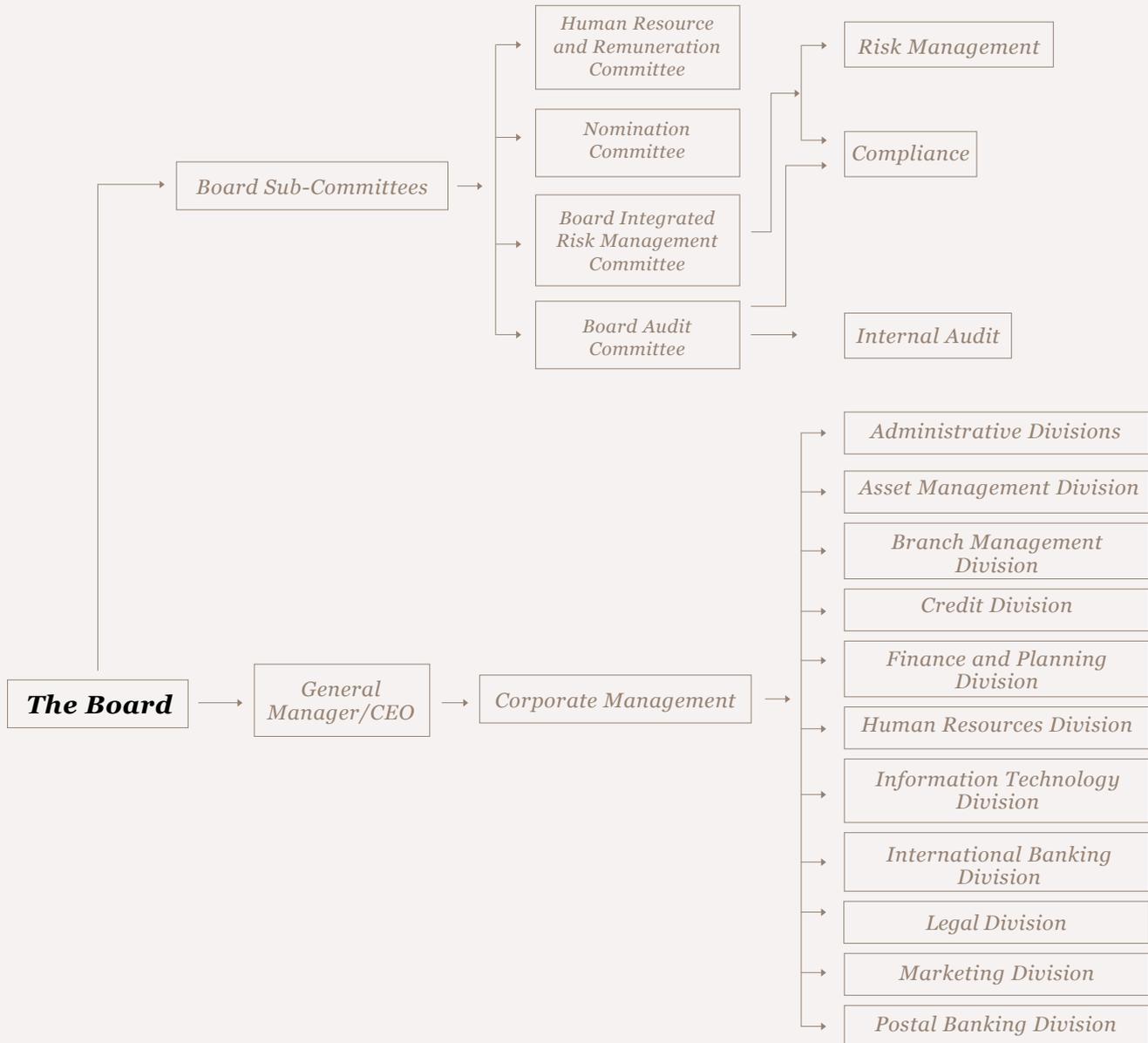
issued by the Central Bank of Sri Lanka (CBSL). The Compliance Division of the Bank is committed to ensure that the Bank adheres to all provisions and guidelines applicable to the Bank. The Division is duly updated of the changing compliance environment and follows up with relevant divisions/branches in the Bank to ensure that the new directions are properly communicated among relevant staff members. The Division also conducts quarterly audit reviews in branches and divisions. The Compliance Division follows up to ensure that 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. Further, to ensure independence of the Compliance function, the Division is subject to independent audits viz., Annual Government Audit and the Internal Audit.

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. The Board is appointed by the Minister as per the provisions of the NSB Act and 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, all of whom 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 – Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), 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 and Board 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 Chairman and the Chief Executive Officer are separate as per the CBSL Directions.

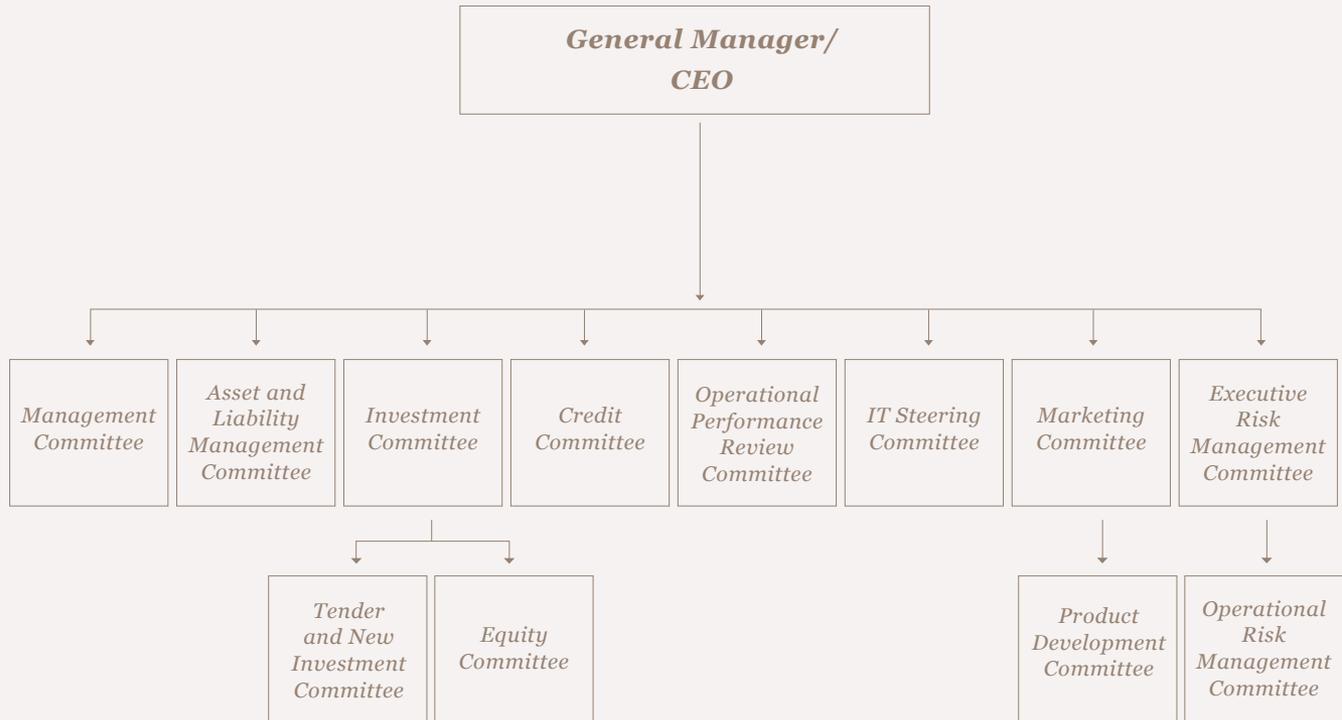
## The Corporate Governance Organisational Chart

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



## ***The Management Committees***

The Management Committee Structure of the Bank is given below:



The Committees shown above provide effective management practices while complying with Corporate Governance practices. The Board Sub-Committees are headed by the Board approved Chairmen (enlisted) while Board Secretary acts as Secretary to all Board Sub-Committees.

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

## **Attendance of the Board Members for Board Meetings during the Year 2015**

Name of Director	Date of Appointment	Eligible to Attend	Attended
Aswin De Silva – Chairman	Appointed on 9th February 2015	16	16
D.L.P.R. Abeyaratne – Ex Officio Director	Appointed on 9th February 2012	16	15
A.K. Seneviratne – Ex Officio Director	Appointed on 27th May 2015	10	10
Suranga Naullage – Director	Appointed on 9th February 2015	16	16
Ajith Pathirana – Director	Appointed on 20th March 2015	15	11
Chandima Hemachandra – Director	Appointed on 2nd November 2015	3	1
Anil Rajakaruna – Director	Appointed on 2nd November 2015	2	1
Bradley Emerson – Director	Appointed on 11th February 2015 Resigned on 2nd November 2015	13	9
Mahinda Siriwardena – Ex Officio Director	Appointed on 25th February 2015 Resigned on 10th April 2015	2	2

Scope, functions and attendance during the year 2015 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**

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 its attention particularly on major judgmental 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 108.

### **2. Human Resource and Remuneration Committee (HRRC)**

#### **Scope of the Human Resource and Remuneration Committee**

Human Resource 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 Directors, Chief Executive Officer and Key Management Personnel of the Bank, other than the remuneration determined by the Collective Agreement.

The Committee sets goals and targets for the Directors, General Manager/CEO and the Key Management Personnel and evaluates the performance of same against the set targets and goals periodically and determines the basis for revising remuneration, benefits and other payments of performance-based incentives. 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 Resource and Remuneration Committee Report is given on page 110.

### **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 General Manager/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 112.

### **4. Board Integrated Risk Management Committee (BIRMC)**

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

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

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

The BIRMC 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.

BIRMC 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 an independent 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 Board Integrated Risk Management Committee Report is given on page 111.

## Board Appointed Committee Attendance

The number of meetings of the Board appointed Committees and Directors attendance out of the number of eligible meetings of each Director.

Name	Directorship Status	Board Audit Committee	Nomination Committee	Board Integrated Risk Management Committee	Human Resource Remuneration Committee
Total minimum number of meetings to be held during the year as per statutory requirements		04	02	04	04
Total No. of meetings held during the year		04	02	05	06
Aswin De Silva – Chairman	Chairman Non-Independent Non-Executive (Chairman HRRC, NC)	N/A	02 From 12th March 2015	N/A	06 From 12th March 2015
D.L.P.R. Abeyaratne – Ex Officio Director	Director Non-Independent Non-Executive (Chairman BAC)	01 From 30th November 2015	From 30th November 2015	04 From 23rd February 2012 To 30th November 2015	06 From 12th March 2015
A.K. Seneviratne – Ex Officio Director	Director Independent Non-Executive (Chairman BIRMC)	03 From 4th June 2015	N/A	03 From 30th November 2015	N/A
Suranga Naullage – Director	Director Non-Independent Non-Executive	N/A	N/A	01 From 30th November 2015	N/A
Ajith Pathirana – Director	Director Non-Independent Non-Executive	N/A	01 From 30th April 2015	N/A	01 From 30th November 2015
Chandima Hemachandra – Director	Director Independent Non-Executive	N/A	N/A	0 From 30th November 2015	N/A
Anil Rajakaruna – Director	Director Independent Non-Executive	01 From 30th November 2015	N/A	N/A	N/A
Bradley Emerson – Director	Director Independent Non-Executive	03 From 12th March 2015 To 2nd November 2015	N/A	02 From 12th March 2015 To 2nd November 2015	N/A
Mahinda Siriwardena – Ex Officio Director	Director Independent Non-Executive	01 From 12th March 2015 To 10th April 2015	01 From 12th March 2015 To 10th April 2015	01 From 12th March 2015 To 10th April 2015	N/A

N/A = Not Applicable      o = Required to be present but not attended

## 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 where the salient features of compliance function are aligned with the Basel Principles and also identified the need of having an Independent Internal Compliance Function. In 2015, the Bank reviewed the Compliance Policy and introduced new areas and updated existing areas according to the CBSL guidelines.

The Compliance Function Reports to the Board Integrated Risk Management Committee and to the Board.

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. This further improved the Bank's Corporate Governance approach.

Corporate Governance Report in terms of Banking Act Direction No. 12 of 2007 issued by the CBSL for Licensed Specialised Banks in Sri Lanka.

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

<b>3 (1)</b>	<b>The Responsibilities of the Board</b>	
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.	Integrated Risk Management Policy, Operational Risk Management Policy, RPT Policy, Credit Risk Management Policy, Market Risk and Liquidity Risk Management Policy are in place.  BIRMC consistently review through risk indicators, measure and identify principal risk and risks at operational level. Complied with.
3 (1) (i) (d)	Approve implementation of a policy of communication with all stakeholders, including depositors, borrowers, creditors, shareholders.	Communication policy in place which communicates with all stakeholders, including depositors, creditors, shareholders and borrowers. Board approved Customer Charter is in place which communicates the customer interaction.  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 (KMP), 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. As per the NSB Act quarterly declarations in respect of related parties and their interests are obtained from Directors to monitor conflict, if any. Related Party Transaction Policy is in place to manage conflict of interest.  Complied with.
3 (1) (i) (j)	Ensure that the Bank has an appropriate succession plan for Key Management Personnel.	Complied with.
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.	The General Manager/CEO attends Board meetings as permitted under Section 13 (4) of the NSB Act. In addition, Key Management Personnel are called regularly when the need arises by the Board of Directors to exchange views in relation to the matters relating to their area of responsibility. Financial performance is being presented to the Board by DGM (F&P) on monthly basis with the participation of all DGMs and Consultants.  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.	As per Section 37 of the NSB Act 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 section 3 (5) of the 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. Section 26 (1) of the NSB Act states that 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. Chairman and General Manager/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.	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.	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.	Board approved procedure in place, enable the Directors upon reasonable request to seek independent professional advice in appropriate circumstances, at the Bank's expense.  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 page 82 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.	As per Section 8 (1) of NSB Act the Board comprises seven Directors including the Chairman. 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.	Not applicable.
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 three 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.	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 all seven are Non-Executive. Please refer to Directors details on page 157 of the Annual Report of Board of Directors.
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.	Not applicable.

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 four which is more than one-half of the Directors and all seven of the Directors 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 pages 88 and 158.
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.	NSB appointments of Directors are carried out by the Minister as per the NSB Act. [under Section 8 (1) (a)] 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.
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.
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, has been appointed as 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.

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**3 (4) Management Functions Delegated by the Board**

3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Delegation arrangements have been approved by the Board on selected matters.  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.  Complied with.

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**3 (5) The Chairman and Chief Executive Officer**

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 the Chairman and the General Manager/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.	Chairman is a Non-Executive Director. Chairman is not independent since Chairman 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 the General Manager/CEO are available on page 72.  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 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.

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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 Chairman 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.  Not Applicable.
3 (5) (ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Chairman acts in Non-Executive capacity and he is not involved in executive functions to supervise KMPs.  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 is being represented at the Board by the nominee of Secretary to Ministry of Treasury who is appointed as a Director by the provisions of the NSB Act.  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, Board Integrated Risk Management Committee and the Human Resource and Remuneration Committee directly submit reports through the Chairman of the Board Sub-Committees to the Board.  Complied with.
3 (6) (ii)	The following rules shall apply in relation to the Audit Committee:	Board Audit Committee Chairman is Non-Executive but Non-Independent due to his appointment as a Director of the NSB Fund Management Company (Pvt) Ltd., a fully-owned subsidiary of the Bank. [This appointment has been authorised by the CBSL]
(a)	The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	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> <p>(i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>(ii) the implementation of the Central Bank guidelines issued to Auditors from time to time;</p> <p>(iii) the application of the relevant accounting standards; and</p> <p>(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.</p>	<p>(i), (ii) and (iii) By statutes the Auditor General is the External Auditor of the Bank.</p> <p>(iv) Not Applicable. Complied with.</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.</p> <p>Not Applicable.</p>
(f)	<p>The Committee shall, before the audit commences, discuss and finalise with the External Auditor 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>The Committee has reviewed the Financial Statements on a quarterly basis for the year 2015, which included all the above-mentioned matters are taken into consideration whenever such situation arises.</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 Board Audit Committee meetings.  Complied with.
(i)	The Committee shall review the External Auditor's Management Letter and the management's response thereto.	Reviewed the Auditor General's Report for the year 2015 issued under the Section 13 (7) (a) and the management response thereon.  Complied with.
(j)	The Committee shall take the following steps with regard to the internal audit function of the Bank:  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;  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;  iii. Review any appraisal or assessment of the performance of the Head and Senior Staff Members of the Internal Audit Department;  iv. Recommend any appointment or termination of the Head, Senior Staff Members and outsourced service providers to the internal audit function;  v. Ensure that the Committee is appraised of resignations of Senior Staff Members of the Internal Audit Department;  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;	Complied with.  Complied with.  Complied with.  Complied with.  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 page 108.
(l)	The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditor's may normally attend meetings.	Complied with.

(m)	<p>The Committee shall have:</p> <ul style="list-style-type: none"> <li>i. Explicit authority to investigate into any matter within its terms of reference;</li> <li>ii. The resources which it need to do so;</li> <li>iii. Full access to information; and</li> <li>iv. Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</li> </ul>	<p>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.</p> <p>Refer Committee Report on page 108.</p> <p>Complied with.</p>
(n)	<p>The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities</p>	<p>Committee had met four times during the year and decisions are recorded.</p> <p>Complied with.</p>
(o)	<p>The Board shall disclose in an informative way:</p> <ul style="list-style-type: none"> <li>i. details of the activities of the Audit Committee;</li> <li>ii. the number of Audit Committee meetings held in the year; and</li> <li>iii. details of attendance of each individual Director at such meetings.</li> </ul>	<p>Please refer:</p> <p>Scope of Board Audit Committee is given on page 86.</p> <p>Dates of meetings held during the year are given on page 88.</p> <p>Details of attendance of Directors are given on page 88.</p> <p>Complied with.</p>
(p)	<p>The Secretary of the Committee shall record and keep detailed minutes of the committee meetings</p>	<p>The Board Secretary acts as Secretary and detailed minutes are maintained.</p> <p>Complied with.</p>
(q)	<p>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.</p>	<p>A process for investigation/deals with improprieties in financial reporting/frauds by Internal Audit and reports to Human Resources Division (HRD) for disciplinary actions and finally report to BAC.</p> <p>Complied with.</p>

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. The remuneration of the General Manager/CEO and KMP are decided by a committee comprising the top management of the three state banks and then approved by the Board of the Bank and forwarded to the Ministry of Finance.
(b)	The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.	The Directors 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 the General Manager/CEO is handled by 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:	
(a)	The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.	The Directors are appointed by the subject Minister as per the NSB Act. 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 posts of CEO and the key management positions.	The criteria eligibility to be considered for the General Manager/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, General Manager/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.	Appointment of the Chairman, Directors and the CEO are stipulated in the NSB Act. Appointments of KMPs are made by the Board of Directors. The general practice is that a Senior DGM is considered as the successor for the post of CEO. Complied with.
(f)	The Committee shall be chaired by an Independent Director. The CEO may be present at meetings by invitation.	Present Chairman of the 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.
3 (6) (v)	The following rules shall apply in relation to the Board 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, liquidity, strategic and other risk aspects and submits reports to the Committee on a quarterly basis. The risk reports includes product, sectors, operations, regulatory requirements and uses techniques such as stress test, liquidity ratios, loss events, market reports, limit monitoring, risk tolerance levels, KPI, KRI, ROI, ROA etc., and reports 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 findings of the risk reviews reports reveals critical and alarming risk levels (if any) and actions are recommended to the Board for corrective actions. 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 five 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. Director of Bank supervision has not directed actions in this regard.
(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 Assessment/Review Reports to BIRMC directly and 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.	The compliance function has been established by appointing a Compliance Officer (CO). CO submits reports on compliance to IRMC on a quarterly basis and periodically to the Board. Complied with.
<b>3 (7) Related Party Transactions</b>		
3 (7) (i) & (ii)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person.	Board approved Related Party Transaction Policy is in place to avoid any conflicts of interest. 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.	Annual declarations are obtained from the Directors where such transactions would be identified. Based on the declarations no such transactions have been reported. Arrangements have been made to record Related Party Transaction (if any) at the Board meetings. Transactions (if any) carried out with Related Parties in the normal course of business and disclosed in Note 39 to the Financial Statements 'Related Party Disclosures' on page 247. 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. Any accommodations to Directors are 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.	A few Directors have obtained housing loans in the normal procedure with deposit of adequate immovable collateral security. Disclosed in the quarterly statement.  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.
<b>3 (8)</b>	<b>Disclosures</b>	
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 of the Annual Report of 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 of the Annual Report of Board of Directors.  Refer 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 Control on page 164.  Complied with.
(d)	Details of Directors:  (i) including names, fitness and propriety,  (ii) transactions with the Bank, and  (iii) the total of fees/remuneration paid by the Bank.	Profiles of the Directors are given on page 72.  Refer Note 39 (d) to the Financial Statements on page 249.  Refer Note 39 (d) to the Financial Statements on page 249.  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 250.  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 249.  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 on Internal Control.  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 of 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 Engagements to perform Agreed - upon procedures regarding financial information 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 12th May 2016 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

12th May 2016  
Colombo

# “We are intrinsically linked to all the communities we serve across the island, and ideally placed to help Sri Lankans become more financially resilient”

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## 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. Gelioya
26. Ragala

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## Eastern Province →

27. Akkaraipattu
28. Ampara
29. Ampara 2
30. Arayampathy
31. Batticaloa
32. Chenkaladi
33. Kalawanchikudi
34. Kalmunai
35. Kantale
36. Palugama
37. Periyakallar
38. Pothuvil
39. Sammanthurai
40. Thambiluvil
41. Trincomalee
42. Valaichchenai

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## Northern Province →

43. Atchuwely
44. Chankanai
45. Chavakachcheri
46. Chunnakam
47. Jaffna

48. Jaffna 2
49. Karainagar
50. Kayts
51. Kilinochchi
52. Manipay
53. Mannar
54. Nelliady
55. Point Pedro
56. Thirunalveli
57. Vavuniya
58. Vankalai
59. Mallavi
60. Kodikamam
61. Mullaitivu

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## North Western Province →

62. Alawwa
63. Anamaduwa
64. Chilaw
65. Hettipola
66. Ibbagamuwa
67. Galgamuwa
68. Kuliypitiya
69. Kurunegala
70. Kurunegala 2
71. Madampe
72. Maho
73. Marawila
74. Mavathagama
75. Narammala
76. Nattandiya
77. Nikaweratiya
78. Polgahawela
79. Puttalam
80. Wariyapola
81. Wennappuwa
82. Melsiripura
83. Bingiriya
84. Giriulla
85. Rideegama
86. Dankotuwa

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## North Central Province →

87. Anuradhapura
88. Anuradhapura 2
89. Galenbindunuwewa
90. Galnewa
91. Hingurakgoda
92. Horowpathana
93. Kaduruwela

94. Kahatagasdigiliya
95. Kebithigollewa
96. Kekirawa
97. Medawachchiya
98. Nochchiyagama
99. Tambuttegama
100. Medirigiriya
101. Eppawala

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## Sabaragamuwa Province →

102. Aranayake
103. Balangoda
104. Bulathkohupitiya
105. Deraniyagala
106. Eheliyagoda
107. Embilipitiya
108. Kahawatta
109. Kalawana
110. Kegalle
111. Kegalle 2
112. Kuruwita
113. Mawanella
114. Pelmadulla
115. Rambukkana
116. Ratnapura
117. Ruwanwella
118. Warakapola
119. Yatiyantota
120. Nivithigala
121. Kiriella
122. Godakawela

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## Southern Province →

123. Akuressa
124. Ambalangoda
125. Ambalantota
126. Angunakolapelessa
127. Baddegama
128. Beliatte
129. Deniyaya
130. Devinuwara
131. Dickwella
132. Elpitiya
133. Galle
134. Galle 2
135. Habaraduwa
136. Hakmana
137. Hikkaduwa
138. Imaduwa
139. Kamburupitiya
140. Karapitiya
141. Matara

142. Matara 2
143. Middeniya
144. Morawaka
145. Neluwa
146. Pitigala
147. Sooriyawewa
148. Tangalle
149. Tissamaharama
150. Uragasmanhandiya
151. Urubokka
152. Walasmulla
153. Weeraketiya
154. Weligama
155. Kekanadura
156. Hambanthota

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## Uva Province →

157. Badulla
158. Bandarawela
159. Hali-Ela
160. Bibile
161. Buttala
162. Mahiyangana
163. Moneragala
164. Passara
165. Welimada
166. Wellawaya
167. Badalkumbura

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## Western Province →

168. Aluthgama
169. Athurugiriya
170. Avissawella
171. Baduraliya
172. Bambalapitiya
173. Bandaragama
174. Battaramulla
175. Beruwala
176. Boralesgamuwa
177. Borella
178. Bulathsinhala
179. City
180. Dehiwela
181. Delgoda
182. Delkanda
183. Divulapitiya
184. Gampaha
185. Gampaha 2
186. Ganemulla
187. Hanwella
188. Head Office
189. Homagama
190. Horana
191. Ingiriya
192. Ja-Ela
193. Kadawatha
194. Kaduwela
195. Kahathuduwa
196. Kalubowila
197. Kalutara
198. Kalutara 2
199. Kandana
200. Katubedda
201. Katunayake
202. Kelaniya
203. Kiribathgoda
204. Kirindiwela
205. Kirulapone
206. Kochchikade
207. Kollupitiya 2
208. Kotahena
209. Kottawa
210. Mahabage
211. Maharagama
212. Malabe
213. Maligawatta
214. Matugama
215. Meegoda
216. Minuwangoda
217. Mirigama
218. Moratumulla
219. Moratuwa
220. Mt. Lavinia
221. Mulleriyawa
222. Mutwal
223. Narahenpita
224. Nawala
225. Negombo
226. Nittambuwa
227. Nugegoda
228. Panadura
229. Peliyagoda
230. Pettah
231. Piliyandala
232. Pitakotte
233. Pugoda
234. Puwakaramba
235. Raddolugama
236. Ragama
237. Rajagiriya
238. Thalawathugoda
239. Veyangoda
240. Wadduwa
241. Wattala
242. Wellampitiya
243. Wellawatta
244. World Trade Center
245. Yakkala



# **Report of the Board Audit Committee**

The Board Audit Committee comprises three Non-Executive Directors, who conduct Committee proceedings in accordance with the rules stipulated in 3 (6) (ii) under the Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks, Board approved Audit Charter and connected Board decisions.

The present Board Audit Committee which was reconstituted on 30th November 2015 consists of the following members:

D.L.P.R. Abeyaratne	- Chairman
A.K. Seneviratne	- Member
Anil Rajakaruna	- Member

The following members also served in the BAC during the year 2015.

Bradley Emerson	- Chairman (from 12th March 2015 to 02nd November 2015)
Lionel P. Fernando	- Chairman (Up to 13th February 2015)
Mahinda Siriwardena	- Member (from 12th March 2015 to 10th April 2015)
S.R. Attygalle	- Member (Up to 25th February 2015)
Late H. Madiwela	- Member (Up to 27th January 2015)
Sumith Wijesinghe	- Member (Up to 2nd February 2015)

Profiles of the members are given on page 72 of this Annual Report.

The Board Secretary functions as the Secretary to the Board Audit Committee as per the Board decision dated 11th July 2013.

The National Savings Bank's Board which consists of seven Directors and being constituted under the provisions of Section 8 (1) its sub section of NSB Act No. 28 of 1995 and members for all the Sub-Committees including the Board Audit Committee members are being appointed out of the said Seven (07) members who possess the necessary qualifications, skills and experience to serve the BAC.

## **Meetings**

The Committee met on Four (04) occasions during the year 2015. Attendance by the Committee members of these meetings is given in the table on page 88 of this Annual Report.

Superintendent of the Government Audit as the representative of the Auditor General attended the BAC meetings by invitation.

The General Manager/CEO, Deputy General Manager (Audit & Vigilance)/Asst General manager (Audit) and Deputy General Manager (Finance & Planning) have attended the BAC meetings during the year 2015.

## **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; and
- (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 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.

## ***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 actions:

1. Deputy General Manager (Audit and Vigilance) made a presentation to the Board on the Internal Audit Functions.
2. Reviewed Auditor General's Report under section 13 (7) (a) for the year ended 13th December 2013 in terms of Finance Act No. 38 of 1971.
3. Reviewed the Transfer of Dormant Account Balances to Unclaimed Deposit Reserve.
4. Reviewed the Financial Statements of the Bank for the year ended 31st December 2014 and quarters ended 31st March, 30th June and 20th September 2015 before publication and recommended to submit the same to the Board of Directors.
5. Periodically reviewed the performance of Audit and Vigilance Division.
6. Reviewed the Performance Appraisal of Senior Staff members of the Audit and Vigilance Division.
7. Reviewed the Activities of the BAC for the year 2015 to be included in the Annual Report.
8. Reviewed the Position Paper on Comprehensive Information System (IS) Audit assigned to PWC
9. Reviewed the BAC Charter Checklist and BAC's Self-Assessment Guide – 2015.
10. Reviewed the Internal Audit Findings.
11. Considered the Revision of Internal Audit Manual and relevant Charters.
12. Reviewed the Follow-Up Audits.
13. Reviewed the Fraud Risk Management and Whistle Blowing Policy.
14. Reviewed the Audit Plan 2016.

### **External Audit**

By statute, the Auditor General is the External Auditor of the Bank. 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.



**D.L.P.R. Abeyratne**

Chairman – Board Audit Committee

24th March 2016  
Colombo

# Report of the Human Resource and Remuneration Committee

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 Central Bank of Sri Lanka (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).

The Board appointed Human Resources and Remuneration Committee (HRRC) comprises three Non-Executive Directors.

Aswin de Silva	- Chairman (from 12th March 2015)
D.L.P.R. Abeyaratne	- Member (from 12th March 2015)
Ajith Pathirana	- Member (from 30th November 2015)

The following members also served in HRRC during the year 2015.

Ms. W.A Nalani	- Chairperson (Upto 19th January 2015)
S.R. Attygalle	- Member (Upto 25th February 2015)
H. Madiwela	- Member (Upto 27th January 2015)

The General Manager/CEO provides information to the Committee and attends all meetings of the Committee except when matters relating to the General Manager/CEO are being discussed. The Secretary to the Board, functions as the Secretary to the HRRC.

The Committee is responsible for determining the remuneration policy relating to the General Manager/CEO and Key Management Personnel of the Bank other than the remunerations determined by the Collective Agreement.

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.

The Committee meetings quarterly, however based on the needs, meetings are being fixed accordingly, and 6 meetings were held during the year.

During the financial year ended 31st December 2015 Six HRRC Meetings were held and the important activities carried out;

- (1) Reviewed the granting of a special increment for employees who have completed 35 years of service.
- (2) Reviewed the staff Promotions made during the year.
- (3) Reviewed and recommended job specifications for the posts advertised during the year.
- (4) Reviewed Proposals Pertaining to Staff Welfare.
- (5) Reviewed the Revision of the Collective Agreement for the period 2015 – 2017.
- (6) Reviewed Pensioners Medical Assistance Scheme.
- (7) Reviewed the Post of Officer Trainee ( Grade III Class III)
- (8) Reviewed Change of Designations (Banking Stream).
- (10) Reviewed Payment of Pension Under the New Pension Scheme
- (11) Reviewed the Key Performance Indicators (KPIs) of Key Management Personnel (KMP) of the Bank
- (12) Reviewed W & OP Benefit in the New Pension Scheme

The attendance of the meetings is given on page 88 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

24th March 2016  
Colombo

# ***Report of the Board Integrated Risk Management Committee***

## ***Composition of Board Integrated Risk Management Committee of the Bank***

The Board of Directors has established the Board Integrated Risk Management Committee (BIRMC) of NSB in compliance with the Banking Act Direction No 12 of 2007, corporate governance for licensed specialised Banks in Sri Lanka. The BIRMC comprised of three Non-Executive Directors and General Manager/CEO and the Head of Risk Management/CRO as members of the Corporate Management. The Secretary to the Board of Directors functions as the Secretary to the Committee. The details of the members are given on page 158 of this Annual Report.

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

- To advise the Board of Directors in fulfilling its responsibilities relating to risk management and establish an effective risk management framework.
- To implement the Integrated Risk Management policy and other risk related policies approved by the Bank and periodic updating of the Bank wide Risk Management Framework.
- Ensure that all credit, market, operational and strategic risks faced by the Bank are identified, measured, monitored, and managed adequately;
- To work with Key Management Personnel very closely on all critical risk areas and make suitable recommendation to the Board within the framework of the authority and responsibility assigned to the Committee.
- Identify, review, report and recommend on risk of new operational developments and compliance related to those concerns.

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

The Committee review policies and risk & compliance reports received from the Risk Management, Compliance Divisions and other operational divisions and make recommendation for the decisions on matters falling within its mandate for approval of Board of Directors. The process through which risks is managed is explained in detail in the Risk Management section of this Annual Report.

The BIRMC is supported by Risk Management, Compliance Divisions and other operational divisions in discharging its responsibilities.

## **Committee Activities During the year 2015**

BIRMC meets on a quarterly basis. During the year 2015, NSB convened five (5) BIRMC meetings. The attendance of members in the Committee is listed on page 88 of this Annual Report. The minutes of the meetings and risk reports, policy establishments & reviews and other risk and operational related papers were submitted to the Board.

The Committee introduced Liquidity Contingency Plan and Abandoned Property Policy while reviewed Risk Management Policies such as Operational Risk Management, Stress Test, Treasury Policy and discussed Fraud Risk Management and Whistle Blowing Policy. BIRMC also reviewed charters of operational Committees, namely BIRMC, Human Resources and Remuneration Committee and IT Steering Committee.

The capital adequacy was reviewed through Internal Capital Adequacy Assessment Process (ICAAP) including Capital Planning document taking all probable risk factors into account and submitted to CBSL. The Committee also established Risk Appetite, Risk Tolerance Levels and Limits for monitoring of key operational activities.

The risk assessment and monitoring were carried out through regular risk reports covering credit, market and operational risk, stress tests, periodically and through specific risk such as foreign currency exposure, credit review and loss event reports etc. The Committee took actions proactively to create awareness and actions for implementation of CBSL Consultative Paper on Basel III introduced during the year.

The Committee is also involved in reviewing of compliance policy, monitoring of compliance of statutory examination and reporting to the Board and in the process of control examination. Further Corporate Governance & Regulatory Framework, KYC compliance status were monitored. The Committee was satisfied that the actions taken in respect of managing risks of the Bank during the year are effective.



**Mr. A.K. Seneviratne**

Chairman – Board Integrated Risk Management Committee  
24th March 2016

# Report of the Nomination Committee

The Board appointed Nomination Committee (NC) comprises three Non-Executive Directors as at 31st December 2015.

Aswin de Silva	Chairman (from 12.03.2015)
Ajith Pathirana	Director (from 30.04.2015)
D.L.P.R. Abeyaratne	Director (from 30.11.2015)

The following members also served in the NC during the year 2015.

Ms. W.A Nalani	- Chairperson (Upto 19th January 2015)
Mahinda Siriwardene	- Member (From 12th March 2015 to 10th April 2015)
S.R. Attygalle	- Member (Upto 25th February 2015)
S.T. Abeyegunawardene	- Member (Upto 9th January 2015)

Secretary to the Board of Directors, functions as the Secretary to the Nomination Committee also.

The Nomination Committee is responsible for implementing a procedure to select/appoint General Manager/CEO and Key Management Personnel, setting out criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of General Manager/CEO and the 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 Direction 3 (3) and as set out in the Statutes. 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.

The General Manager/CEO participates at the Nomination Committee Meeting on invitation.

During the final year ended 31st December 2015, two Nomination Committee meetings were held on 19th March 2015, 30th April 2015 and the following important matters were reviewed and recommended by the Nomination Committee.

Reviewed and recommended;

- (1) Appointing the Acting General Manager/CEO as the General Manager.
- (2) The Proposed Cadre for the Bank – 2015/16.
- (3) Hiring Consultants for following Appointments,
  - (a) Consultant for IT
  - (b) Consultant Legal
- (4) Following Promotions,
  - (a) Post of Senior DGM (Special Grade)
  - (b) Post of Deputy General Manager (Special Grade)
- (5) The Succession Plan for the Bank (2015 - 2018)



**Aswin De Silva**  
Chairman – Nomination Committee

24th March 2016  
Colombo

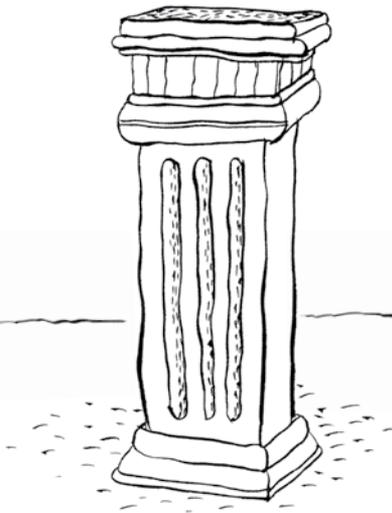
# ***Risk Management Report***

Risks stem from external as well as internal factors such as macroeconomic performance of the country, market related factors and business growth and diversification of the Bank.

In anticipation of changing market dynamics and growth plans of the Bank, National Savings Bank (NSB or ‘the Bank’) focuses on continuous development of its structures, resources, technology, product and service range that impact the desired level of performance while maintaining its core competencies. Equally important is the need for a prudent and effective risk management and governance framework to secure its long-term stability and the growth.

Risk management is an inseparable part of every operational activity of the Bank.

The Bank manages its capital absorbing relevant risks, while carrying out its business adhering to regulatory compliance. The Bank applies principles and best practices of risk management and the provisions stipulated by regulators in managing its risks.

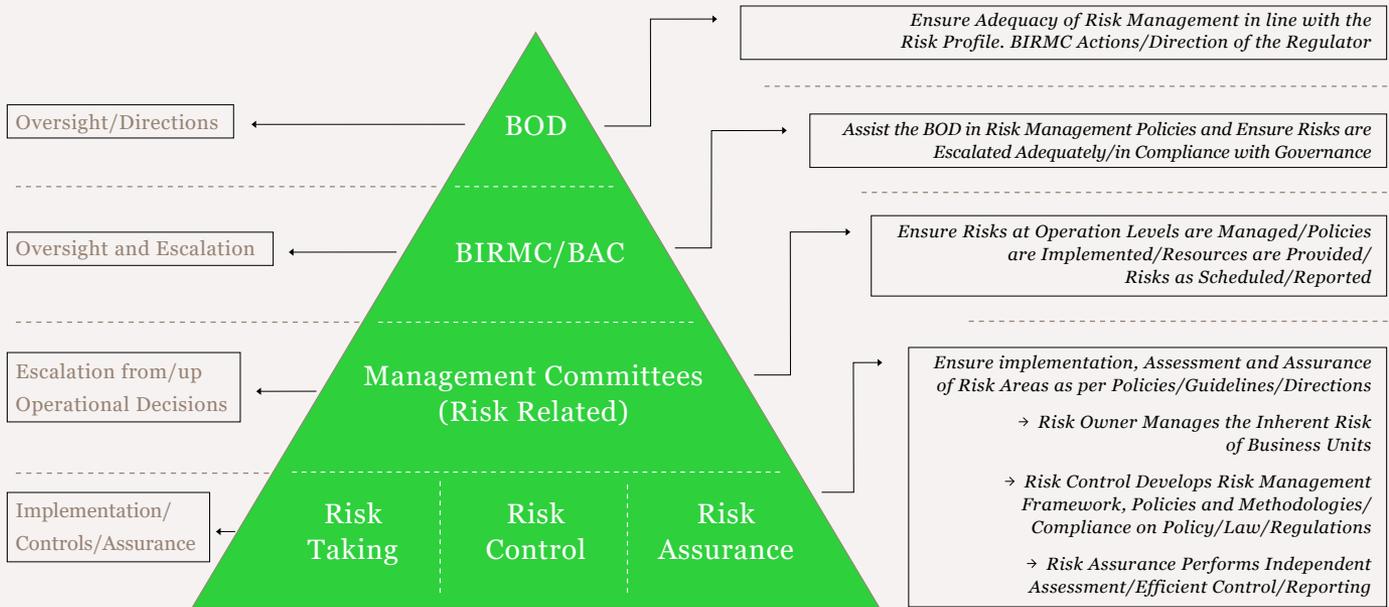


## Oversight of Board of Directors (BOD) and the Board Integrated Risk Management Committee (BIRMC)

The BOD oversees the implementation of risk management through BIRMC, Management and all Business and Support Units. Active supervision by the Board of Directors and the BIRMC, among others, is carried out through the development, approval, implementation and evaluation of policies and risk management procedures, conducted through regular meetings. The Executive Risk Management Committee (ERMC) is responsible for escalating and managing risks at operational levels. Also Operational Committees such as Corporate Management Committee, ALCO,

Investment Committee (IC), Credit Committee, Operational Review Committee etc. are involved in developing and monitoring of the risk management process at operational levels.

To ensure the effective implementation of risk management, the Integrated Risk Management Framework approved by the BOD outlines the roles and responsibilities, decision-making processes, interrelationship between risk management functions and policies that ensure risks are properly managed. Risk Governance in NSB can be illustrated as follows:



The Risk Governance ensures the adequate implementation of risk management in line with the Bank's business characteristics, complexity and risk profile. BOD, BIRMC and Senior Management are responsible for the implementation of risk management adequately, while Risk Review and Monitoring Committees are mainly entrusted with monitoring and implementation. Risk Management Division (RMD) assists the BIRMC and the BOD in developing risk management policies, implementing as well as escalating issues to the BOD through BIRMC independently.

### **Policies, Procedures and Limit Setting**

The effectiveness of the risk management is based on the policy, procedure and structure. NSB has developed comprehensive and integrated risk management policies, procedures and a framework to support the effective implementation of risk management. Risk management policies act as the strategic and basic guiding principles, while risk management procedures serve as guidelines on the implementation of risk management. Specifics of each procedure are provided in the manuals and circulars. The areas of coverage under each policy at NSB are illustrated below:

Policy	Coverage
Integrated Risk Management Policy	Integrated Risk Management Framework of the Bank
Credit Risk Management Policy	Managing Risk in Retail Credit, Corporate Credit, Loans to Banks & Financial Institutions, Loans to SOEs and SOBEs
Market and Liquidity Risk Management Policy	Identification, Assessment, Management and Mitigation of Market and Liquidity Risk
Operational Risk Management Policy	Outlines Operational Risk Management Policy, Function/Activities and Future Directions.
Risk Management Disclosure Policy	Disclosure Requirements with Respect to the Risk Management functions
Outsourcing Policy	Guidelines, Procedures, Risk Mitigation, Guidelines and MIS on Outsourcing Activities

The policy framework provides strategic guidelines for a particular product and/or the Bank's activity. As a risk control mechanism, the Bank also establishes risk limits, limit per risk profile (credit risk, market risk and liquidity risk, equity), limit per functional activity and overall limit.

Risk policies and procedures are periodically reviewed while limits are set annually with approval of the Board of Directors on the recommendation of BIRMC. The limits approved are implemented through line authorities while monitoring and reporting is done by RMD.

### **Risk Appetite and Tolerance Limit**

The risk appetite can be expressed as the amount of risk the Bank is willing to accept in pursuit of its return objectives. The risk appetite framework is overseen by BIRMC and the Board and adherence is monitored and controlled by the risk management function. Key performance and risk measures are tracked and reported regularly to BIRMC and the Board, the responsible Committees and Corporate Management with escalation at each level depending on the severity of the breach.

The Bank's risk appetite is monitored quantitatively through risk measures such as prudent risk limits, capital adequacy, Key Risk Indicators, stress testing etc. Qualitative monitoring takes place through sound policies, procedures, controls, Key Operational Risk Indicators etc, meant to limit risk. The defined risk tolerance limits provide a basis for managing and monitoring the Bank's business activities. It sets boundaries aligning the Bank's business strategy with stakeholder expectations.

### **Processes in Risk Identification, Measurement, Monitoring and Controlling**

NSB's risk management process consists of the identification, measurement, monitoring and controlling of the main risk types, such as Credit, Market, Liquidity, Operational, Legal, Strategic, Compliance and Reputational Risks. NSB identifies risk by analysing all potential sources of Risk inherent in the products, services, activities, portfolio and processes that may affect the Bank.

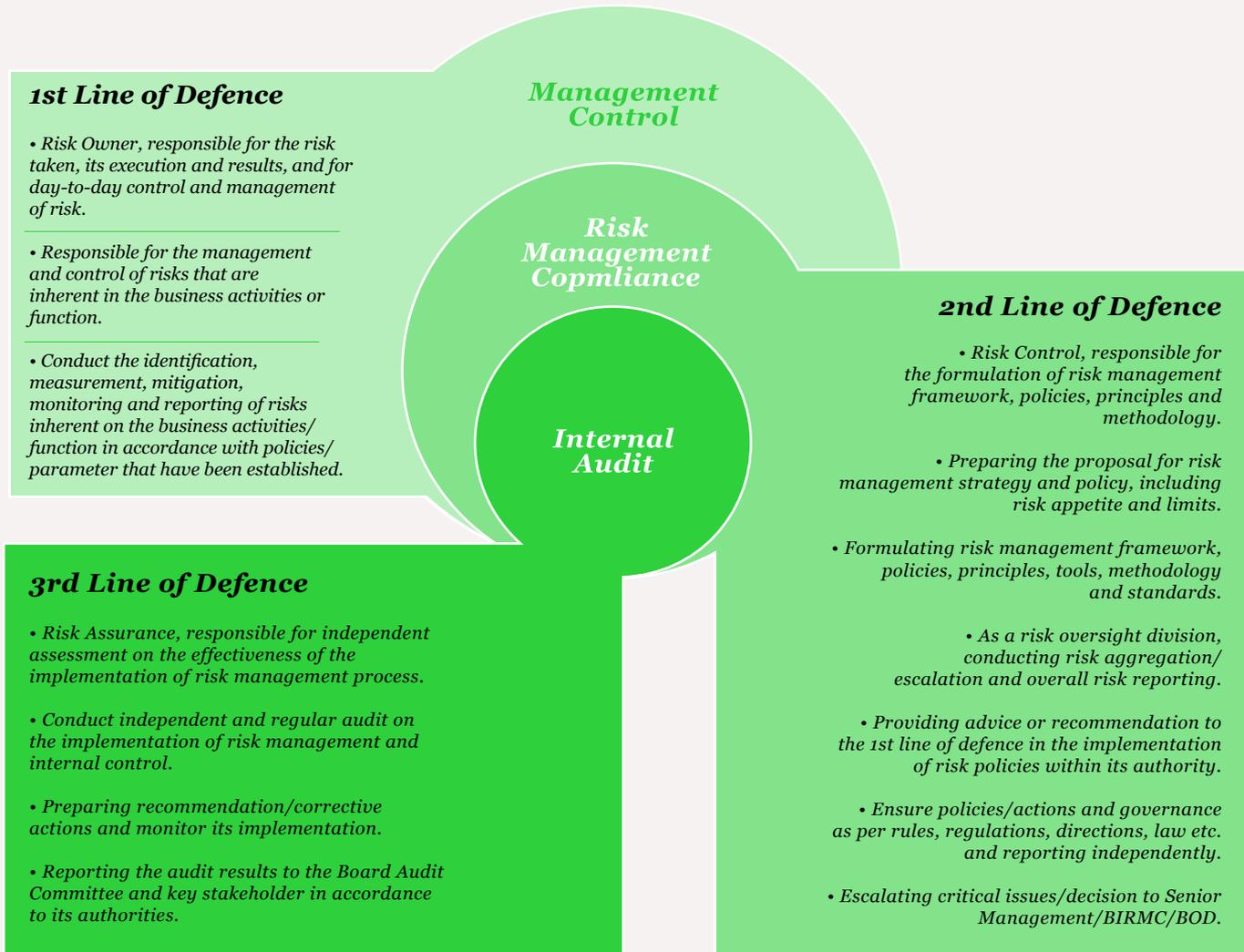
Risk is measured, quantitatively and/or qualitatively, using the appropriate methods specified by the regulator or alternative methods when the regulator has not specified a particular method. To measure and understand the impact of extreme events, NSB risk measurement process is also equipped with stress testing for measuring credit risk, market risk, operational and liquidity risk.

The risk monitoring process is first carried out by the risk taking unit as the risk owner and risk control unit in the process. The risks are monitored comprehensively by RMD independently and monitoring results are presented in regular reports such as the Credit Risk Report, Market Risk Report, Equity Reports, Operational Risk Report, Loss Event Data Report, Quarterly Risk Report etc.

Risk control is carried out through risk transfers for certain activities, the establishment of allowance for impairment losses, insurance and by making available adequate capital to cover possible risks.

## Internal Controls

NSB's internal control systems are implemented by using the Three Lines of Defence model consisting of:



First line of defence is implemented by the risk taking unit as risk owner, by managing risks inherent in the respective business or function (day-to-day management and control).

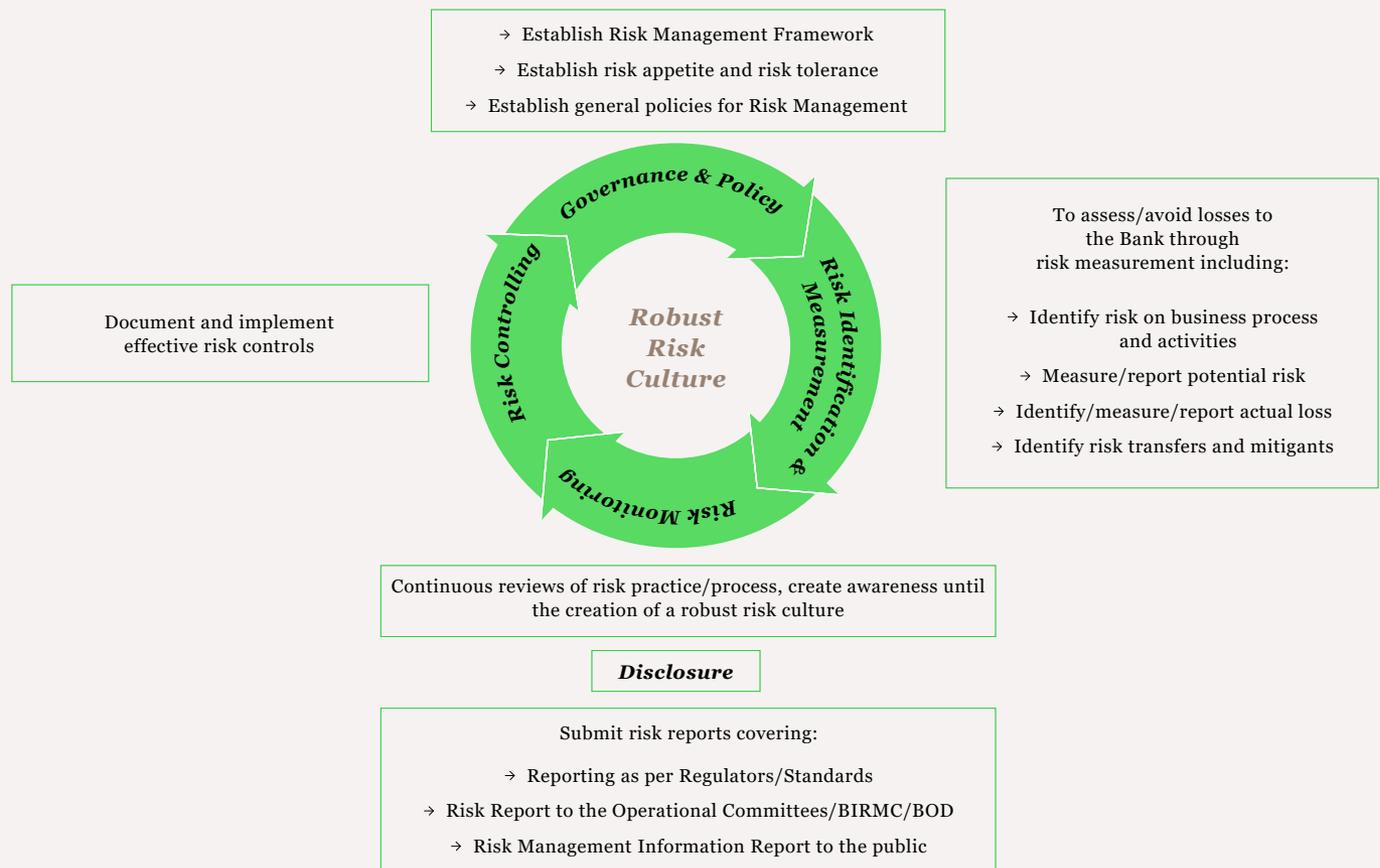
Second line of defence or risk control is carried out by the Risk Management Division, which is responsible directly to the BIRMC. The Compliance Division is responsible for encouraging all organisational levels to function according to internal and external laws and regulations including the regulator's directions. The Compliance Division too reports to the Board through BIRMC.

As the third line of defence or Risk Assurance Unit, NSB has the Internal Audit Division that is responsible directly to the Board Audit Committee. Risk Assurance performs independent assessment on the conformity of risk management processes and internal control system to ensure that policies and procedures and regulations are in place as set by regulators and the Bank.

## **Risk Culture**

Apart from the four areas discussed above, the evolution of a risk awareness culture plays an integral part in implementing sound risk management strategies and for ensuring the effectiveness of the process throughout the Bank. A strong risk culture is a soft variable and critical platform for effective implementation of risk management. To instill risk culture within NSB, both top-down and bottom-up approaches are adopted. Effective implementation of risk management is not only measured by each aspect individually but should also be done through a comprehensive approach.

Risk driver that influences risk behaviour is Risk governance/structure/management approach, which is in turn influenced by values or risk culture. The relationship between a strong risk culture, risk behaviour, risk driver and dimensions that build a strong risk culture in NSB is illustrated in the diagram below:



## Capital

NSB's policies and strategies on capital involve capital structure and composition in line with the Bank's strategic plans and the Minimum Capital Adequacy Ratios (CAR).

### NSB (Bank Only)

Capital provides a cushion against any potential losses that the banks may suffer and prevents banks from excessive risk taking. Capital management therefore, is considered as an integral part of risk management of the Bank. Bank exercises various processes to assess capital adequacy, including Minimum Capital Requirement (MCR), Stress Test and Gap Analysis. NSB was well ahead of minimum required target capital throughout 2015 even though it was less than that of 2014.

The capital structure of NSB (Bank only) is dominated by core capital, consisting of issued and paid up capital and statutory and other reserves. The capital of the Bank, as at 31st December 2015, was Rs. 25.07 Billion, with a Capital Adequacy Ratio of 16.40%, well in excess of the minimum requirement of 10.0%.

To ensure that the Bank has adequate levels of capital to absorb potential credit, market and operational risks, NSB has developed

capital adequacy calculations process "Capital Planning" taking the three major risk types, according to the requirements of the Central Bank of Sri Lanka (CBSL) and guided by the Basel II Accord.

In determining the level of capital adequacy in terms of credit risk, NSB uses the Standardised Approach to calculate its Risk Weighted Assets (RWA).

In determining the RWA for market risk, NSB uses the Standardised Measurement Approach, while using the Internal Model approach in the management of internal risks in the Bank's day-to-day activities as well as in setting market risk limits.

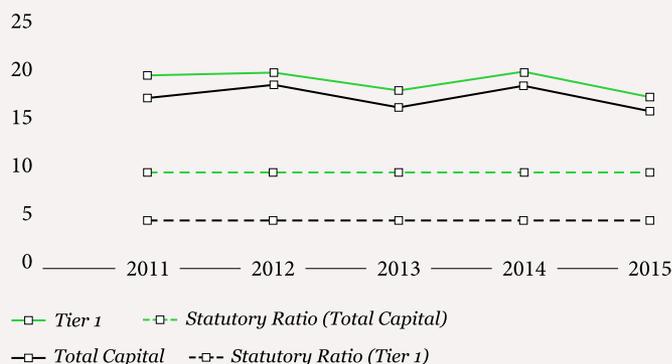
In the calculation of RWA for operational risk, NSB uses the Basic Indicator Approach.

Using the RWA calculations for all three types of risk to determine the CAR and taking into account the minimum requirement according to the risk profile, the capital position of the Bank (solo basis) is still considered to be strong and capable of supporting its business growth, as described below:

Capital Component – Basel II	Bank Only Rs. Million	Consolidated Rs. Million
Core Capital	31,042	32,742
Supplementary Capital	1,405	1,405
Deduction Factor of Core Capital and Supplementary Capital	7,375	7,225
Total Capital	25,072	26,922
Risk Weighted Assets (RWA) for Credit Risk	106,554	106,562
Risk Weighted Assets (RWA) for Market Risk	14,895	17,087
Risk Weighted Assets (RWA) for Operational Risk	31,405	31,956
Total Risk Weighted Assets (RWA)	152,855	155,605
Core Capital (Tier 1) Ratio (%)	17.90	18.72
Total Capital Adequacy Ratio (%)	16.40	17.30

## Capital Adequacy Trend of the Bank >

[ % ]



## The Group (Consolidated)

The capital structure of NSB and its only fully owned subsidiary, NSB Fund Management Company Ltd (NSBFMC – consolidated – the Group)) is also dominated by core capital of NSB (94.81% of the total consolidated capital of NSB), consisting of paid-up capital and the reserves.

NSB's equity participation in its subsidiary is relatively immaterial, thus has no significant impact to the amount of capital of the Group. The actual position of the Group capital, as of 31st December 2015, amounted to Rs. 26,922 Million and the Group CAR position in December 2015 was 17.30%. This demonstrates that NSB (consolidated) capital position is still considered to be strong and capable of supporting business growth for Group.

In accordance with CBSL regulations on the implementation of consolidated risk management, the implementation of risk management in NSBFMC involved in the primary dealer operations for Government Securities is included in the calculation of RWA.

## Implementation of Risk Management

The extended and effective management of risk requires a risk management infrastructure that includes Governance and Organisation Structure, Policies and Procedures, Risk Management Process, Tools and Methods of Measurement (including Quantification through Risk Model) and supported by Information Technology and a strong Risk Culture. The management of each type of risk is developed and implemented on the basis of such infrastructure:

## Credit Risk

### Overview

Credit risk arises from all transactions where actual, contingent or potential claims against any counterparty, borrower, obligor or issuer exist. These transactions are typically part of the Bank's lending activities such as loans & advances and contingent liabilities.

In a Bank's portfolio, losses stem from outright default due to inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, hedging, settlement and other financial transactions. Alternatively, losses may result from reduction in portfolio value due to actual or perceived deterioration in credit quality. In addition to direct accounting losses, credit risk is viewed in the context of economic exposures. This encompasses opportunity costs, transaction costs and expenses associated with non-performing assets over and above the accounting losses.

Banks distinguish between two types of credit risks. Default (Counterparty) risk, the most significant element of credit risk reflects the potential for loss due to a counterparty failing to meet all or part of its contractual financial obligations, in accordance with the agreed terms. Settlement risk, which is the second type that depicts the possibility that a counterparty to a transaction will fail to settle its obligations, when due or any time thereafter or will settle its obligations later than expected. These exposures can arise through activities and relationships such as lending, trading, deposits and settlements.

Though a credit risk arises mainly from direct lending reflected as 'On Balance Sheet' transactions, it could also arise from 'Off Balance Sheet' transactions such as undrawn loan commitments. Credit risk, may not necessarily occur in isolation. The same source that endangers credit risk for the Bank may also expose it to other risks for instance, a bad portfolio may influence liquidity levels.

## Credit Risk Management Framework

The Bank has a well established Credit Risk Management (CRM) Framework which strives to optimise credit risk management by identifying, measuring, monitoring, managing and reporting credit risk align with the Board approved policy framework.

The CRM Framework of the Bank is established through Integrated Risk Management Policy and the Credit Risk Management Policy approved by the Board of Directors, comprises comprehensive

credit risk strategy, policies, procedures in credit administration, governance structure, risk management criteria, structured credit approval hierarchy, monitoring, reviewing and controls.

The policies and procedures that are properly developed and implemented enable the Bank to develop a quality credit portfolio to ensure financial strength of the Bank, maintain sound credit granting standards, monitor and control credit risk, properly evaluate new business opportunities and identify and administer problem credits.

The 'Retail Credit Policy and Procedure Manual' (RCP) includes Retail Credit Administration, House & Property Loans, Auto Loans, Personal Loans, Pawning Advances and the Loan Review Mechanism (LRM). The Policies spell out the escalation process to ensure appropriate approval of credit extension, credit management and recoveries and govern the retail credit portfolio.

The Investment Policy Statement (IPS) outlines the appraisal and approval procedures, criteria etc. for Investments, Corporate Loans, Loans to Banks and Financial Institutions (B&FIs), State Owned Enterprises/State Owned Business Enterprises (SOEs/SOBEs) etc. and governs the Corporate Loan Portfolio. The Pricing Policy details out the pricing of credit products and asset allocations.

## Credit Risk Governance

Overall responsibility of CRM includes policy formation, implementation of risk management structure and providing resources as per the risk profile of the Bank and regulatory requirements.

BIRMC, which is a Sub-committee of the Board, is responsible to oversee the CRM functions on behalf of the Board, particularly on the overall risk profile by assessing credit risk on a portfolio level and at product level, through appropriate risk reviews, risk indicators and management information. The Executive Risk Management Committee (ERMC) oversees the credit risk at management level and the operational level, primarily on policy formation, application of credit risk findings in credit operations from a risk management point of view.

The Credit Committee (CC) bears the responsibility of managing the retail credit risk at operational level and deals with credit issues relating to credit policies, procedures and credit strategies, monitor, analyse, manage and control credit risk on a bank-wide basis and ensures compliance with limits approved by the Board. The CC addresses product specific risks, examines risk reviews submitted

to the committee and takes action to manage those risks within the established quantitative and qualitative risk limits. In addition, the CC is vested with the authority to approve credit facilities within the delegated authority approved by the Board. Investment Committee (IC) functions as the responsible authority for assessing and managing the credit risk in Investments, Corporate Loans, loans to B&FIs and SOEs.

Independent credit audit is carried out by the Internal Audit Division (IAD) at overall and individual credit levels. The transactional audit, adherence to credit procedure, practices, circulars and frauds are audited by the IAD and are reported to the Board Audit Committee (BAC) and made available to the RMD to facilitate credit risk management.

## Credit Approval Structure

Delegated authority limits structure governs the credit approval and administration. The Bank during the year, reviewed delegation of authority levels by enhancing limits of obligations assigned to the authorities at all levels, including the Branch Network and Regional Office, the Credit line Officers in Head Office and for Operational Committees. The revision also includes product-wise approving authority limits, non-cumulative authority limits, single borrower and product limits for retail credit and approvals based on the quality of credit portfolio, maintained by the approving authority. Further, the revision covers introduction of new terms and conditions for credit administration, including disbursements and restructuring of loans to ensure quality of the retail credit portfolio and to minimise recovery risk.

The Bank also during the year, introduced delegation of authority for corporate and large credits for both private and public sectors. The process improvement streamlines the approval, credit administration, documentation & disbursement and rescheduling & restructuring processes.

## Risk Identification and Monitoring at Policy Level

Risk identification process involves in determining possible risks that exist or are anticipated with their characteristics, time frame, possible outcomes and impact in relation to the credit process of the Bank. RMD recognises, risk identification as a critical aspect of the process, since failure to identify risks would affect the implementation of other processes of risk management and inevitably impact on achieving objectives and purpose of the Bank. An important element of CRM is setting limits with the Board

approval, based on the predetermined Risk Appetite Levels (RAL) and Risk Tolerance Levels (RTL) for credit exposures and its elements applied for monitoring and escalation of risks to influence authorities to maintain credit risk exposures at policy level, which the Bank is willing to take.

The credit risk limits i.e. RAL & RTL, established by RMD covers capital allocation, credit quality and concentration to monitor credit risk on a continuous basis. RMD periodically assesses high

risk sectors/products and set the limits and exposures, ensuring that the Bank's credit risk profile remains aligned with Board approved limits of the Bank, balancing risks and returns.

Indicator	Risk Level
Low risk	
Medium risk	
High risk	

Credit Risk		RAL	RTL	Trigger	2015
Capital allocation	Amount of capital allocation for Credit Risk (Rs. Million)	11,472	14,389	12,532	
Credit quality	Total NPL (Gross) %	Low	3.2	2.7	
	Provision Cover (Collective Impairment as a Percentage of Gross NPAs) %	30	25	28	
Concentration	Sector Concentration Limits (HHI)	High	Medium	Low	
		Above 0.25	0.15 to 0.25	Below 0.15	

(CRMU) applies the Standardised Approach for credit risk under Basel II, Pillar 1 and examines the risk levels by utilising quantitative and qualitative methods to assess the potential impact on Pillar 2 based on characteristics of the credit such as portfolio quality, collateral, risk weights, aggregation, large exposures and concentration. The Bank is in the process of developing sophisticated credit rating and scoring models, which will strengthen the credit process.

CRMU uses the results of Internal Capital Adequacy Assessment Process (ICAAP) to understand the impact of the additional credit risks such as concentration risk, settlement risk etc. in order to identify the impact on capital adequacy and to maintain a buffer for capital to meet emergency, if any.

The Bank's capital charge for credit risk is within the appetite level estimated, indicating rational asset allocation compromising return generating ability and the capital charge.

## Features of the Credit Portfolio

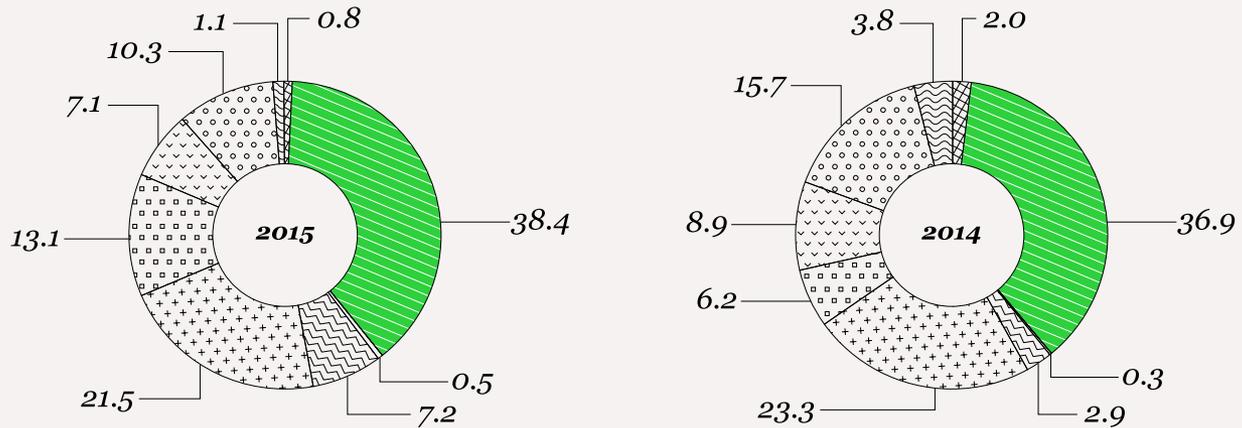
(Rs. Million)	2015	2014		Mix	Variance/ Change
On balance sheet	271,751	222,696		89%	22%
Off balance sheet	33,505	59,040		11%	-43%
Total	305,256	281,736		100%	8%

Credit risk exists in both on and off balance sheet assets on account of retail credit, wholesale banking (B&FI) and corporate lending, except in loans on cash backed and sovereign guarantees.

The credits are systematically analysed by CRMU, in order to identify return generating ability, overall risk profile in micro and macro levels to safeguard the quality of the portfolio. The increase in credits in B&FIs has been directed mainly to A- or higher rated institutions with the aim of minimising the credit risk and optimising the capital charge.

The Bank recognised the potential for growth in retail loan segment and capitalised widened branch network, indicating the credit growth, particularly on consumer loans segment during the year. The Bank's Pawning portfolio necessitated internal changes to control the growth and resulted in sizeable impairment charges. The Bank however, strengthened its position in corporate loan segment.

[ % ]



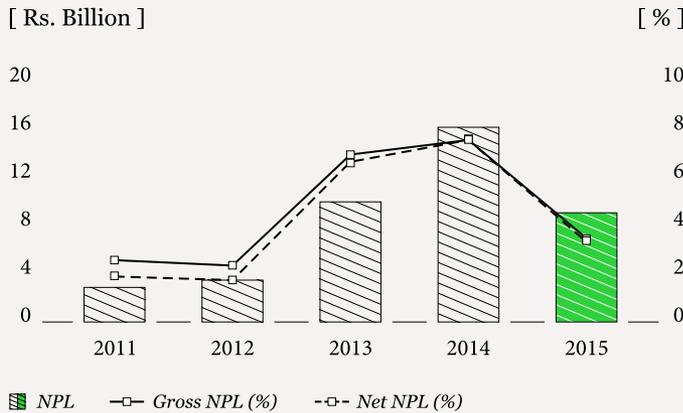
Loans to GOSL
  Loans to SOEs
  Project Loans - Private Sector
  Loans to Banks
  Housing and Property Loans
  Personal Loans
  Loans Against Deposits
  Pawning
  Others

## Portfolio Quality

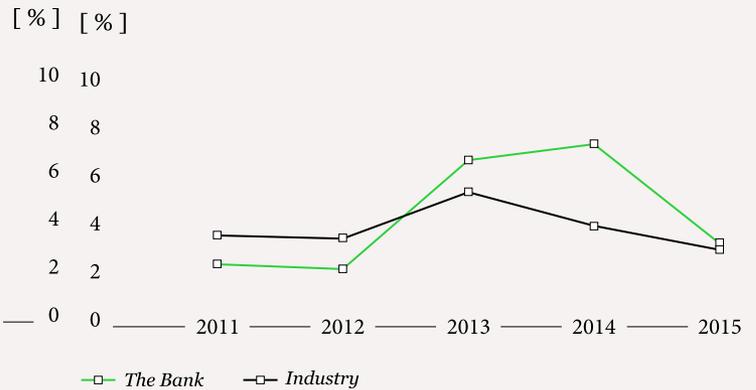
Management of the quality of the credit portfolio is a key focus area of the Bank in its credit objectives. The Bank has been constantly vigilant on the credit quality during the year and has taken proactive steps to improve credit quality by managing and recovering Non-Performing Loans (NPLs), including the Non-Performing Pawning Advances.

The credit quality measured by the ratio of non-performing loans to total loans, has improved from 7.61% in December 2014 to 3.46% in December 2015. Apart from the Bank's general practices pertaining to management of credit quality, such as stern recovery actions, the prudent credit policies adopted and the continuous and consistent credit evaluation process improvements made throughout the year have driven down the NPL ratio substantially.

### Trend in Non-Performing Loans



### Gross NPL



### Product-wise NPL of Loan Categories

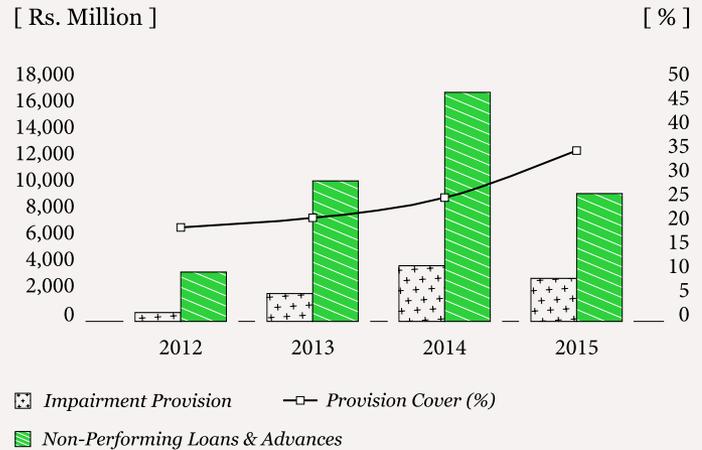


The Bank consciously reduced the exposure of pawning to a manageable level, in view of the volatility in the pricing of the underlying collateral of the product, resulting in a positive impact on credit quality and reducing the overall NPL to an acceptable level.

## Impairment

The Bank reviews its Loans and Advances at each reporting date to ensure that the impairment eliminates the negative impact on its capital and is in consistent with the Sri Lanka Accounting Standards.

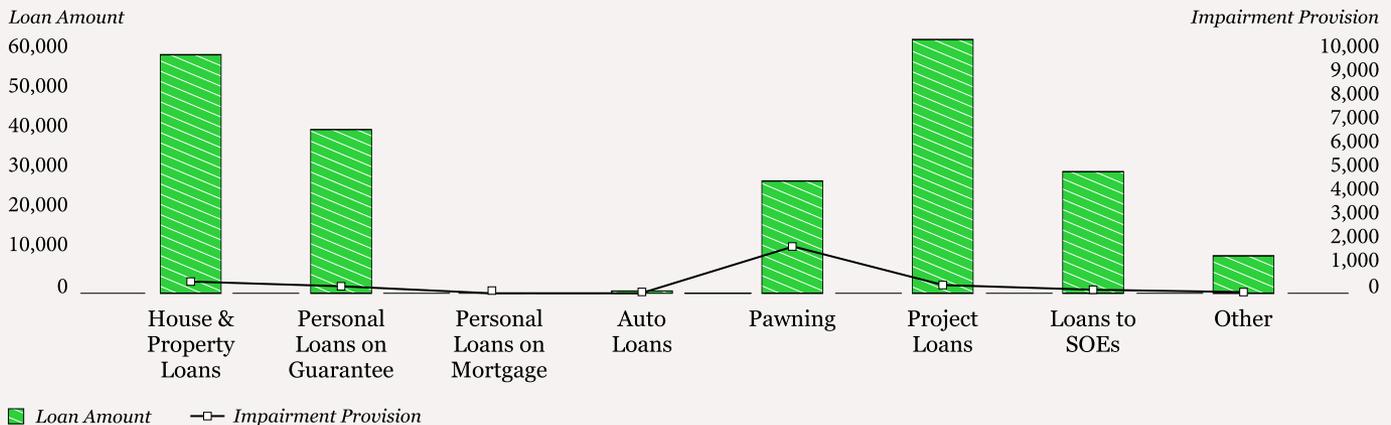
## NPL and Impairment



Provision Cover calculated, based on the incurred loss methodology, has improved over last few years as depicted by the above graph. The Provision Cover on loans and advances has increased to 34% in year 2015, compared to the year 2014, mainly on account of an increase in impairment on pawning, which has been computed taking into account the volatility of the Gold Market. The Bank has managed to reach the provision cover in line with the industry level, during the period under consideration.

## Loan Amount and Impairment Provision

[ Rs. Million ]



## Credit Concentration Risk

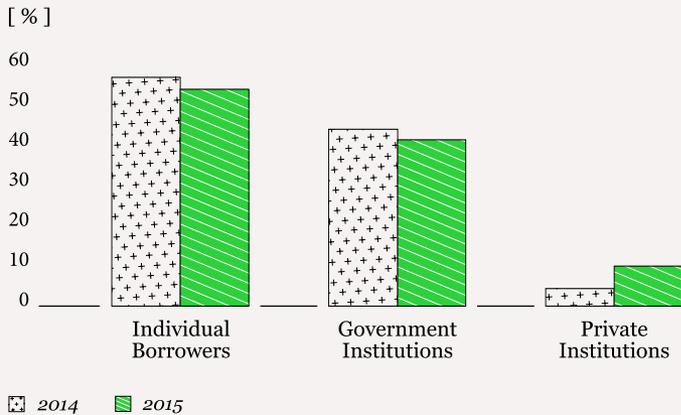
Credit concentration risk is the risk of a loss to the Bank, as a result of excessive build up of exposure to a single counterparty, a group of connected counterparties, a geographic region, a particular industry sector in the economy, a type of credit facility or a type of collateral.

CRMU uses a number of controls and measures to manage undue concentration of exposure in the credit portfolio. These include portfolio and counterparty limits, stress tests and techniques such as Herfindahl-Hirschman Index (HHI).

The monitored exposures and measures are reported to the Management Committees, BIRMC and the Board periodically. These provide an early warning on possible deterioration of the Bank's credit quality and strengthen the credit portfolio management practices of the Bank.

### Name Concentration

#### Concentration of Loans by Type of Borrowers



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

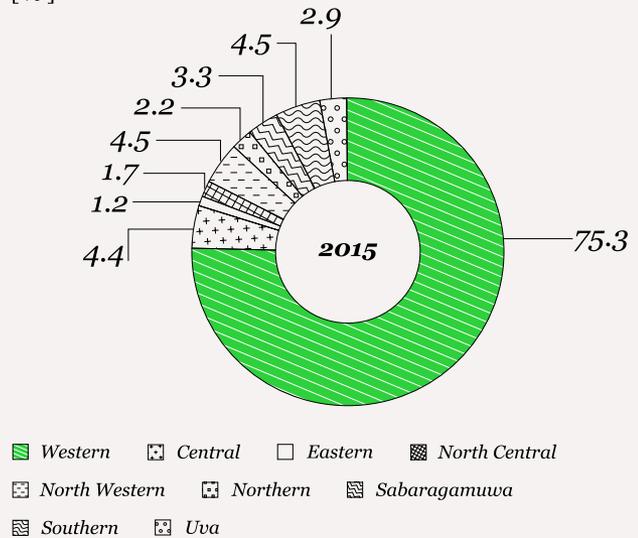
Concentration of Customers – % of Total Loan Portfolio (Cumulative)

Exposures	2015	2014	2013
Top 5	15.42	12.13	6.62
Top 10	21.80	18.24	9.34

Name concentration of the credit portfolio, has increased during the year as a result of high volume loans granted to a few SOEs. However, all lendings are within the maximum accommodation limits stipulated by the regulator.

### Geographical Concentration

[ % ]



The infrastructure and construction projects, which accrue economic benefits to different regions, are recorded under the Western Province (WP), resulting in high concentration in the WP.

## Collateral Concentration

Collateral concentration monitoring enables the Bank to avoid the exposure to macroeconomic shock factors in a particular asset class, geographical region or industry sector and maintain a relatively lower risk profile. In addition, concentration monitoring provides a measure on diversification of the portfolio collateral.

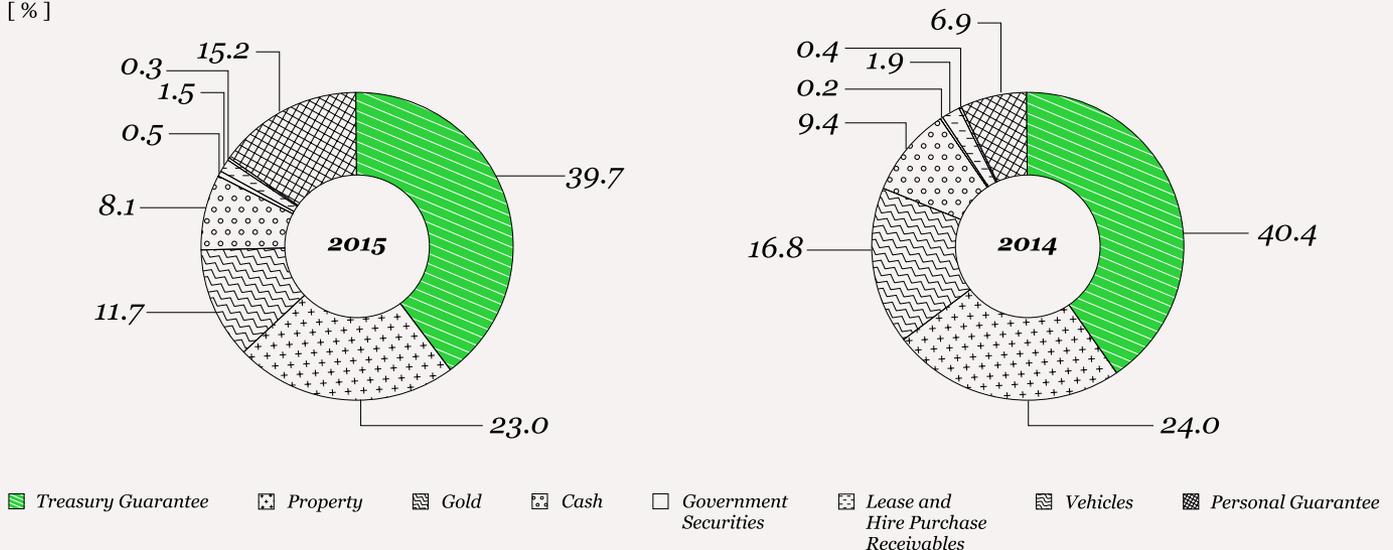
(Rs. Million)	2015	2014		Mix	Variance/ Change
Secured loans	238,927	210,104		88%	13.7%
Unsecured loans	32,824	12,592		12%	160.7%
Total	271,751	222,696		100%	22%

The larger proportion of loans and advances is made on secured basis. The share of secured loans has dropped to 88% in 2015, from 94% in 2014. Substantial increase in loans to B&FIs, coupled

with the contraction of pawning portfolio during the period under review, remained key contributory factors to the slowdown in secured loans.

## Collateral Concentration →

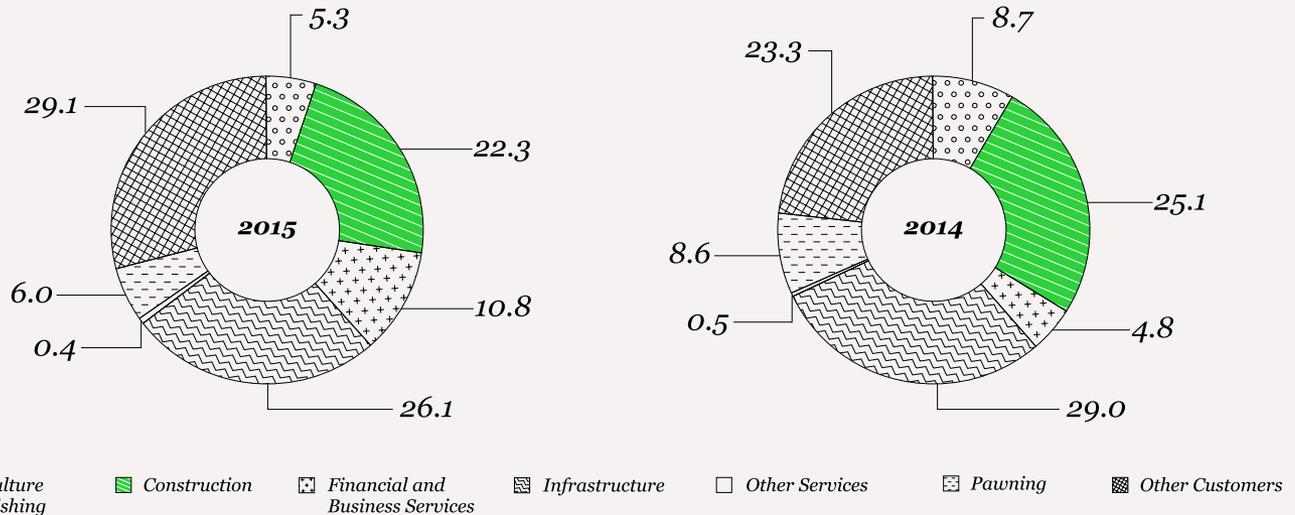
[ % ]



The secured loans are currently dominated by Sovereign Guarantees and Government Securities with zero risk weight. Considerable portion (23%) of loans is backed by property, whilst contraction of the pawning portfolio has led the Bank to reduce its collateral base of gold to 12% in 2015, from 17% in 2014. The unsecured exposure to B&FIs, primarily represents higher credit ratings.

## Sector Concentration >

[ % ]



Sector Concentration	2015	2014
HHI	0.2206	0.2183

The majority of the Bank's loans are distributed among a few Government Institutions, mainly due to the Bank's role in facilitating infrastructure developments, resulting in high concentration towards infrastructure (26%) and construction (22%) sectors. HHI for sector concentration has marginally increased during the year 2015, when compared to 2014. The Bank's appetite is for a medium concentration risk.

### Credit Risk Management and Reporting

The Bank manages credit risk, both at transactional level and at portfolio level, using different credit risk management techniques to mitigate risks of the loan book and reduce potential credit losses, whilst optimising credit exposure.

Managing risk at transactional level, is mainly carried out through establishing well defined credit granting criteria, credit administration, limit monitoring, LRM, review of collaterals held as security specifically immovable property by conducting

valuations and revaluations on a regular basis accounting to the CBSL guidelines, managing credit appraisal and approval process, limit setting etc. Managing portfolio level risk, is mainly done by using credit risk mitigation techniques such as Key Risk Indicators (KRIs), Stress Tests, monitoring of portfolio quality, impairment and credit concentration etc.

The CRMU reviews retail credit facilities and corporate credit facilities independently and submits periodic risk assessment reports and ad hoc risk reports to Operational Committees, such as CC, IC, ALCO, ERM and BIRMC and Board with proposals for risk mitigants.

The Bank's first way out for recovery is the streamlined Due Diligence process, backed by well defined appraisal criteria to ensure regular repayments while, as the second way out, the Bank obtains collateral to mitigate risk of unforeseen adverse circumstances and attempt to control risk posed by the on going businesses of borrowers through documentation of credit transactions with adequate terms and conditions and loan covenants in a comprehensive and legally enforceable basis.

## Loan Review Mechanism

Loan Review Mechanism (LRM) is an effective tool for evaluating the quality of loan portfolio and to bring about qualitative improvements in credit administration constantly. In this regard, the Bank has established and deployed Loan Review Mechanism Policy to ensure the entire credit process is reviewed effectively.

The LRM engages by examining the risk analysis of the process, approvals, implementation and disbursement as per the credit covenants and collateral etc. by the pre defined reviewing authority. The CRMU independently reviews retail credit facilities on post approval basis, while the corporate credit facilities are reviewed pre and post approval basis and submits independent reports to CC, IC, ERMC and BIRMC with proposals for findings. Accordingly, CRMU conducted Post Loan Reviews on retail loans, particularly of consumer loan schemes and corporate loans on a sample basis. Reviews were focused on financial viability, creditworthiness, security, governance and compliance with the process. The outcomes were documented and reported to the CC and ERMC. Also, findings were used to streamline the credit guidelines, procedure and the decision-making process.

## Review Collateral held as Security

Collateral is a key factor used by the Bank, to mitigate credit risk when granting loans and it acts as a cushion provided by borrower in the form of an asset or third party obligation, which helps the Bank to mitigate possible credit losses in the event of a default. The Bank as a risk mitigant, considers collateral/security when granting credit facilities depending on the term and risk profile of the credit. The collateral, particularly property mortgages are reviewed based on the CBSL's Directions and the Bank's Policy on Valuation and Revaluation of Immovable Property.

## Market Risk

### Overview

Market risk is defined as the risk that unfavourable market moves, including changes in and increased volatility of interest rates, foreign exchange rates, equity prices, lead to reductions in earnings and/or value. This risk is inherent in the financial instruments associated with the Bank's normal course of business operations.

Market risk exposure may be explicit in portfolios of securities/equities and instruments that are actively traded. Conversely, it may be implicit such as interest rate risk, due to mismatch of loans and deposits/borrowings. Besides, market risk may also arise from activities categorised as off balance sheet items.

The Bank therefore, encounters losses from Interest Rate Risk, Equity Risk and Foreign Exchange Rate Risk in its normal course of business, due to engaging in trading activities as well as non-trading activities such as Lending, Corporate Investments and Equity Investments. However, the Bank is not exposed to commodity risk since the Bank does not deal in commodities.

## Market Risk Management Framework

The Bank has put in place, a prudent market risk management framework, that is responsible for risk identification, measurement, monitoring, control and management reporting in relation to Market Risk. The Market Risk Management Framework articulates accountabilities for the management of market risk across the Bank and how this is discharged through a robust governance structure against sanctioned risk appetite.

The framework is structured in accordance with guidelines of the regulatory authority, Bank's objectives and industry best practices and application commences with the Board of Directors and the Senior Management oversight.

## Policy Framework

Managing market risk at NSB is done in conforming to the Board approved Market Risk and Liquidity Risk Management Policy (MRLRM). MRLRM Policy provides comprehensive guidelines for market risk management, including market risk strategy, areas of risk covered, policy & procedure for risk identification, measurement and monitoring, governance structure and risk reporting. In addition to the MRLRM Policy, Asset and Liability Management and Liquidity Management Policy (ALM), Investment Policy Statement (IPS), Stress Test Policy (STP) also spell out the limits within which, the Bank accepts the market risk. The IPS and ALM guide the Bank for balance sheet management and investment decisions, while STP provides rigorous and forward-looking assessments of risk.

## Market Risk Governance Structure

Responsibility for market risk management resides at all levels of the Bank. Governance structure is maintained through delegation of authority from the Board down, through the management hierarchy, supported by a committee based structure designed to ensure open challenge and that the Bank's risk appetite, principles, policies, procedures, controls and reporting are fully in-line with regulations, law, corporate governance and industry best-practice. The Board and the BIRMC are entrusted to spearhead the overall risk management functions and decide the policy and strategy for integrated risk management containing various risk exposures of the Bank including market risk and liquidity risk.

The Executive Risk Management Committee (ERMC), comprising Corporate Management headed by General Manager/CEO oversees policy formation, risk review, operational level risk mitigation, etc. ALCO, an apex committee at corporate level is responsible for managing the balance sheet within the performance/risk parameters laid down by the Board of Directors. The Investment Committee appraises the Board of Directors by recommending actions if considered necessary or desirable to invest or disinvest the Bank's investment portfolio and act as outlined in the IPS in order to manage the risk in investments.

Market Risk Management Unit (MRMU) of the RMD is responsible for providing the Board, BIRMC and the Corporate Management with a clear and comprehensive understanding of the market risks to which the Bank is exposed. The responsibilities of MRMU include ownership of MRLRM Policy, developing and maintaining quantitative risk models, calculating aggregated risk measures, establishing and monitoring position limits consistent with risk appetite, conducting daily reviews and analysis of trading portfolio, approving material risk exposures and fulfilling regulatory requirements.

Middle Office (MO) which is an integral part of MRMU, functions independently from the Treasury Operations (Front Office and the Back Office) and monitors, measures, analyses and reports risks inherent in treasury and equity operations of the Bank on a daily, weekly, monthly and quarterly basis. The findings are directly reported to the IC, ALCO and Treasury Front Office through Head of Risk Management providing an independent opinion.

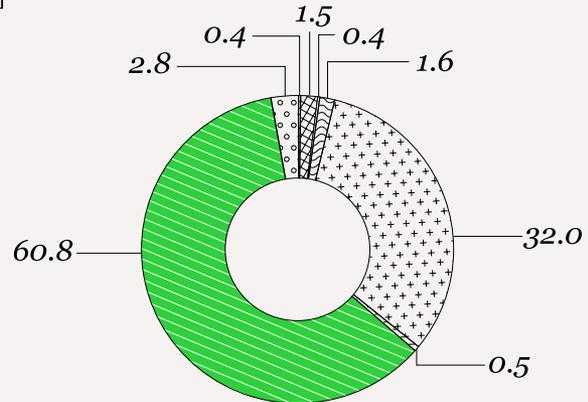
The MO of RMD is the nominated authority, which is responsible for setting and monitoring limit framework with the approval of the BIRMC and the Board, with the aim of ensuring that the risk profile remains within the Bank's risk appetite. The Bank has a range of more granular limits structure, based on delegation of authority, volumes, transactions, regulatory limits etc. Based on the sanctioned limits, the MO independently monitors and reports to the respective authorities regarding limit breaches, justification for retaining excess limits and ensures that the Bank operates within a level of risk acceptable to the Board and exceptions are reported to FO of the Treasury/AMD and IC. Further, individual stocks are monitored over approved stop loss limits and breaches are reported according to the delegation of authority.

## Market Risk Exposure

The market risk exposure is mainly measured in terms of interest rate risk (IRR), foreign exchange risk (FX) and equity price risk. These measures cover trading related market activities as well as banking related activities.

### Asset Structure >

[ % ]



-  Cash and cash equivalents
-  Placements with banks
-  Derivative financial instruments
-  Other financial assets held for trading
-  Loans and receivables
-  Financial investments - Available-for-sale
-  Financial investments - Held-to-maturity
-  Investment in subsidiary - 0.02%
-  PPE & Other assets

Description	Total (Rs. Million)	Primary Risk Factor
Cash and cash equivalents	3,240	Interest rate risk
Placements with banks	12,627	Interest rate risk, foreign exchange risk
Derivative financial instruments	3,735	Foreign exchange risk
Other financial assets held for trading	13,543	Interest rate risk
Loans and receivables	271,751	Interest rate risk
Financial investments – available-for-sale	4,386	Equity risk
Financial investments – held-to-maturity	515,303	Interest rate risk
Investments in subsidiaries	150	
Property, plant & equipment & Other assets	23,345	Interest rate risk

The total interest rate sensitive assets comprise 95% of the total on balance sheet assets that are vulnerable to interest rate risk, which is the highest component of market risk the Bank is exposed to, while the rate sensitive liabilities comprise 98% of the total on balance sheet liabilities. The equity portfolio represents only 1.0% of the total on balance sheet assets, indicating a manageable level of equity risk exposure, while the foreign currency exposure accounts for 8.0% of the total assets.

## Risk Measurement

Market risk is measured primarily using Pillar 1 and Pillar 2 risks as directed by the Bank's policy, CBSL directions, Basel II guidelines and the industry best practices. The measured risks are compared against the Board approved Risk Appetite Level (RAL) and Risk Tolerance Limits (RTL) and IPS Limits set at the inception of the year to monitor and are reported to the relevant authorities. The Bank uses a number of other techniques such as sensitivity to basis point changes in interest rates, percentile based measures such as value at risk and stress/scenario based measures such as single factor stress testing to measure market risk. Interest rate repricing gaps, earnings sensitivity analysis, and open foreign exchange positions are also used to measure the market risk of the Bank.

## Market Risk Identification and Monitoring

### Interest Rate Risk

Interest rate risk represents exposures to instruments, whose values vary with the level or volatility of interest rates. These instruments include loans, debt securities, certain trading related assets and liabilities, deposits and borrowings.

Changes in interest rates severely affect the Bank's earnings by changing its net interest income and the level of other income (including changes in non-interest revenues/expenses). Changes in interest rates also affect the underlying value of the Bank's assets, liabilities and off balance sheet (OBS) financial instruments because the present value of future cash flows (and in some cases, the cash flows themselves) change when interest rates change and accordingly its economic value (EV). Changes in interest rates also affect the Bank's earnings by altering interest sensitive income and expenses, affecting its net interest income (NII). Therefore, the interest rate risk is measured from an Economic Value Perspective as well as an Earnings Perspective.

Interest rate risk, being the highest contributing factor to the market risk of the Bank, arises from two principal sources: mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets.

Interest rate risk to the Bank, materialises from trading activities (traded interest rate risk) as well as banking activities (Interest Rate Risk in the Banking Book (IRRBB) or non-traded interest rate risk). Interest rate risk from trading book to the Bank arises mainly from the market value of the Bank's positions in traded interest rate securities, which are Treasury Bonds. Conversely, the main source IRRBB arises from repricing risk of assets which are primarily retained as Held-to-Maturity (HTM) on account of different maturity periods, fixed rates of interest etc. The other sources of non-traded interest rate risk includes, yield curve risk and basis risk.



Repricing risk, which is assessed mainly through rate sensitive gap analysis, is used to indicate the sensitivity of the Bank's earnings and/or economic value to a change in interest rates. Mismatch of Rate Sensitive Assets (RSAs), and Rate Sensitive Liabilities (RSLs) can give rise to volatility in net interest income as interest rates changes. The Bank has been able to reduce the maturity gap of these rate sensitive assets and liabilities, compared to the previous year. The Bank conducts stress tests to gauge the impact to the NII, by giving different rate shocks during volatile market conditions.

### Rate Sensitive Gap

Rs. Million	Up to 1 months	1 to 03 months	3 to 12 months	1 to 3 Years	3 to 5 Years	More than 5 Years
Rate sensitive assets (Rs. Million)	21,431	38,386	158,555	305,989	116,726	206,992
Rate sensitive liabilities (Rs. Million)	140,077	231,875	272,816	117,338	40,771	0
GAP (RSA - RSL)	-118,646	-193,489	-114,261	188,651	75,955	206,992
Cumulative gap	-118,646	-312,135	-426,396	-237,745	-161,789	45,203
Actual gap as a % RSL 2015	-85%	-83%	-42%	161%	186%	
Actual gap as a % RSL 2014	-88%	-69%	-16%	827%	32%	

### Monitoring and Reporting of IRR

The Bank monitors the IRR, based on the Board approved limit structure with regard to the securities held in the trading book, are marked to market on a daily basis and reported accordingly. The Bank reports calculated capital charge for interest risk for trading book under Basel II Pillar 1 and the additional capital charge required for the Banking Book in the event of interest rate rising scenario, is calculated under Basel II guidelines by giving a 200bp rate shock for negative maturity gaps is reported in ICAAP. Weekly, monthly, quarterly and ad hoc market risk reports are submitted

to the ALCO, IC, ERM and the Board through BIRMC through portfolio analysis and limit monitoring to manage the IRR.

### Equity Risk

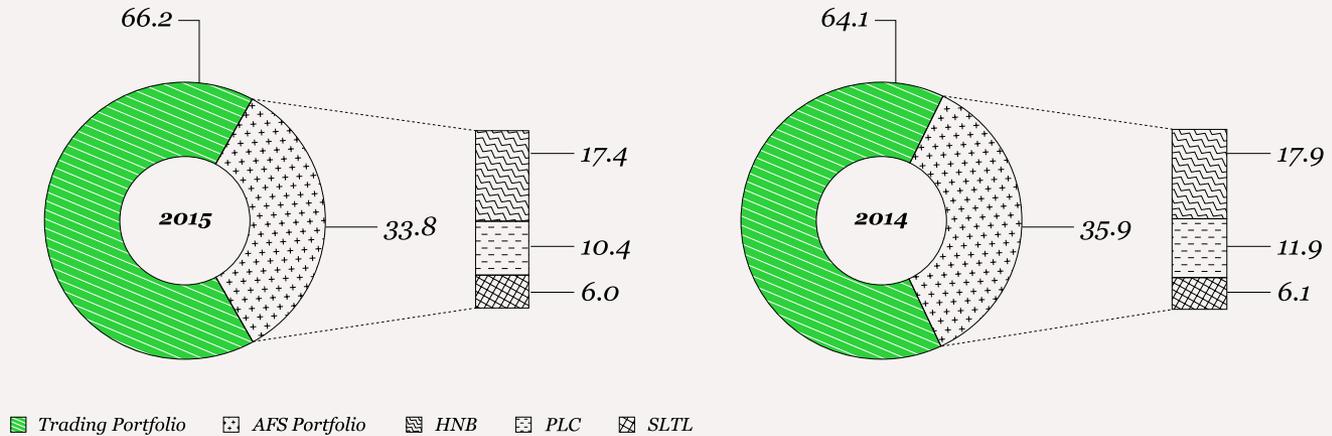
Equity risk is the potential variation in income and reserves, arising from changes in the market prices or values of securities in the equity portfolio. The Bank's equity portfolio comprises both quoted and unquoted equity investments and categorised listed Equity investments in to Trading and Available-for-sale (AFS) portfolio.

Rs. Million	2015			2014		
	Book value	Market Value	Capital Gain/ (Loss)	Book value	Market Value	Capital Gain/ (Loss)
Listed equity	7,388	6,970	(418)	7,186	7,139	(47)
Trading portfolio	4,856	3,444	(1,412)	4,571	3,504	(1,066)
AFS portfolio	2,532	3,526	994	2,616	3,635	1,019
Unlisted equity*	317	1,087	770	317	667	350
Total equity investment	7,705	8,057	352	7,503	7,806	303

\* Including investments in unit trust

### Equity Portfolio Structure →

[ % ]

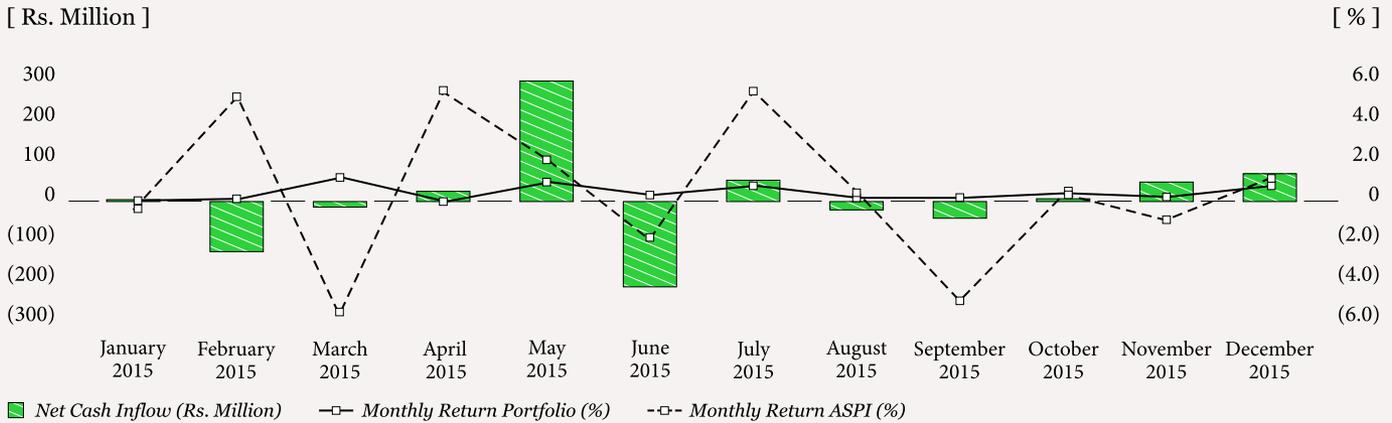


### Equity (Listed) Portfolio Return

Total Equity Portfolio	2015	2014	2013
Mid-year invested value (Rs. Million)	7,287	7,978	8,698
Return based on realised gains	5.2%	9.1%	5.2%

Sluggish stock market performance was witnessed during the year under review due to weak local and foreign investor sentiments and Rupee depreciation.. Accordingly, in 2015, ASPI declined by 6.0%, while S&P SL 20 Index declined by 11%. In most of the months of the year, the Bank was able to maintain a favourable return, compared to the performance of the ASPI.

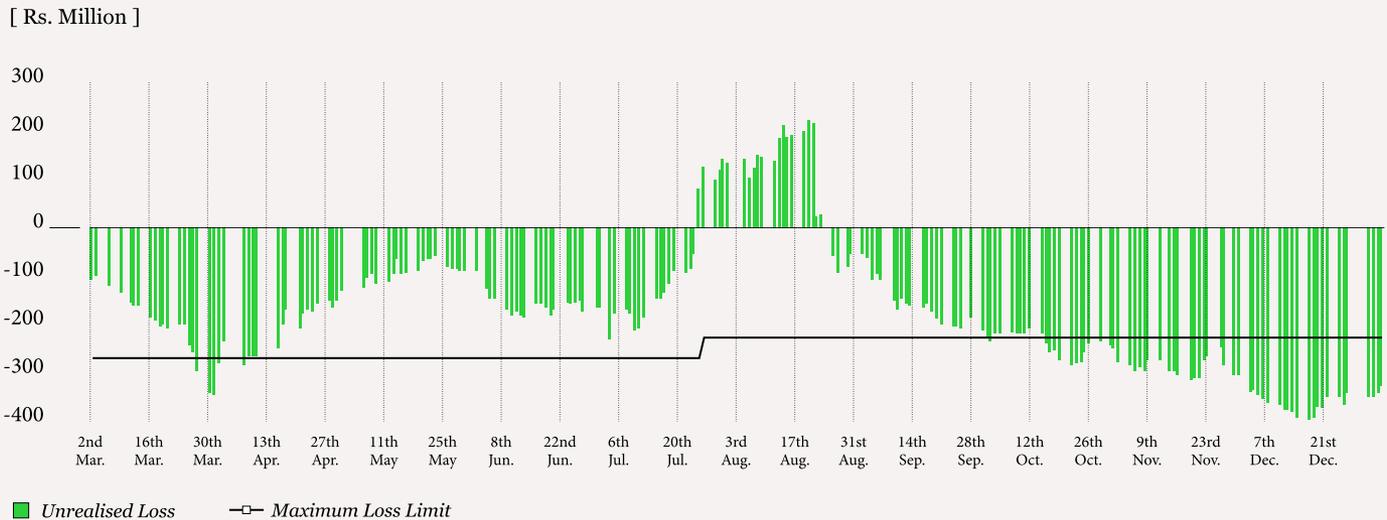
### Portfolio and ASPI Return >



### Monitoring of Trading Portfolio

MO with the approval of the Board, sets limits such as portfolio loss limit, assets allocation limits, transaction limits and dealer limits etc. The equity investments in trading portfolio and AFS portfolio are marked-to-market on a daily basis respectively, to identify the impact due to volatility in market.

### Trading Portfolio Unrealised Gain/(Loss) – 2015 >



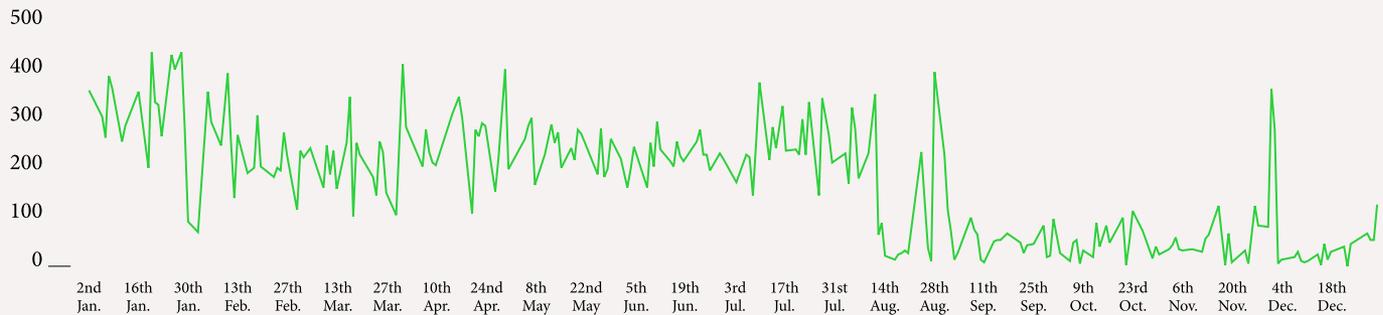
Unrealised loss limit of the trading equity portfolio is monitored daily against the daily movements in equity prices.

## Equity VaR

Equity risks attributable to trading activities are also measured using a parametric Value-at-Risk (“VaR”) model, based on historical data to measure the maximum loss that the Bank shall incur, under specific conditions during a given time frame, due to changes in equity prices of the stocks in the equity trading portfolio. The Bank computes Equity VaR in line with Basel II Market Risk Management framework, considering a 99% confidence level and holding period of 10 trading days. The calculated Equity VaR is monitored against the RAL of the Equity VaR.

### Equity VaR – 2015 >

[ Rs. Million ]



MO/MRMU developed a comprehensive model during the year, using both technical and fundamental indicators to screen high risk taking and less quality stocks in the trading portfolio. Price fluctuations of the securities in the trading portfolio are monitored on a daily basis using the above model.

The fundamental analysis of the stocks in the AFS portfolio is carried out during the year to review the value of the portfolio. Stocks of the trading portfolio are reviewed using selected fundamental and technical indicators. Portfolio beta is calculated separately for the trading portfolio on a monthly basis to assess the portfolio risk.

### Monitoring and Reporting of Equity Risk

A comprehensive limit structure is available with MO/MRMU to monitor equity limits such as stop loss/cut profit and portfolio level limits on a daily basis to identify and control any

unacceptable losses from equity trading. Limit breaches and exceptions are reported to the Head of Treasury and IC on a daily and monthly basis respectively.

### Foreign Exchange Risk

Foreign Exchange Risk (FX risk) is the risk that an asset or investment and transactions denominated in a foreign currency, will lose value as a result of unanticipated and unfavourable fluctuation in exchange rate.

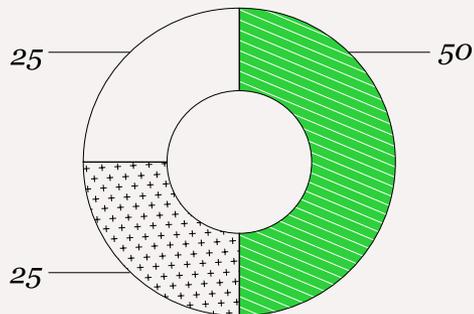
The Bank is exposed to FC risk through a number of ways such as open position for meeting coupon for international bond issue, FC trading, FC deposits and placements.

FC Exposure	2015 US\$ Million	2014 US\$ Million	2015
Bonds	1,000	1,000	97%
Placements	28	32	3%
Trading	0	0	0%
Total	1,028	1,032	100%

The Bank hedges the foreign exchange risk of deposits by investing those in more or less in the same tenure and minimised the FC placement risk. Further, the Bank is exposed to FC risk due to issuance of an International Dollar Bond in the years 2013 and 2014, has fully covered the FX risk in capital redemption through a SWAP agreement with CBSL, which will take place as a bullet payment in 2018 and 2019 respectively.

#### **Bond Issue US\$ 750 Million** →

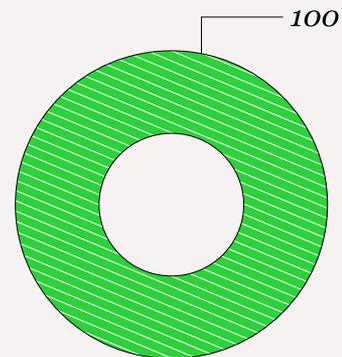
[ % ]



■ SLDB-USD   
 + SWAP-O/A of Foreign Loans  
  SWAP-O/A of Rupee Loans

#### **Bond Issue US\$ 250 Million** →

[ % ]



The Bank gained a favourable position due to depreciation of LKR against USD as a result of holding more foreign currency denominated assets compared to foreign currency denominated liabilities during the year.

## Monitoring and Reporting of Foreign Exchange Risk

The Bank established Net Open Position Limit as a main indicator to measure foreign exchange risk but actual position was minimal accounting is the limit monitoring results. Stress tests are also being conducted on foreign currency appreciation or depreciation, based on the NOP of the Bank.

MRMU closely monitors the fluctuations in FX rates and assess the impact on earnings & capital beside report to ALCO periodically. Further, Net Open Position is monitored on a daily basis while counterparty limits on Forex placements are monitored on a monthly basis report to the IC. The sensitivity of NOP to fluctuations in FX rates is monitored by applying exchange rate shocks.

## Liquidity Risk

Liquidity risk is the risk that a bank will be unable to meet its on or off balance sheet financial obligations as they fall due, exclusive of unbearable losses to the Bank. Liquidity risk is inherent in banks and arises from funding of long-term assets by short-term liabilities, thereby making the liabilities subject to rollover or refinancing risk.

The liquidity risk in the Bank manifests in different dimensions:

Dimension	How the Risk Arises	Status of the Bank
Funding Risk	Need to replace net outflows due to unanticipated withdrawal/non-renewal of deposits (wholesale and retail). Funding liquidity risk lies in the heart of banking since the main role of the Bank is to provide liquidity through intermediation.	Highly vulnerable since the Bank highly depends on deposits as a source of funding. However, the sovereign securities provide the buffer.
Time Risk	Need to compensate for non-receipt of expected inflows of funds, i.e. performing assets turning into non-performing assets.	Less vulnerable. The Bank is managing the NPA Ratio throughout the past and improved compared to the industry average.
Call Risk opportunities when desirable	Due to crystallisation of contingent liabilities and unable to undertake profitable business.	Less vulnerable. Contingent liabilities represent a lower percentage compared to liquid assets.

Liquidity risk is measured through two statutory ratios namely Statutory Liquid Assets Ratio (SLAR) and Liquidity Coverage Ratio (LCR).

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

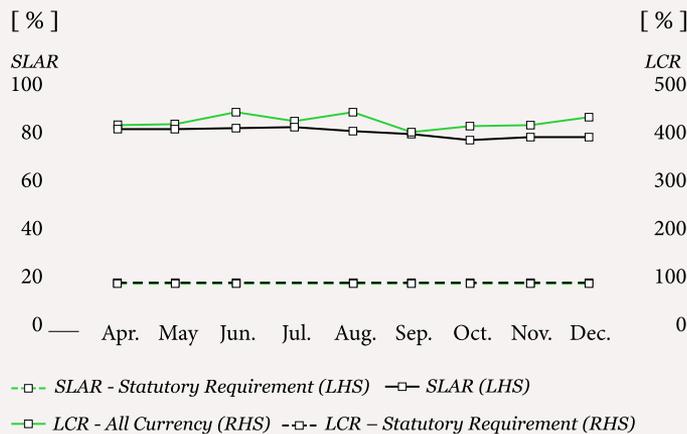
The Bank is well above the statutory requirement of 20% and recorded a figure of 81% at the end of 2015. Mandatory requirement to invest 60% of deposits in Government Securities, has contributed favourably to this situation.

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

The Bank had reported Basel III LCR, based on the CBSL directions and ratio of the Bank was well above the regulatory minimum requirement of 100% throughout the year, providing a comfortable position in terms of liquidity.

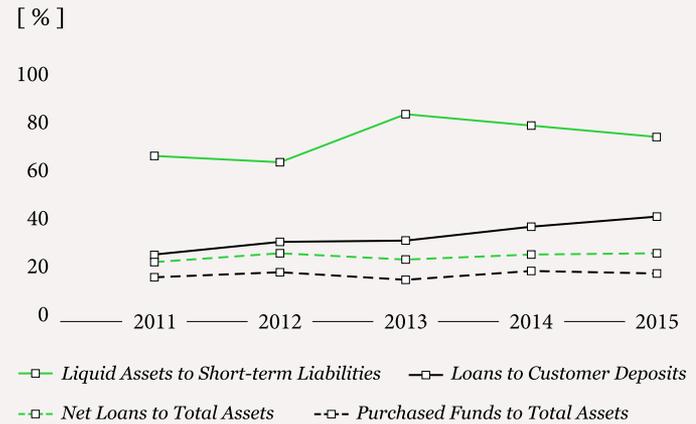
### Movement of SLAR and LCR

#### Stability in terms of Liquidity



Alternatively, liquidity risk of the Bank is measured through the Stock Approach as well as the Flow Approach. Liquidity risk indicators under Stock Approach includes; Net loans to total assets, Loans to customer deposits, Liquid assets to short-term liabilities, Purchased funds to total assets and Commitments to total funds. The Bank had low Loans to Deposits ratio, compared to the industry, mainly on account of higher investments in Government Securities.

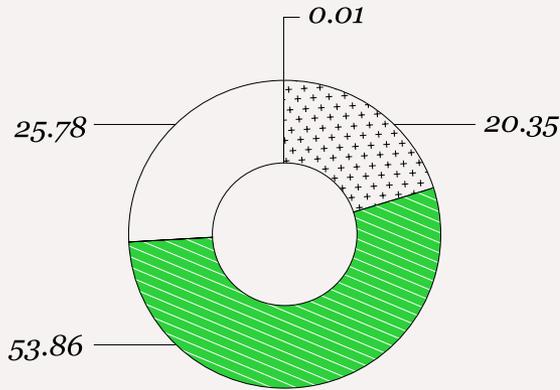
#### Liquidity Ratios under Stock Approach



Liquidity risk assessment under Flow Approach, includes a Statement of Maturities of Assets and Liabilities distributing cash inflows and outflows according to residual time to maturity, placed in under stipulated time buckets. Alternatively, the Bank assessed the size-wise analysis of deposits and the type of deposits to gauge the liquidity risk under flow approach.

**Concentration of Funding – 2015** >

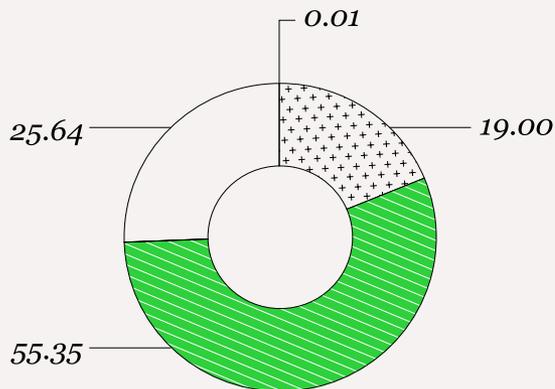
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Due to Banks   
 Savings Deposits   
 Fixed Deposits  
 Other Borrowings

**Concentration of Funding – 2014** >

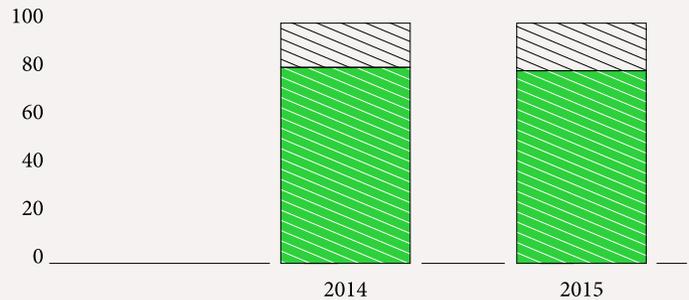
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Due to Banks   
 Savings Deposits   
 Fixed Deposits  
 Other Borrowings

**Individual & Institutional Deposits** >

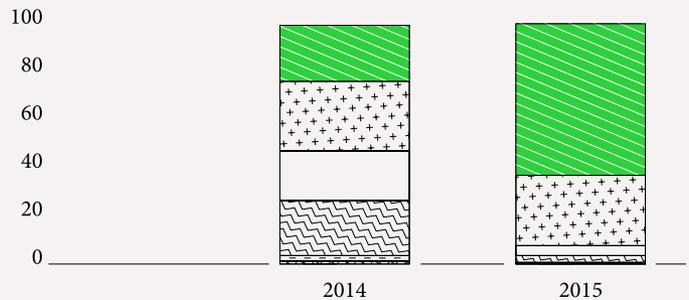
[ % ]



Individual Deposits   
 Institutional Deposits

**Size wise Analysis** >

[ % ]



Over Rs. 5 Million   
 Rs. 1 Million to Rs. 5 Million  
 Rs. 500,001 to Rs. 1 Million   
 Rs. 100,001 to Rs. 500,000  
 Rs. 50,001 to Rs. 100,000   
 Rs. 0 to Rs. 50,000

The deposits above five million rupees have increased substantially during the year, compared to the previous year, mainly on account of a policy decision to increase the individual limits for concessionary rates. This has not posed the Bank to a liquidity risk, but a growth strategy. The availability of the buffer from the deposit insurance guarantee and the Government guarantee for the deposits, acts as a pledge under extreme circumstances.

## Maturity Gap Analysis as at 31st December 2015

Bank	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 years	More Than 5 Years	Total
<b>Total Assets (Rs. Million)</b>	59,817	158,555	305,989	116,726	206,992	848,079
Cash and cash equivalents	3,240	0	0	0	0	3,240
Placements with banks	6,221	6,405	0	0	0	12,627
Loans and receivables to banks	4,529	2,215	7,568	9,405	0	23,718
Loans and receivables to other customers	11,435	40,752	73,411	42,084	80,350	248,033
Deferred tax assets	0	0	0	0	0	0
Other financial assets held-for-trading	1,129	3,036	4,887	2,433	2,057	13,543
Financial investments - available-for-sale	0	0	0	0	4,386	4,386
Financial investments - held to maturity	31,515	102,064	212,429	58,568	110,727	515,303
Derivative financial instruments	316	955	2,279	186	0	3,735
Intangible assets	0	0	0	0	58	58
Investments in subsidiaries	0	0	0	0	150	150
Property, plant and equipment	0	0	0	0	6,967	6,967
Other assets	1,432	3,127	5,415	4,048	2,297	16,320
<b>Total liabilities (Rs. Million)</b>	372,897	274,979	118,797	42,228	39,178	848,079
State capital/assigned capital	0	0	0	0	3,200	3,200
Statutory reserve fund	0	0	0	0	2,048	2,048
Other reserves	0	0	0	0	27,176	27,176
Other borrowings	42,661	20,400	107,959	36,006	0	207,026
Due to other customers	329,215	252,416	9,380	4,765	0	595,776
Due to banks	75	0	0	0	0	75
Deferred tax liabilities	0	0	0	0	504	504
Other liabilities	946	2,163	1,459	1,457	6,250	12,274
<b>Maturity gap (Rs. Million)</b>	-313,080	-116,424	187,192	74,498	167,814	0
<b>Cumulative gap (Rs. Million)</b>	-313,080	-429,504	-242,312	-167,814	0	0

## Monitoring and Reporting of Liquidity Risk

The Bank had been able to reduce the maturity mismatch compared to the previous year, due to moving on to more short to medium-term investments, particularly Government Securities. The liquidity position is also assessed and managed under a variety of scenarios, giving due consideration to stress factors

relating to both market in general and specifically to the Bank. MRMU analyses the Liquidity Risk periodically, using both stock approach and cash flow approach respectively and reports same to the ALCO. The Bank reports the SLAR and the LCR to the CBSL on a monthly basis.

## Operational Risk

### Overview

Operational Risk is indispensable to the Bank as it is inherent in all activities, processes, systems etc. and failure to manage them adequately would result in significant financial losses, reputational damages, regulatory breaches and perhaps fines, penalties and reprimanding. Operational risk therefore, can broadly be defined as the risk of direct or indirect financial losses and other adverse impacts resulting from inadequate or failed internal processes and systems, human factors or from external events. It includes legal risk but excludes strategic and reputational risk. In other words, it is the risk of loss resulting from potential threats due to inadequate information system, technological failure, breach in internal controls, fraud, unforeseen catastrophes or other operational problems.

### Operational Risk Management (ORM) Framework

In order to achieve more efficient, transparent, profitable and sustainable business operations, the Bank is in the process of establishing a conducive ORM framework to cover all its operations. During the year, the Bank has improved the organisation structure to align with Corporate Governance and the Integrated Risk Management directions issued by the CBSL. ORM Framework has been strengthened, based on the 'three lines of defence' model. The oversight of the activities conducted by the first line is provided by the Operational Risk Management Unit (ORMU) of RMD, in-line with Operational Risk Management Policy approved by the Board. ORMU is assigned the task of identifying, measuring, monitoring and reporting the operational risk of the Bank.

ORMU of RMD reports to the Board through BIRMC independently. ERM acts as an operational level risk management committee for effective communication and efficient implementation of risk mitigants at operational level. Further, working in conjunction with Business Units/ Branches on risk and compliance matters, Liaison Officers for Risk and Compliance (LORC) are appointed.

### Operational Risk Identification, Assessment, Monitoring and Reporting

The operational risks are identified, assessed and monitored through mechanisms such as establishing risk appetite and tolerance levels, quarterly risk review of all areas of operations, examination of controls in operational areas, structural improvements etc.

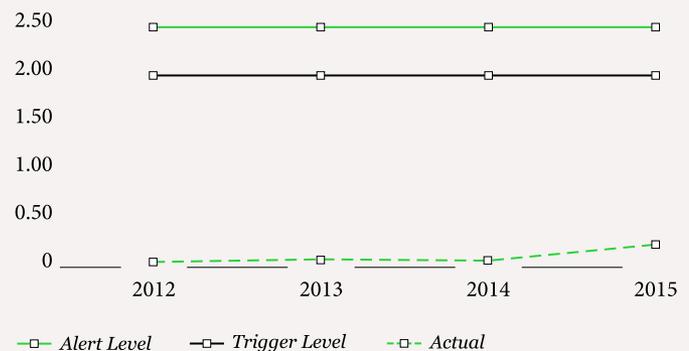
The respective business line Heads and LORCs monitor the operational risk at business line levels and report as internal loss events and key operational risk indicators to ORMU on a monthly and quarterly basis. Each operational loss is monitored with an analysis on occurrence and description of the nature and cause of losses. ORMU evaluates operational performance measures such as volume, turnover, settlement facts, delays and errors and takes necessary action to integrate the required internal controls into the operations. Decisions and actions are taken with regard to loss events above the agreed threshold levels. The monthly and quarterly reports cover material operational risk events and operational risk position through Risk Appetite and Loss Events, while control examination and other risk identifications are reported as and when the need arises.

### Loss Event Data Collection

RMD has continuously been collecting loss event data over a period, which is one of the major requirements in moving towards advanced approaches in operational risk capital charge calculation. Loss events of Branches and Divisions are collected and reported to RMD by respective division on a regular basis.

ORMU provides a descriptive report on Operational Loss Events to ERM, BIRMC and to the Board quarterly and the findings are communicated to the respective operational divisions with remedial actions to be taken.

### Risk Tolerance Limit and Actual Loss Events → [ % ]

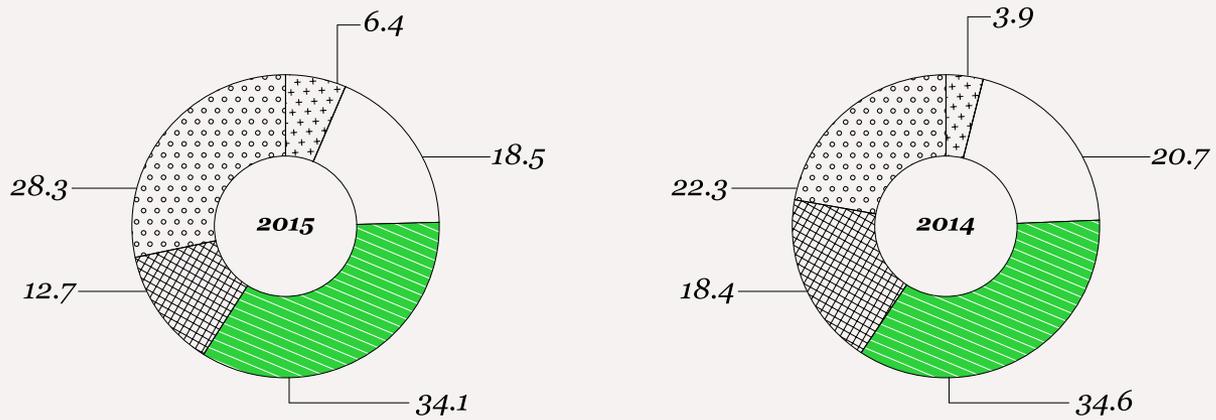


Actual Loss Events vs Early Warning Levels (Alert Level and Trigger Level based on as a % of weighted average gross income)

## Analysis of Loss Events Distribution

### Frequency →

[ % ]

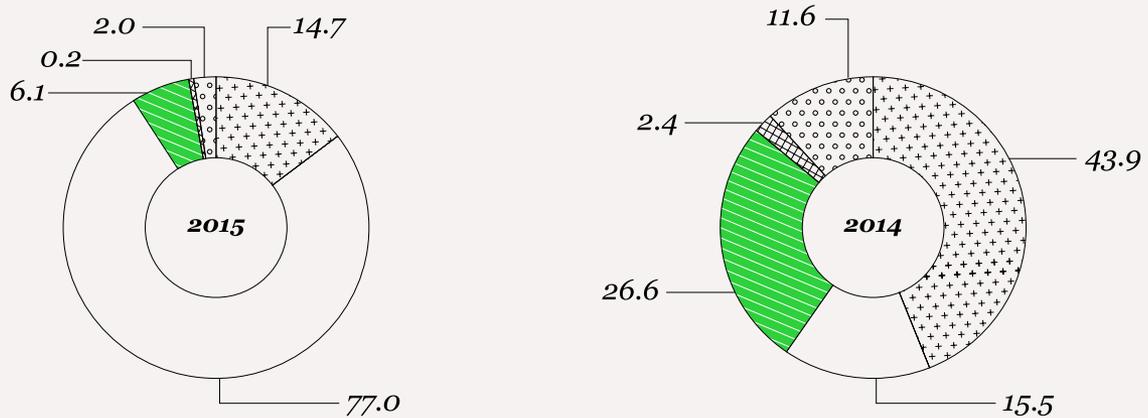


Internal Fraud  
  External Fraud  
  Employment Practices and Workplace Safety\*  
  Clients, Products & Business Practices\*  
  Damage to Physical Assets  
  Business Disruption and System Failures  
  Execution, Delivery & Process Management

\* Frequency - 0%

### Severity →

[ % ]



Internal Fraud  
  External Fraud  
  Employment Practices and Workplace Safety\*  
  Clients, Products & Business Practices\*  
  Damage to Physical Assets  
  Business Disruption and System Failures  
  Execution, Delivery & Process Management

\* Severity - 0%

### Key Operational Risk Indicators (KORIs)

ORMU has developed high level, seven operational risk indices namely, Audit Issue Management, Business Continuity, Customer Satisfaction, Information Security, Product Quality, Process Quality and Compliance to assess operational risk profile by focusing on critical areas of operational risks. Each index comprises KORIs to assess the risk based on predefined threshold limits. The information derived from KORIs act as an early warning signal to identify potential events that may affect routine business activities adversely. Based on the KORIs, Operational risk dashboard and risk matrix are prepared on a monthly and quarterly basis respectively for monitoring and reporting purposes.

### Risk Control Self Assessment (RCSA)

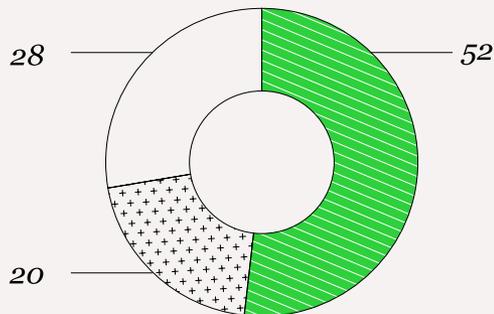
RCSA is a methodology that involves review and assessment of the operational risks across the business and the internal controls designed to manage those risks. RCSA involves each business function proactively identifying and assessing its significant operational risks and controls in place to manage those risks. The findings from the RCSA are used to formulate appropriate action plans to address identified control gaps, which are monitored as a part of the overall operational risk management exercise. ORMU initiated conducting RCSA in critical business and support units as risk identification and mitigating measures.

### Customer Complaints

Presently, customer complaints are received and recorded by the Customer Call Center and disseminated to the respective authorities for actions and results are informed to the management. RMD receives the data relating to customer complaints on a monthly basis and monitors the trend and reports quarterly.

### Customer Complaints – 2015

[ % ]



■ Defective Customer Service   ■ Product Issues   □ Technical Issues

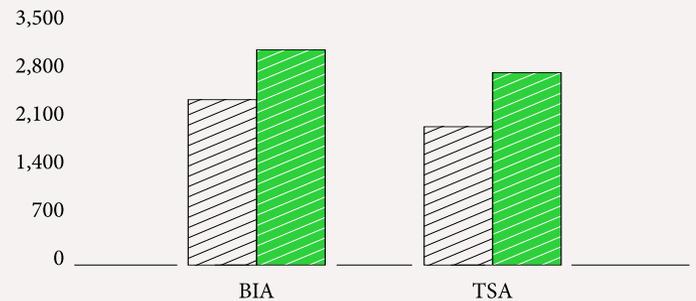
The composition of complaints indicates that the highest number of complaints are for customer service, which is common for a service provider. The Bank, during the year, established a customer charter as per the CBSL direction to streamline customer complaint handling process.

### Capital Requirement under Advanced Approaches

The Bank computes operational risk capital charge, based on the revised Basic Indicator Approach (BIA), as directed by CBSL guidelines and has taken steps to move into advanced approaches, particularly The Standardised Approach (TSA) after complying with the qualifying criteria issued by the CBSL. The TSA calculation based on the CBSL guidelines, revealed that the capital charge is lower compared to the BIA, as BIA is influenced by the improved profitability in the recent years.

### Capital Charge Calculation – BIA and TSA

[ Rs. Million ]



■ 2014   ■ 2015

The Bank’s total gross income under TSA, mainly consists of retail banking, commercial banking, trading & sales and agency services. Commercial Banking represents the highest portion out of the total capital charge under TSA as a major portion of interest income is generated through Government Securities in held-to-maturity and project loans granted out of the International Bond proceeds. In contrast, Retail Banking represents lower capital charge as the gross loans and advances are comparatively low when compared with the total assets resulting from regulatory limitation.

## Mitigation

The Bank's risk mitigation strategies are in-line with industry practices and are in compliance with regulatory requirements. Well defined segregation of duties, clear management reporting lines, internal controls together with a policy and procedure framework guide the Bank in mitigating operational risk.

### i. Outsourcing

The Bank's outsourcing function is in-line with the Board approved Outsourcing Policy, based on the CBSL direction and the Bank's procurement guidelines. The risk arising from outsourcing of business operations, is monitored by a separate Outsourcing Unit established within the Support Services Division to streamline the functions and reporting.

Comprehensive due diligence is exercised prior to outsourcing a new service provider or to continue the service/maintenance agreement for existing service providers. The due diligence covers the expertise & 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 with the information security standards of the Bank.

### ii. Business Continuity Planning (BCP)/Disaster Recovery Plan (DRP)

In order to ensure an uninterrupted customer service and the continuity of normal business operation in an increasing complex and automated environment, it is required for the Bank to put in place a comprehensive BCP and DRP. The BCP endeavours to ensure that critical services, systems and procedures continue to be available without any disruption. Its purpose is to minimise the operational, financial, legal, compliance, reputational and other material consequences arising from a disruption.

The Bank has taken steps to streamline present Business Continuity Management process to establish a standard governance framework with the assistance of industry experts to ensure continuity of business operations. Accordingly, the governance framework, policy framework and risk assessment were initiated during the year.

### iii. Insurance

The Bank uses insurance as a risk transfer strategy for operational risk to cover risk events with high severity and low frequency such as damages to physical assets due to unforeseen events, i.e. natural disasters, burglary, riots etc. Further, some of the losses arising from operational activities such as frauds, errors and omissions, physical loss of securities also cover above a certain threshold through the Indemnity Policy. RMD monitors and reports the insurance process, the recovery trend etc. to the management, independently through risk committees.

## Information Security Management

The laws and regulations relating to Information & 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.

The Bank has taken steps to comply the Baseline Security Standards (BSS) with the assistance of industry experts and monitored through IT Steering Committee. Accordingly, strategic decisions have been taken to enhance infrastructure and Information Security Management System, based on IS Audit findings and the vulnerabilities identified from results of quarterly vulnerability assessment tests. Information Security Policies are being reviewed with expert opinions to streamline the current practices. RMD monitors implementation of information security through progress reviews on a quarterly basis.

## Fraud Risk Management

The Bank has zero risk appetite for internal frauds and takes necessary steps to reduce fraud risk to a minimum level. The Fraud Investigation Unit, operating under the Audit and Vigilance Division is responsible for operating a fraud risk management process to identify the overall fraud risk exposure and to establish controls accordingly. On identification of a fraud event, actions are taken to minimise the risk using insurance as a risk transfer strategy and then preventive actions are taken to improve the controls and to increase staff awareness from the lessons learnt.

## Stress Testing

The Board approved stress testing policy framework, established in line with the CBSL direction, clearly sets out risk areas, procedures and methodology to be adopted in implementing and reporting of stress tests. In principle, stress testing evaluates the potential impact on Capital Adequacy Ratio (CAR) and profitability as a result of specific changes in defined variables linked to the various types of risks.

Stress testing is applied for credit, market, operational and strategic risks, which are conducted periodically and special risk review to ascertain possible risks of business operations and other related areas.

The Bank has carried out stress tests to measure the resilience to its financial position to adverse movements by applying low, moderate and high level shocks on plausible scenarios mentioned in the Stress Test Policy, on the risk areas mentioned above and report to relevant Operational Committees, BIRMC and the Board.

The Stress Tests are conducted at different levels, status and conditions to facilitate understanding of the extent of impact due to different stress scenarios and to plan cause of actions accordingly, if warrants. The impact of scenarios assumed on the total capital adequacy ratio, has been illustrated in the following table.

Indicator	Total CAR(T1 + T2)	Risk Level
Above risk appetite level	More than 15%	●
Within the maximum tolerance limit	=>12 - 14.99%	●
Below maximum tolerance limit	Less than 12%	●

### Aggregation of Results of Stress Test Results on Total CAR. (Total CAR Under Audited Financial Statements – 16.40%)

Particulars	Description	Stress Tested Total CAR		
		Minor	Moderate	Major
Credit Risk - Decrease in Credit Quality	Increase in the Non-Performing Loans by (NPLs) 15%, 25%, 35% and the respective provisioning.	●	●	●
	Impact of rating migration by 10%, 20% and 30% of the exposure to B&FI (It is assumed that the rated borrowers will move to the next lower level)	●	●	●
	Default of unsecured borrowings by 10%, 15% and 20%	●	●	●
Credit Concentration Risk – Increase in HHI & Default	Move in HHI from current level of (0.21) to upper limit of moderate of (0.25) level and default of customers in that sector which has the highest concentration by 10%, 15% and 20%	●	●	●
Interest Rate Risk - Trading Book	Decline in MV of Government Securities due to change in yield by 50bp, 100bp, 200bp	●	●	●
Interest Rate Risk - Banking Book (IRRBB)	Parallel adverse rate shift by 50bp, 100bp, 200bp	●	●	●
Forex Risk	Change in the value of foreign exchange in adverse direction by 5%, 10% and 15% (Impact of currency appreciation on FC exposure)	●	●	●
Equity Risk	Fall in the value of Equity in trading book by 15%, 20% and 25%	●	●	●
Liquidity Risk	Partial withdrawal of Fixed Deposits that are maturing within 90 Days (12.5%, 25% and 50% of FDs) and paying off through liquidating assets.	●	●	●
Operational Risk	The historical losses under Loss Event Data will take place at their highest severity level.	●	●	●

## **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. Legal risk includes, but not limited to risk of financial loss, sanction and/or reputational damage, resulting from defective contractual relationship, adverse dispute environment, failures to adhere to laws of the jurisdiction in which it operates.

Legal risk is managed by the Legal Division, under the active supervision of the Consultant - Legal as the Head of Legal. In managing risks, the Legal Division collaborates with the respective Legal Staff in the Division and the Regions. The Legal Division functions as a 'legal watch', which provides legal analysis/advice to all business units and/or employees at every level of the organisation in order to minimise the negative impact of delay in the legal process, absence of and/or changes to legislation and litigation process. RMD monitors the plausible operational loss events which arise from litigations periodically.

To ensure that the Legal Risk is managed, the Legal Division performs the evaluation and updating of various policies and procedures periodically, with regard to legal risk mitigation in accordance with external and/or internal developments, such as changes in existing laws and regulations. Further, the legal risk mitigation process is designed to manage legal risks, especially for activities that may be harmful to the Bank's business continuity.

The legal risk mitigation process involves the following:

- Appraisal/assessment in the form of legal reviews when a new product or activity is introduced or additions/changes are made to features of the Bank's products.
- Offer legal advice and/or legal counsel, when a legal risk is detected in its operational activities.
- Conduct regular reviews of the agreement standard format, particularly credit agreements, in order to ensure compliance with prevailing laws and regulations.
- Conduct periodic reviews of contracts and agreements between the Bank and other parties, specifically for non-standard agreements or agreements that have not been governed by the regulatory directions.
- Monitor legal issues intensively, particularly lawsuits due to actions filed against the Bank.

## **Compliance Risk**

Compliance Risk is the potential financial and reputational loss that would be incurred by the Bank due to non-compliance with applicable laws and regulations, codes of conduct and standards of practice in the banking industry. Compliance Risk management is conducted by the Compliance Division under the Independent Compliance Officer who reports to the Board/BIRMC.

Compliance Division ensures that Compliance Policy, Anti-Money Laundering Policy and Related Party Transactions Policy are in-line with all laws, regulations and Acts that are governing the banking industry. The Compliance Policy was duly reviewed to ensure that the policy is up-to-date and reflected the current industry trends, new legislations and governance procedures. Furthermore, when new directions are issued by the Regulator, staff awareness is improved for pretension of compliance.

## **Reputational Risk**

Reputational Risk is the potential for damage to reputation, causing threat to the operation or perhaps to the very existence of the organisation. The Reputational Risk Management is carried out by the Corporate Management, under the active supervision of the Board and the Chief Executive Officer. The communication is managed as per the Bank's Communication Policy, Information Disclosure Policy and monitoring and reporting of opinions/comments in the news media are conducted by RMD. The management of customer complaints/grievances is conducted in cooperation with the Call Center and actions have been taken to streamline the customer complaints handling procedure through a policy during the year.

The process of Reputational Risk Management consists of evaluation on events that affect the reputation of the Bank on a regular basis. Monitoring and evaluation of comments, complaints and feedback in the news media are reported to the management.

## **Strategic Risk**

Strategic risk is the risk of losses that might arise due to unsuccessful business plan or the inability to implement a suitable business plan, failure to respond promptly to the changes in the business environment and inadequate resource allocation, causing adverse impact on earnings and capital of the Bank.

Strategic Risk Management is conducted by the Budget Unit of the Finance and Planning Division, under the purview of Deputy General Manager - Finance & Planning and the direct supervision of the General Manager/CEO and the Board. Strategic risk management involves a series of strategic planning processes, which includes the alignment of corporate strategy with the strategy at Branch, Region and Division levels and the cascading of Bank wide targets into Divisional/Unit targets.

A strategic planning document includes:

- Strategic Business Plan (SBP), compiled in every three (3) years
- Budget (Business Plan), compiled annually
- Action Plan (detailed actions for the budget), compiled annually.

## **Policies and Procedures**

Formulation of the SBP document begins prior to expiration of the previous period's SBP, with or without an external resource person in determining strategies, targets and performance levels, which guide the preparation of the SBP, leading to the detailed Budget for quantification of strategy and goals. The Action Plan (AP) becomes the reference in the preparation of operational planning, in order to achieve the targets for Divisions and Branches. The AP for Branches guides preparation of the Business Plan for Regions/Branches. Through this mechanism, it ensures the strategy at corporate level is aligned with the Regions/Branches. Both top-down and bottom-up approaches are practiced. Senior Management and representatives from all managerial levels extensively deliberate and agree upon the strategies and actions for incorporation.

The guidelines of the Board approved Policies, Charters, Risk Review Reports, Risk Tolerance Limits, Capital Planning, ICAAP etc., provide guidance to identify strategic risk and measured through tools such as capital ratio, liquidity level, margin analysis, concentration, Scenario Analysis and Stress Testing. The Bank has a comprehensive policy framework, approved by the Board, in order to monitor and manage strategic risk.

## **Process**

The process of effective strategic risk management is needed to identify and respond to changes in the external and internal business environment. The detailed Annual Budget is prepared, based on the SBP and is reviewed half yearly to adjust with the changing internal and external business environment. The Management, Board Sub-committees and the Board, monitor the budget on a monthly basis on variances while the budget and the Action Plan are reviewed in detailed on a quarterly basis. The significant changes that have occurred and were anticipated internally and in the environment, are considered in the half yearly review and approval from the Board is obtained. The mechanism for measuring progress of the budget involves the comparison of established targets with the actual achievements and the impacts, in the following manner:

- Monthly monitoring to evaluate the performance, targets and shortcomings and report to the Board on salient features.
- Quarterly monitoring of performance and the actions/review action at Divisional and Regional levels and reporting to the Board.
- Half-yearly review of the budget and the Action Plan.
- Revision of the budget at least half yearly and, if significant deviations are observed, incorporate changes/revise goals, actions and targets (if required).
- Reporting to BOD on a monthly, quarterly and half yearly basis for observation and approval.

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

Internal Capital Adequacy Assessment Process (ICAAP) is utilised by the Bank as a policy tool which provides assessment of capital buffers in a perceived risk environment, to maintain the target regulatory capital requirements and ensure compliance with Basel Accord. It is used mainly at policy level in order to determine and planning of the investment strategies.

ICAAP requires banks to identify and assess risks, which are not assessed under Pillar 1 and maintain sufficient capital buffer to face those risks based on the appropriate risk-measurement techniques to maintain adequate capitalisation on an ongoing and forward looking basis.

NSB continues to improve its ICAAP, which has already been complied as per CBSL direction and under Pillar 2 of Basel II, is being applied. Measures that have been carried out are as follows:

- Establishment of Risk Appetite levels for operations and limits in alignment with business objectives and strategies.
- Capital allocation for every risk taking unit, based on the risk potential on established business targets.
- Assessment of additional capital in accordance with the Bank's risk profiles, namely credit risk, market risk, operational risk, liquidity risk, legal risk, strategic risk, compliance risk, reputation risk etc.

The Bank's CAR, after considering Pillar 2 risks, is above the regulatory minimum. 2.42% impact on capital adequacy is forecasted approximately for the pillar 2 risks in the assessment conducted for the year 2015.

### **Capital Planning**

The role of capital is to act as a buffer against future unexpected losses. The amount of capital a Bank would hold therefore, depends on its risk appetite, loss distribution arising from credit, market or operational or any other kinds of risk and to protect the banking industry from shocks created within and externally.

The Basel II and III Accords focus on risk management in banks and intends to link the business profile of the banks to the risk profile and consequently to the regulatory capital, in terms of the affiliation to the system. Therefore, business profile is calibrated to the regulatory capital automatically. Internal capital can, however, be different from the regulatory capital, which requires cushion to manage the risk profile of the Bank.

Objectives of capital planning at the Bank are:

- To streamline the Bank's capital planning in-line with regulatory requirements, by complying Basel II directions and to move to Basel III
- To provide a basis for assessment of capital requirement for other risks areas under ICAAP.
- To provide a broad direction for strategic decisions on future operations

RMD evaluates the impact of stress scenarios in the Capital Plan in order to understand and manage planned capital adequacy targets.

The processes and results of internal capital adequacy assessments are discussed in the ICAAP document.

### **Basel III**

CBSL, in its consultative paper on Minimum Capital Requirement and the Leverage for Licensed Specialised Banks, has informed the relevant banks to assess capital adequacy requirement in-line with Basel III standards. In addition to the obligation to provide minimum capital adequacy inline with the Bank's risk profile, banks are also required to establish additional capital as buffer, comprising the Capital Conservation Buffer, Countercyclical Buffer, and Capital Surcharge for Domestic Systemically Important Banks (D-SIB).

## Capital Adequacy under Basel III

The Basel III Minimum Capital Requirements will be applicable at two levels, namely, the standalone (Solo) and consolidated (Group) level as per the consultation paper issued by CBSL.

The level of capital under Basel III, differs due to separation of the Tier 1 into Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) and introduction of capital buffers in addition to Tier 1 and Tier 2. The new capital measure, Leverage Ratio is introduced and will be effective from 1st January 2017.

The minimum Tier 1 and Total Capital Required (Tier 1 & 2) are 6% and 10% respectively. However, the total ratio under Tier 1 would increase to 10.0% with the Capital Conservation Buffer (CCB) and Domestic Systemically Important Banks (D-SIBs) buffer requirements and therefore, the Total Capital under Basel III will be 14.0% with effect from 1st January 2019. Further, CBSL will direct additional capital requirement for Countercyclical Buffer (CB) as and when it decides on monitoring of systemic risks.

The table below illustrates the level of capital of the Bank, as per CBSL consultative paper on Basel III as of 1st January 2016.

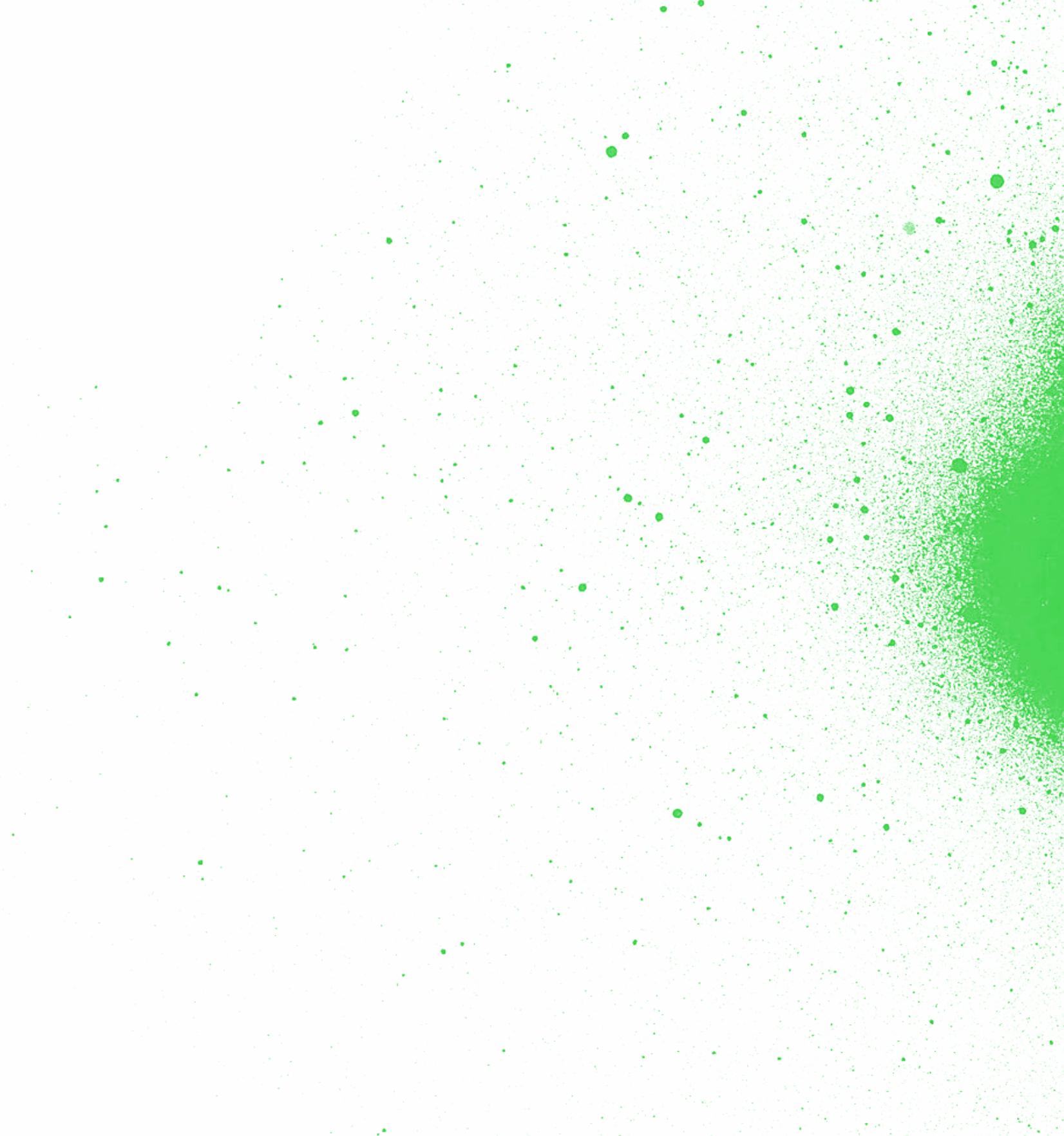
	Bank Only %	Consolidated %
<b>Capital Component – Basel III</b>		
Total Tier 1 Capital Adequacy Ratio	15.68	16.55
Total Capital Adequacy Ratio	15.68	16.55
<b>Minimum requirement under Basel III</b>		
Total Tier 1 capital Adequacy Ratio	10.625	10.625
<b>Total Capital Adequacy Ratio</b>	<b>10.625</b>	<b>10.625</b>

The Bank's current level of capital meets Basel III. The required minimum levels are to be achieved on step up basis up to 1st January 2019. In order to meet both capital and leverage requirements as required, NSB has identified a number of alternatives, including raising capital, review of the dividend policy, limiting its exposure to affecting asset allocation, managing its risk profile and closely monitoring the growth of its Risk-Weighted Assets (RWA). Furthermore, in efforts to implement Basel III, the Bank has been applying the liquidity management measurement for the purpose of monitoring liquidity.

## Outlook

NSB is continuously taking effort to strengthen its risk management governance, risk assessment mechanism, risk escalation process and risk awareness by engrafting risk management practices amongst all levels of its employees, both through top-down and bottom-up approaches in order to create a strong risk awareness culture. An approach for a comprehensive group risk assessment would be another feature in risk management of the Bank, in time to come.

The scope of risk management is not limited to the Bank only, but also with the subsidiary as NSB Group. The applications of consolidated risk management of the Bank and the subsidiary, NSBFMC have been implemented, in accordance with CBSL directions. The Bank is aware that the risk profile would change with the emergence of inward and outward looking approaches for growth and stability in the future and therefore, a proactive approach is required to arrest any possible risk that may develop in the process.



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## *Financial Calendar*

### **Financial Calendar 2015**

Publication of Interim Financial Statements for the quarter ended 31st March 2015	29th May 2015
Publication of Interim Financial Statements for the quarter ended 30th June 2015	25th August 2015
Publication of Interim Financial Statements for the quarter ended 30th September 2015	19th November 2015
Publication of Financial Statements (Audited) for the year ended 31st December 2015	29th March 2016

### **Proposed Financial Calendar 2016**

Publication of Interim Financial Statements for the quarter ending 31st March 2016	20th May 2016
Publication of Interim Financial Statements for the quarter ending 30th June 2016	19th August 2016
Publication of Interim Financial Statements for the quarter ending 30th September 2016	18th November 2016
Publication of Financial Statements for the year ending 31st December 2016	31st March 2017

## *Annual Report of Board of Directors*

### General →

The Directors of the National Savings Bank have pleasure in presenting their 2nd Integrated 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 2015. We ascertain 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.

The draft Financial Statements were approved by the Board of Directors at the Board meeting held on 29th February 2016 and submitted to the Auditor General on 29th February 2016. The audited Financial Statements were authorised to be issued on 29th March 2016. 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 2016 as per Circular No. PED/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 (Ika) long-term credit rating by the Fitch Rating Lanka (Pvt) Ltd. for the 13th consecutive year. It has also been awarded international credit ratings of BB - Stable by Fitch Inc. and B+ Stable by Standard and Poor Rating services.

### 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 abided by the Code of Conduct of the Bank and the Government Oath with the view of reaching the Vision and Mission of the Bank.

### Principal Activities →

#### Bank

The principal 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 of the transactions 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 overall financial performance of the Bank for the financial year 2015 and its financial position as at 31st December 2015 were reviewed in the Letter from the Chairman (page 8), General Manager/CEO's Review (page 10), The 2015 Story (page 13) and Audited Financial Statements (page 168). These reports form an integral part of the Annual Report.

### Network Expansions and Future Developments →

Widening the Bank's presence in the island, nine branches were added to the network during the year under review. At the end of the year the Bank has 245 branches in its network. The ATM network was further expanded enhancing customer convenience. The Bank installed 10 ATMs during the year across the island bringing out the total ATMs to 271 excluding peer banks' ATMs through which customers of NSB can transact.

The Bank intends to tie up with technological advancements in the coming years. This will enhance the convenience to customer base of the Bank. An overview of the future developments of the Bank is given in the Letter from the Chairman (page 8), General Manager/CEO's Review (page 10) and The 2015 Story (page 13).

### **Going Concern** →

The Board of Directors have reviewed and satisfied that the Bank has ample resources to continue its operations in the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern, such as restrictions or plan to curtail operations.

### **Financial Statements** →

The 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 2015 duly certified by the Deputy General Manager – Finance and Planning and approved and signed by the General Manager/CEO and two Directors including Chairman of the Bank are given on page 168 which form an integral part of the Annual Report of the Bank.

### **Directors' Responsibilities for Financial Reporting** →

The Directors are responsible for the preparation of the Financial Statements that will reflect a true and fair view of the state of affairs of the Bank as at 31st December 2015 and its profit for the year then ended. The Directors are of the view that Statements of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement, Significant Accounting Policies and Notes there to have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (SLFRS/LKAS) and the Banking Act No. 30 of 1988 and its amendments. The Statement of Directors' Responsibility for Financial Reporting appearing on page 160 of this Annual Report describes in detail the Directors' Responsibilities in relation to Financial Statements, which form an integral part of the Annual Report of the Board of Directors.

### **Auditors' Report**

The Auditor General had carried out the audit of the Financial Statements of the Bank and the Consolidated Financial Statements of the Group for the year ended 31st December 2015. Messrs Earnest & Young carried out the audit of NSB Fund Management Company. In 2015, the continuous audit was carried out throughout the year for the Bank. Issues identified in their reports were submitted to the management regularly for prompt action. Having confirmed the accuracy of the financial reporting, the Financial Statements, together with the necessary data and information were made available to the Auditor General for examination. The Auditor General's opinion on the Financial Statements appears on page 167 of this Annual Report.

As a regulatory supervisory body, the Central Bank of Sri Lanka carried out a periodic examination of the records and affairs of the Bank to ascertain compliance with directives issued by the Central Bank of Sri Lanka. It also determines whether required financial indicators are being maintained at the required level so that the interests of the stakeholders, particularly depositors are safeguarded.

### **Significant Accounting Policies and Changes during the Year** →

The Bank prepared its Financial Statements in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS). The Board of Directors wish to confirm that there were no significant changes to the Accounting Policies during the year. Significant Accounting Policies adopted in the preparation of Financial Statements for the year are given on page 177.

***Strategic Business Plan*** →

The Bank has adopted a Strategic Business Plan for 2014 up to 2016. The Bank will strive to operate within the parameters set out in the new Business Plan, which will help to accelerate the future momentum of NSB.

***Income*** →

The gross income of the Bank for 2015 was Rs. 79,282 Million (2014 – Rs. 77,890 Million) while the Group's income was Rs. 79,890 Million (2014 – Rs. 78,573 Million). Details of the income are given in Note 3 to the Financial Statements.

***Results and Appropriation*** →

The profit before income tax of Bank and Group amounted to Rs. 13,034 Million and Rs. 13,272 Million (2014 – Rs. 10,472 Million and Rs. 10,764 Million). This is an increase of 24% for the Bank and 23% for the Group (2014 – 360% and 303% increase).

The profit after tax of the Bank and Group stood at Rs. 8,672 Million and Rs. 8,832 Million respectively (2014 – Rs. 6,867 Million and Rs. 7,054 Million). This is an increase of 26% and 25% for the Bank and the Group (2014 – 480% and 362%).

Details of profit relating to the Bank are given in the following Table:

	2015 Rs. Million	2014 Rs. Million
Profit for the year after payment of all expenses and providing for Depreciation, Possible Loan Losses and Contingencies before VAT, NBT and Tax	15,470	12,508
VAT on Financial Services	2,062	1,745
NBT on Financial Services	375	291
Provision for Income Tax	4,361	3,605
Net Profit	8,672	6,867

***Provision for Taxation*** →

The Income Tax Rate applicable for the Bank on its operation is 28%, the Bank's operations are liable for Value Added Tax on Financial Services at the rate of 11% and Nation Building Tax at the rate of 2%.

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 of Income Tax expenditure and Deferred Taxation are given in Notes 13 and 29 respectively on pages 197 and 231.

***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 2015 stood at Rs. 3.2 Billion. The Secretary to the Treasury in his official capacity holds the entirety of the issued share capital.

***Borrowed Capital***

The Bank issued an International Bond for a value of USD 250 Millions in September 2014. This is in addition to the Bond of USD 750 Million issued in September 2013. This was the highest amount of foreign funds raised in a single issue by a bank so far from foreign investors.

### **Shareholding** →

The Government of Sri Lanka is the sole shareholder of the National Savings Bank.

### **Reserves** →

The Bank's Reserves consist of –

	2015 Rs. Million	2014 Rs. Million
Statutory Reserve Fund	2,048	1,874
Revaluation Reserve	3,297	2,065
Other Reserves	23,879	16,121
	<b>29,224</b>	<b>20,060</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. 11,015 Million by way of taxes and levies to the Government in 2015 (2014 – Rs. 11,043 Million). This consisted of Rs. 4,361 Million of Income Tax (2014 – Rs. 3,605 Million), Rs. 2,062 Million of Value Added Tax (2014 – Rs. 1,745 Million), Rs. 375 Million of Nation Building Tax (2014 – Rs. 291 Million), Rs. 1,333 Million of Special Fee (2014 – Rs. 1,333 Million), Rs. 2,800 Million of contribution to the Consolidated Fund (2014 – Rs. 4,000 Million) and Rs. 84 Million of contributions to National Insurance Trust Fund (2014 – Rs. 69 Million).

### **Service Charges to Postmaster General (PMG)** →

Service charges to the PMG for 2015 amounting to Rs. 124 Million has been provided for on the same basis as in 2014.

### **Pension Fund** →

A sum of Rs. 893 Million (2014 – Rs. 791 Million) has been provided in the Financial Statements on account of 4,374 employees (including retired employees) who are eligible for the Non-Contributory Pension Scheme.

### **Corporate Sustainability and Responsibility** →

The programmes carried out under the Corporate Social Responsibility are detailed on pages 66 to 70 in this Annual Report.

### **Property, Plant & Equipment and Intangible Assets** →

The value of property, plant & equipment and Intangible Assets as at the year end 2015 was Rs. 9,788 Million and Rs. 504 Million respectively (Rs. 8,196 Million and Rs. 474 Million in 2014).

The total capital expenditure incurred by the Bank on the acquisition of property, plant & equipment and Intangible Assets (Including capital work-in-progress) during the year amounted to Rs. 510 Million (2014 – Rs. 208 Million) and Group amounted to Rs. 512 Million (2014 – Rs. 208 Million), the details of which are given in Notes 27 and 28 to the Financial Statements on pages 223 to 230 of this Annual Report.

### **Market Value of Freehold Property** →

The Bank carried out a revaluation of freehold land and buildings of the Bank as of 31st December 2015 in accordance with the Section 3 of the Central Bank Direction No. 01 of 2014 on 'Valuation of Immovable Properties of Licensed Specialised Banks'.

The revaluation process of the land and buildings of the Bank was carried out by professionally-qualified independent valuers as per above Direction. The Board of Directors is on the view that revalued amounts of freehold land and buildings are not in excess of its market value.

### **Events after the Reporting Date** →

No circumstances have arisen since the Reporting date which would require adjustments to, or disclosure in the accounts, other than those disclosed in Notes to the Financial Statements.

### **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 its future operations.

### **Board of Directors** →

The Board of Directors comprises seven Directors including the Chairman and two Ex Officio Members representing the Ministry of Finance and the Postmaster General. The Minister of Finance appoints the Chairman and other four Directors. The following were the Directors during the year and whose brief profiles appear on page 72 of this Annual Report.

Name of the Director	Period	Status
Aswin De Silva, Chairman	From 09.02.2015	NED/NIND
Ms. W.A. Nalani, Chairperson	Up to 19.01.2015	NED/NIND
D.L.P.R. Abeyaratne, PMG (Ex Officio)	From 09.02.2012	NED/NIND
A.K. Seneviratne (Ex Officio)	From 27.05.2015	NED/IND
Suranga Naullage	From 09.02.2015	NED/NIND
Ajith Pathirana	From 20.03.2015	NED/NIND
Chandima Hemachandra	From 02.11.2015	NED/IND
Anil Rajakaruna, Director	From 02.11.2015	NED/IND
Bradley Emerson, Director	From 11.02.2015 to 02.11.2015	NED/IND
K.M. Mahinda Siriwardena (Ex Officio)	From 25.02.2015 to 10.04.2015	NED/IND
S.R. Attygalle (Ex Officio)	Up to 25.02.2015	NED/IND
S.T. Abeygunawardana	Up to 09.01.2015	NED/NIND
Lionel P. Fernando	Up to 13.01.2015	NED/NIND
Sumith Wijesinghe	Up to 02.02.2015	NED/IND
Late H. Madiwela	Up to 27.01.2015	NED/IND

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

### **Directors' Remuneration and Other Benefits** →

Details of Directors' emoluments and other benefits in respect of the Bank and Group for the financial year 2015 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 following 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 2015 are as follows:

### **Board Audit Committee** →

D.L.P.R. Abeyaratne	Chairman (From 30.11.2015)
Bradley Emerson	Chairman (From 12.03.2015 to 2.11.2015)
Lionel P. Fernando	Chairman (Up to 13.01.2015)
A.K. Seneviratne	Member (From 4.06.2015)
Anil Rajakaruna	Member (From 30.11.2015)
Mahinda Siriwardena	Member (From 12.03.2015 to 10.04.2015)
S.R. Attygalle	Member (Up to 25.02.2015)
Late H. Madiwela	Member (Up to 27.01.2015)
SumithWijesinghe	Member (Up to 02.02.2015)

The Report of the Board Audit Committee is given on page 108.

### **Human Resource and Remuneration Committee** →

Aswin De Silva	Chairman (From 12.03.2015)
Ms. W.A. Nalani	Chairperson (Up to 19.01.2015)
D.L.P.R. Abeyaratne	Member (From 12.03.2015)
Ajith Pathirana	Member (From 30.11.2015)
S.R. Attygalle	Member (Up to 25.02.2015)
Late H. Madiwela	Member (Up to 27.01.2015)

The Report of the Human Resource and Remuneration Committee is given on page 110.

**Nomination Committee** →

Aswin De Silva	Chairman (From 12.03.2015)
Ms. W.A. Nalani	Chairperson (Up to 19.01.2015)
D.L.P.R. Abeyrathne	Member (From 30.11.2015)
Ajith Pathirana	Member (From 30.04.2015)
Mahinda Siriwardene	Member (From 12.03.2015 to 10.04.2015)
S.T. Abeygunawardena	Member (Up to 09.01.2015)
S.R. Attygalle	Member (Up to 25.02.2015)

The Report of the Nomination Committee is given on page 112.

**Board Integrated Risk Management Committee** →

A.K. Seneviratne	Chairman (From 30.11.2015)
	Member (From 04.06.2015)
D.L.P.R. Abeyaratne	Chairman (Up to 30.11.2015)
Suranga Naullage	Member (From 30.11.2015)
Chandima Hemachandra	Member (From 30.11.2015)
Bradley Emerson	Member (From 12.03.2015 to 02.11.2015)
Mahinda Siriwardene	Member (From 12.03.2015 to 10.04.2015)
Lionel P. Fernando	(Up to 13.01.2015)
Sumith Wijesinghe	(Up to 02.02.2015)

The Report of the Board Integrated Risk Management Committee is given on pages 111.

**Directors' Meetings** →

The number of Directors' meetings which comprise Board meetings, Board Audit Committee meetings, Nomination Committee meetings, Board Integrated Risk Management Committee meetings and Human Resource and Remuneration Committee meetings and the attendance of Directors at these meetings are given on Corporate Governance Report (page 82) of this Annual Report.

**Directors' Interests in Contracts** →

Directors' interests in contracts with the Bank, both direct and indirect are referred to 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 forming part of the Annual Report of the Board.

**Chief Executive Officer (CEO)** →

The General Manager is the Chief Executive Officer of the Bank and is appointed by the Board of Directors. The General Manager has the right to be present at, and to participate in the meetings of the Board.

**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 is described The 2015 Story on page 13.

**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.

### **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 in time.

### **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. 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. There is an ongoing process for identifying evaluating and managing the risks that are faced by the Bank. The specific measures taken by the Bank in mitigating the risk are detailed on pages 113 to 149 of this Report.

### **Corporate Governance** →

In the management of the Bank, the Directors have placed emphasis on conforming with, the best Corporate Governance Practices and Procedures. Accordingly, systems and structures have been introduced/improved from time to time to enhance risk management measures and to improve accountability and transparency.

### **Compliance with Laws, Regulations and Prudential Requirements** →

The Bank has at all times ensured that it complied with National Savings Bank Act and all other applicable laws, regulations and prudential requirements.

### **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 2015.

By Order of the Board,



**Aswin De Silva**  
Chairman

24th March 2016  
Colombo



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

## *Statement of Director's Responsibility for Financial Reporting*

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 the relevant statutory requirements. The Financial Statements comprise of Statement of Comprehensive Income, Statement of Financial Position as at 31st December 2015, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes there to.

The Financial Statements of the Bank and its Subsidiary give a true and fair view of—

1. Financial Position of the Bank and its Subsidiary as at 31st December 2015; and
2. Financial performance of the Bank and its Subsidiary for the financial year then ended.

In preparing these Financial Statements, the Directors are required to ensure that:

1. The accounting policies adopted to prepare the Financial Statements which are depicted in page 177 to page 272 were appropriate according to the existing financial reporting frame work. These policies were consistently applied and adequately disclosed.
2. Reasonable and prudent judgments have been made where necessary to ensure the proper reflection of the form and substance of transaction 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 ensures that the Financial Statements comply with the prescribed format issued by the Central Bank for Licensed Specialised Banks.

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. (Financial Statements exhibited on pages 168 to 272) The Financial Statements for the year 2015 prepared and presented in this Annual Report are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and Banking Act No. 30 of 1988 and amendments thereto.

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 of Directors Responsibility on Financial Reporting*

Statement on Internal Control Over Financial Reporting is given on page 162 of this Annual Report and Auditor General's 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's 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 and the Group and all contributions and taxes payable 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 date of Statement of Financial Position 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 CA Sri Lanka 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*

24th March 2016  
Colombo

## *Directors' Statement on Internal Control Over Financial Reporting*

This report has been issued in line with the Banking Act Direction No. 12 of 2007, Section 3 (8) (11) (b), and 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. However, such a system is designed to manage the Bank's significant risk areas within 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 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 as and when there are changes to business environment or regulatory requirements and other guidelines. The process is regularly reviewed by the Board and confirmed the compliance with the Guidance for Directors of the Bank's on the Directors Statement on Internal Controls issued by The Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system taking into principles for the assessment of 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 the preparation of Financial Statements for external purposes and is in accordance with the relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures 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 also put in place the system of reviewing the design and the effectiveness of system of internal control periodically. The key processes, among other things 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, and policies and business directions that have been approved.
- The Board Audit Committee (BAC ) reviews periodically the internal control issues identified by the Internal Audit Division of the Bank, the External Auditors, Regulatory Authorities and corrective actions taken to rectify such deficiencies. The Auditor General carries out the external audit of the Bank. The Superintendent of the Government Audit is generally invited to BAC meetings.
- The BAC reviews the internal audit function with particular emphasis on the scope of audits and quality of the same. The activities attended to by the BAC during the year 2015 are set out in the Board Audit Committee report appearing on page 108 of this Annual Report. 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 approved by the BAC for implementation. The Internal Audit Division carries out audit checks to ensure compliance with policies and 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 activities of the BAC , along with minutes of the Committee meetings are submitted for information of the Board on a periodic basis.
- The Board Integrated Risk Management Committee (BIRMC) has been established by the Board to assist the Board to oversee the overall management of principal areas of risk of the Bank. The Executive Risk Management

*Directors' Statement on Internal Controls*

Committee (ERMC) which includes representation from all key business and operating units of the Bank assists with the implementation of policies advocated at the BIRMC. The Board has also established an independent Compliance Unit which ensures that Bank's activities are conducted in accordance with applicable laws, regulations and regulatory directives and any issues of non-compliance are reported to BIRMC periodically. The report on the Risk Assessment is submitted by the BIRMC to the Board periodically.

→ Management level committees have also been functioning with appropriate empowerment to ensure effective management and supervision of Bank's core areas in the day-to-day business operations. 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 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 Control over financial reporting for the year ended 31st December 2015 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*



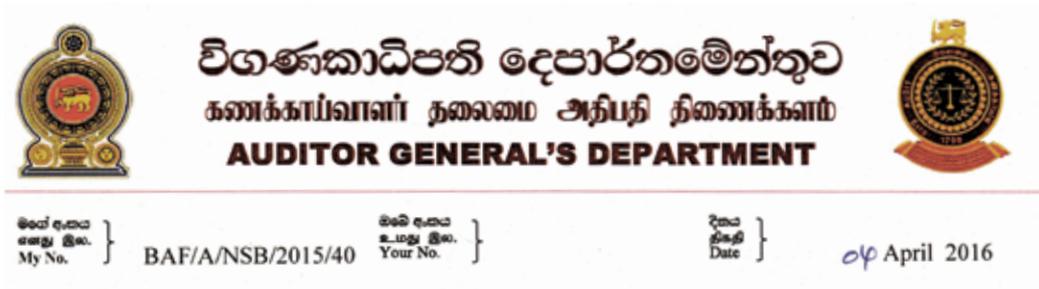
**D.L.P.R. Abeyratne**  
*Chairman – Board Audit Committee/Director*



**Ajith Pathirana**  
*Director*

24th March 2016  
Colombo

# Independent Assurance Report on Internal Controls



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 31st December 2015.

### Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Bank 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 Responsibilities 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 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.

**H.M. Gamini Wijesinghe**  
Auditor General

## *General Manager/CEO's and Deputy General Manager's (Finance and 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 2015 are prepared and presented in compliance with following:

- National Savings Bank Act No. 30 of 1971 and amendments thereto.
- Finance Act No. 38 of 1971.
- Sri Lanka Financial Reporting Standards (SLFRSs/LKASs) 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 as amended and Directions issued by Central Bank of Sri Lanka there under relating to Financial Statements formats and disclosure of information.
- Code of Best Practices on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka.
- The Banking Act Direction No. 12 of 2007 on Corporate Governance issued by Central Bank 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 (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 position, 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 any fraud that involved management or other employees.

The Bank's Internal Auditors also conduct 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.

*General Manager/CEO's and Deputy General Manager's  
(Finance and Planning) Statement of Responsibility*

The 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 108 and 109 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 252 of the Financial Statements;
- There are no material non-compliance;
- 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 2015 have been paid, or where relevant, provided for.



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



**K.B. Wijeyaratne**  
*Deputy General Manager  
(Finance and Planning)*

24th March 2016  
Colombo

## Auditor General's Report



### විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிப்பதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය  
எனது இல. } BAF/A/NSB/2015/53  
My No. }

ඔබේ අංකය  
உமது இல. }  
Your No. }

දිනය  
திகதி } 28 March 2016  
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 31st December 2015 →

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 31st December 2015 comprising the Statements of Financial Position as at 31st December 2015, the Statements 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 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 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 Statement.

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 Statement give a true and fair view of the financial position of the Bank as at 31st December 2015 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 Statement give a true and fair view of the financial position of the Bank and its subsidiary as at 31st December 2015 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.

**H.M. Gamini Wijesinghe**  
Auditor General

## Statement of Comprehensive Income

For the year ended 31st December	Notes	Bank			Group		
		2015 Rs. '000	2014 Rs. '000	Change %	2015 Rs. '000	2014 Rs. '000	Change %
<b>Gross income</b>	3	79,282,222	77,890,413	2	79,890,224	78,573,202	2
Interest income		78,128,498	74,022,734	6	78,747,364	74,656,751	5
Less: Interest expenses		51,145,994	52,642,488	(3)	51,486,547	52,995,992	(3)
<b>Net interest income</b>	4	26,982,504	21,380,246	26	27,260,817	21,660,759	26
Fee and commission income		475,374	356,092	33	477,214	356,173	34
Less: Fee and commission expenses		111,135	70,056	59	112,109	72,035	56
<b>Net fee and commission income</b>	5	364,239	286,036	27	365,105	284,138	28
Net gain/(loss) from trading	6	297,847	1,904,725	(84)	301,417	1,970,243	(85)
Net gain/(loss) from financial instruments designated at fair value through profit or loss	7	-	-	-	-	-	-
Net gain/(loss) from financial investments	8	27,838	1,349,348	(98)	27,838	1,349,348	(98)
Other operating income (net)	9	352,665	257,513	37	336,391	240,686	40
<b>Total operating income</b>		28,025,094	25,177,867	11	28,291,568	25,505,174	11
Less: Impairment charge for loans and other losses	10	2,139,553	3,475,695	(38)	2,139,553	3,475,695	(38)
<b>Net operating income</b>		25,885,541	21,702,172	19	26,152,015	22,029,479	19
<b>Less: Expenses</b>							
Personnel expenses	11	5,910,552	4,797,371	23	5,937,068	4,813,983	23
Other expenses	12	4,504,120	4,396,971	2	4,469,936	4,369,365	2
<b>Operating profit before value added tax (VAT) and nation building tax (NBT)</b>		15,470,869	12,507,830	24	15,745,011	12,846,131	23
Less: Value added tax on financial services		2,062,246	1,744,872	18	2,092,524	1,784,099	17
Nation building tax on financial services		374,954	290,812	29	380,456	298,134	28
<b>Operating profit after value added tax (VAT) and nation building tax (NBT)</b>		13,033,669	10,472,146	24	13,272,031	10,763,898	23
<b>Profit before income tax</b>		13,033,669	10,472,146	24	13,272,031	10,763,898	23
Less: Income tax expenses	13	4,361,355	3,605,541	21	4,439,799	3,710,276	20
<b>Profit for the year</b>		8,672,314	6,866,605	26	8,832,232	7,053,622	25
<b>Profit attributable to:</b>							
Equity holders of the Bank		8,672,314	6,866,605	26	8,832,232	7,053,622	25
<b>Profit for the year</b>		8,672,314	6,866,605	26	8,832,232	7,053,622	25
<b>Earnings per share on profit</b>							
Basic earnings per ordinary share (Rs.)	14	27.10	21.46	26	27.60	22.04	25
Diluted earnings per ordinary share (Rs.)		27.10	21.46	26	27.60	22.04	25

## Statement of Comprehensive Income

For the year ended 31st December	Notes	Bank			Group		
		2015 Rs. '000	2014 Rs. '000	Change %	2015 Rs. '000	2014 Rs. '000	Change %
<b>Profit for the year</b>		<b>8,672,314</b>	6,866,605	26	<b>8,832,232</b>	7,053,622	25
<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		<b>144,610</b>	39,820	263	<b>144,610</b>	39,820	263
Net gains/(losses) on re-measuring available-for-sale financial assets		<b>456,740</b>	1,246,466	(63)	<b>277,639</b>	1,246,466	(78)
Fair value gains transferred to the Income Statement on disposal of available-for-sale financial assets		<b>(24,297)</b>	(30,494)	20	<b>(24,297)</b>	(30,494)	20
<b>Total other comprehensive income to be reclassified to Income Statement</b>		<b>577,053</b>	1,255,792	(54)	<b>397,952</b>	1,255,792	(68)
<b>Other comprehensive income not to be reclassified to Income Statement</b>							
Net gains/(losses) on revaluation of property, plant & equipment		<b>1,231,119</b>	-	100	<b>1,231,119</b>	-	100
Actuarial gains/(losses) on retirement benefit plans		<b>(452,002)</b>	(3,000,390)	85	<b>(451,624)</b>	(3,000,294)	85
<b>Total other comprehensive income not to be reclassified to Income Statement</b>		<b>779,117</b>	(3,000,390)	126	<b>779,495</b>	(3,000,294)	126
<b>Other comprehensive income for the year, net of taxes</b>		<b>1,356,170</b>	(1,744,598)	178	<b>1,177,447</b>	(1,744,502)	167
<b>Total comprehensive income for the year</b>		<b>10,028,484</b>	5,122,007	96	<b>10,009,679</b>	5,309,120	89
<b>Attributable to:</b>							
Equity holders of the Bank		<b>10,028,484</b>	5,122,007	96	<b>10,009,679</b>	5,309,120	89
<b>Total comprehensive income for the year</b>		<b>10,028,484</b>	5,122,007	96	<b>10,009,679</b>	5,309,120	89

The Notes to the Financial Statements disclosed on pages 177 to 272 are integral parts of these Financial Statements.

## Statement of Financial Position

As at 31st December	Note	Bank			Group		
		2015 Rs. '000	2014 Rs. '000	Change %	2015 Rs. '000	2014 Rs. '000	Change %
<b>Assets</b>							
Cash and cash equivalents	16	3,240,253	1,926,594	68	3,247,469	1,930,527	68
Balances with central banks	17	–	–	–	729	167	337
Placements with banks	18	12,626,509	9,645,621	31	12,626,509	9,645,621	31
Derivative financial instruments	19	3,735,284	2,879,931	30	3,735,284	2,879,931	30
Other financial assets held-for-trading	20	13,542,721	7,431,458	82	17,804,872	11,555,186	54
Financial assets designated at fair value through profit or loss	21	–	–	–	–	–	–
Loans and receivables to banks	22	23,717,823	6,534,102	263	23,735,825	6,534,102	263
Loans and receivables to other customers	23	248,032,842	216,162,152	15	248,037,737	216,164,238	15
Financial investments – Available-for-sale	24	4,385,767	4,036,955	9	6,407,037	4,037,955	59
Financial investments – Held-to-maturity	25	515,302,705	510,341,337	1	517,514,189	513,709,164	1
Investments in subsidiaries	26	150,000	150,000	–	–	–	–
Property, plant & equipment	27	6,967,070	5,529,743	26	6,969,292	5,530,622	26
Intangible assets	28	57,857	64,652	(11)	57,857	64,659	(11)
Deferred tax assets	29	–	–	–	228	668	(66)
Other assets	30	16,320,181	14,763,764	11	16,347,180	14,791,687	11
<b>Total assets</b>		<b>848,079,011</b>	<b>779,466,309</b>	<b>9</b>	<b>856,484,208</b>	<b>786,844,527</b>	<b>9</b>
<b>Liabilities</b>							
Due to banks	31	75,093	90,150	(17)	110,196	694,869	(84)
Due to other customers	32	595,775,709	554,060,312	8	595,775,709	554,060,312	8
Other borrowings	33	207,025,525	191,102,124	8	213,703,431	196,008,232	9
Current tax liabilities		–	–	–	45,477	86,575	(47)
Deferred tax liabilities	29	504,423	269,754	87	504,423	269,754	87
Other liabilities	34	12,274,434	10,683,745	15	12,286,296	10,699,769	15
<b>Total liabilities</b>		<b>815,655,184</b>	<b>756,206,086</b>	<b>8</b>	<b>822,425,532</b>	<b>761,819,512</b>	<b>8</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	2,047,581	1,874,135	9	2,047,581	1,874,135	9
Other reserves	37	27,176,246	18,186,088	49	28,811,095	19,950,880	44
Total equity of the owners of the Parent		<b>32,423,827</b>	<b>23,260,223</b>	<b>39</b>	<b>34,058,676</b>	<b>25,025,015</b>	<b>36</b>
<b>Total equity</b>		<b>32,423,827</b>	<b>23,260,223</b>	<b>39</b>	<b>34,058,676</b>	<b>25,025,015</b>	<b>36</b>
<b>Total equity and liabilities</b>		<b>848,079,011</b>	<b>779,466,309</b>	<b>9</b>	<b>856,484,208</b>	<b>786,844,527</b>	<b>9</b>
<b>Contingent liabilities and commitments</b>	38	<b>34,930,089</b>	<b>59,444,638</b>	<b>(41)</b>	<b>34,930,089</b>	<b>59,444,638</b>	<b>(41)</b>

The Notes to the Financial Statements disclosed on pages 177 to 272 are integral parts of these Financial Statements.

*Statement of Financial Position***Certification**

I certify that the above Financial Statements give a true and fair view of the state of affairs of National Savings Bank and the Group as at 31st December 2015 and its profit for the year ended.


**K.B. Wijeyaratne**

*Deputy General Manager (Finance and Planning)*

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

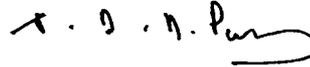
Approved and signed for and on behalf of the Board,


**Aswin De Silva**

*Chairman*


**Ajith Pathirana**

*Director*


**S.D.N. Perera**

*General Manager/CEO*

24th March 2016

Colombo

## Statement of Changes in Equity

**Bank** →

	Stated capital/ Assigned capital Rs. '000	Statutory reserve fund Rs. '000	Revaluation reserve Rs. '000
<b>Balance as at 1st January 2014</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	-	-	-
Transfers to 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
Prior year adjustment – Super Gain Taxes	-	-	-
<b>Balance as at 1st January 2015 after adjustment</b>	3,200,000	1,874,135	2,065,446
Profit for the year 2015	-	-	-
Other comprehensive income (net of tax)	-	-	1,231,119
<b>Total comprehensive income for the year</b>	-	-	1,231,119
<b>Transaction with equity holders, recognised directly in equity</b>			
Transfers to reserves during the period	-	173,446	-
Contribution to consolidated fund/dividend	-	-	-
Contribution to national insurance trust fund	-	-	-
Transfers to unclaimed deposits reserve	-	-	-
<b>Total transactions with equity holders</b>	-	173,446	-
<b>Balance as at 31st December 2015</b>	3,200,000	2,047,581	3,296,565

## Statement of Changes in Equity

Available-for-sale reserve Rs. '000	Cash flow hedging reserve Rs. '000	Other reserves Rs. '000	Retained earnings Rs. '000	Total equity Rs. '000
(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
-	-	(1,040,362)	-	(1,040,362)
1,199,419	(5,504)	13,886,361	-	22,219,861
-	-	-	8,672,314	8,672,314
432,443	144,610	-	(452,002)	1,356,170
432,443	144,610	-	8,220,312	10,028,484
-	-	5,163,102	(5,336,549)	-
-	-	-	(2,800,000)	(2,800,000)
-	-	-	(83,763)	(83,763)
-	-	3,059,246	-	3,059,246
-	-	8,222,348	(8,220,312)	175,483
1,631,862	139,106	22,108,709	-	32,423,827

## Statement of Changes in Equity

**Group** →

	Stated capital/ Assigned capital Rs. '000	Statutory reserve fund Rs. '000	Revaluation reserve Rs. '000
<b>Balance as at 1st January 2014</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	-	-	-
Transfers to 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
Prior year adjustment – Super Gain Taxes	-	-	-
<b>Balance as at 1st January 2015 after adjustment</b>	3,200,000	1,874,135	2,065,446
Profit for the year 2015	-	-	-
Other comprehensive income (net of tax)	-	-	1,231,119
<b>Total comprehensive income for the year</b>	-	-	1,231,119
<b>Transaction with equity holders, recognised directly in equity</b>			
Transfers to reserves during the period	-	173,446	-
Contribution to consolidated fund/dividend	-	-	-
Contribution to national insurance trust fund	-	-	-
Transfers to unclaimed deposits reserve	-	-	-
<b>Total transactions with equity holders</b>	-	173,446	-
<b>Balance as at 31st December 2015</b>	3,200,000	2,047,581	3,296,565

The Notes to the Financial Statements disclosed on pages 177 to 272 are integral parts of these Financial Statements.

## Statement of Changes in Equity

Available-for-sale reserve Rs. '000	Cash flow hedging reserve Rs. '000	Other reserves Rs. '000	Retained earnings Rs. '000	Total equity Rs. '000
(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
-	-	(1,149,899)	-	(1,149,899)
1,199,419	(5,504)	15,541,616	-	23,875,116
-	-	-	8,832,232	8,832,232
253,342	144,610	-	(451,624)	1,177,447
253,342	144,610	-	8,380,608	10,009,679
-	-	5,321,798	(5,495,245)	-
-	-	-	(2,801,600)	(2,801,600)
-	-	-	(83,763)	(83,763)
-	-	3,059,246	-	3,059,246
-	-	8,381,044	(8,380,608)	173,883
1,452,761	139,106	23,922,660	-	34,058,676

## Statement of Cash Flows

For the year ended 31st December	Note	Bank		Group	
		2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<b>Cash Flows from Operating Activities</b>					
Profit before tax		13,033,669	10,472,146	13,272,031	10,763,898
<b>Adjustment for:</b>					
Non-cash items included in profit before tax	41	2,823,332	1,997,853	2,823,669	1,998,113
Change in operating assets	42	(64,937,239)	(128,371,112)	(63,939,206)	(127,778,460)
Change in operating liabilities	43	43,511,318	50,842,810	42,937,915	47,454,944
Placements with banks		(2,980,888)	1,652,739	(2,980,888)	1,652,739
Contribution paid to defined benefit plans		(649,054)	(575,033)	(649,054)	(575,033)
Tax paid		(4,126,686)	(3,479,237)	(4,245,788)	(3,530,702)
Super gain tax paid		(1,040,362)	-	(1,149,899)	-
Contribution to national insurance trust fund		(89,949)	(39,303)	(89,949)	(39,303)
Dividends received from investment in subsidiaries		(14,400)	(14,953)	-	-
<b>Net cash used in operating activities</b>		<b>(14,470,259)</b>	<b>(67,514,090)</b>	<b>(14,021,169)</b>	<b>(70,053,804)</b>
<b>Cash Flows from Investing Activities</b>					
Purchase of property, plant & equipment		(480,395)	(181,360)	(482,067)	(181,732)
Proceeds from the sale of property, plant & equipment		913	11,408	913	11,408
Net increase in investment in available-for-sale		111,469	1,454,447	(2,087,902)	1,454,447
Net purchase of intangible assets		(30,059)	(26,128)	(30,059)	(26,128)
Net increase in unclaimed reserve fund		3,059,246	(10,606)	3,059,246	(10,606)
Dividends received from investment in subsidiaries		14,400	14,953	-	-
<b>Net cash from investing activities</b>		<b>2,675,574</b>	<b>1,262,714</b>	<b>460,131</b>	<b>1,247,389</b>
<b>Cash Flows from Financing Activities</b>					
Other borrowings		15,923,401	70,668,588	17,695,199	73,218,139
Contribution to consolidated fund/dividend		(2,800,000)	(4,000,000)	(2,801,600)	(4,001,661)
<b>Net cash from financing activities</b>		<b>13,123,401</b>	<b>66,668,588</b>	<b>14,893,599</b>	<b>69,216,478</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>1,328,716</b>	<b>417,212</b>	<b>1,332,561</b>	<b>410,063</b>
Cash and cash equivalents at the beginning of the year		1,836,444	1,419,232	1,840,544	1,430,481
<b>Cash and cash equivalents at the end of the year</b>		<b>3,165,160</b>	<b>1,836,444</b>	<b>3,173,105</b>	<b>1,840,544</b>
<b>Reconciliation of cash and cash equivalents</b>					
Cash in hand		600,185	570,277	600,195	570,277
Balances with banks		2,548,571	1,260,687	2,555,777	1,264,620
Money at call and short notice		91,497	95,630	91,497	95,630
Balances with Central Bank		-	-	729	167
Due to Banks – Other facilities		(75,093)	(90,150)	(75,093)	(90,150)
<b>Cash and cash equivalents at the end of the year</b>		<b>3,165,160</b>	<b>1,836,444</b>	<b>3,173,105</b>	<b>1,840,544</b>

The Notes to the Financial Statements disclosed on pages 177 to 272 are integral parts of these Financial Statements.

## *Notes to the Financial Statements*

### **1. Reporting Entity** →

#### **1.1 Corporate Information** →

National Savings Bank (NSB) is a licensed specialised bank incorporated in 1972 under the National Savings Bank Act No. 30 of 1971 and domiciled in Sri Lanka. The registered office of the Bank is located at No. 255, 'Saving House', Galle Road, Colombo 03, Sri Lanka.

The staff strength of the Bank as at 31st December 2015 was 3,636. (2014 – 3,358).

The Bank possesses 245 Branches, 2,287 school bank units and 270 ATMs of its service outlets and 653 post offices and 3,410 Sub-Post Offices as its agency network.

#### **1.2 Consolidated Financial Statements** →

The Consolidated Financial Statements for the year ended 31st December 2015 comprise the Bank (Parent) and its fully-owned Subsidiary, NSB Fund Management Company Ltd.

The Bank is fully-owned by the Government of Sri Lanka. The Bank is the ultimate Parent of the Group.

The Financial Statements of the Bank and its Subsidiary have a common financial year which ends on 31st December.

The Financial Statements of the 'Bank' and the 'Group' are prepared for the twelve months period ended 31st December each year to be table in the Parliament.

#### **1.3 Principal Activities and Nature of Operations** →

##### ***Bank***

The principal activities of the Bank continued to be the promotion of savings among the people of Sri Lanka and profitable investment of savings so mobilised.

##### ***Subsidiary***

Bank's fully-owned Subsidiary, namely, NSB Fund Management Company Ltd., acts as a primary dealer and engaged in dealing in Government Securities.

#### **1.4 Basis of Preparation** →

##### ***1.4.1 Statement of Compliance***

The Financial Statements of the Bank and the Group which comprise Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) issued by The Institute of Chartered Accountants of Sri Lanka and are in compliance with the information required by the Banking Act No. 30 of 1988 and subsequent amendments thereto. These Financial Statements, except for the information in cash flow have been prepared following the accrual basis of accounting.

The formats used in the preparation of 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.

##### ***1.4.2 Responsibility for Financial Statements***

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Group and the Bank as per the provisions of the National Savings Bank Act No. 30 of 1971 and amendments thereto and Sri Lanka Accounting Standards.

The Board of Directors acknowledge their responsibility as set out in the 'Annual Report of Board of Directors', 'Statement of Directors Responsibility for Financial Reporting' and the clarification given on the 'Statement of Financial Position' on pages 153, 160 and 170 respectively.

### **1.4.3 Approval of Financial Statements by the Board of Directors**

The Financial Statements of the Bank and the Group for the year ended 31st December 2015 were approved and authorised for issue on 24th March 2016, by the Board of Directors.

### **1.4.4 Basis of Measurement**

The Consolidated Financial Statements have been prepared on a historical cost basis, except for the following material items, which are measured at fair value.

- (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.

### **1.4.5 Functional and Presentation Currency**

The Consolidated Financial Statements are presented in Sri Lankan Rupees (Rs.) which is the currency of the primary economic environment in which Group operates and all values are rounded to the nearest thousand Rupees, unless indicated otherwise.

The information presented in US Dollars in Annexes on pages 291 to 293 does not form a part of the Financial Statements. Year end middle rate of USD/LKR is used to translate the presentation currency values.

### **1.4.6 Presentation of Financial Statements**

The assets and liabilities of the Bank and the Group presented in the Statement of Financial Position are grouped by their nature and listed in the order of their relative liquidity and maturity pattern. An analysis of maturity patterns of assets and liabilities of the Bank and the Group is presented in Note 48.

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 Group.

### **1.4.7 Materiality and Aggregation**

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions is presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard – LKAS 01 on ‘Presentation of Financial Statements’

### **1.4.8 Comparative Information**

The comparative information is reclassified where necessary for the better presentation and to conform to the current year’s presentation. The details are given in Note 46 to the Financial Statements on page 253.

### **1.4.9 Significant Accounting Judgments, Estimates and Assumptions**

The preparation of Financial Statements of the Group and the Bank in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The significant areas of estimation, critical judgments and assumptions in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Group and the Bank are as follows:

#### **1.4.9.1 Going Concern**

The Board of Directors/Management of the Bank 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, the 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 are prepared on the going concern basis.

#### *1.4.9.2 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 the 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.

Methodologies used for valuation of financial instruments and Fair Value Hierarchy are described in more detail in Note 50.1 and Note 50.2 to the Financial Statements.

#### *1.4.9.3 Impairment Losses on Loans and Receivables*

The Group reviews its individually significant loans and advances 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 the assumptions about number of factors and the actual results may differ, resulting in future changes to the allowance made.

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, by categorising them into groups of assets with similar risk characteristics, to determine whether provision is required 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).

Impairment of financial assets is further discussed in Note 2.3.6. on page 184.

#### *1.4.9.4 Impairment of Financial Investments – Available-for-Sale*

The Group reviews its debt securities classified as available-for-sale investments at each Reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

#### *1.4.9.5 Revaluation of Property, Plant & Equipment*

The freehold land and buildings of the Bank and the Group are reflected at revalued amounts. The Group engaged independent professional valuers to determine fair value the freehold land and buildings in terms of Sri Lanka Accounting Standard (SLFRS 13) 'Fair Value Measurement'.

The methods and key assumptions used to determine the fair value of the freehold land and buildings are further explained in Note 2.4 to the Financial Statements.

#### *1.4.9.6 Useful Life time of Property, Plant & Equipment*

The Group review the residual values, useful lives and methods of depreciation of property, plant & equipment at each Reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

#### *1.4.9.7 Deferred Tax Asset*

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised.

Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with the future tax-planning strategies.

#### **1.4.9.8 Defined Benefit Obligation**

The cost of the defined benefit plans and the present value of their obligations are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases.

In determining the appropriate discount rate, management considers the interest rates of Sri Lankan Government Bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates and expected future salary increase rate of the Group.

Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

#### **1.4.9.9 Provisions, Commitments and Contingencies**

The Group receive legal claims against it in the normal course of business. Management makes judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdiction.

### **2. Significant Accounting Policies** →

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, unless otherwise indicated. The accounting policies of the Bank are also consistently applied by the Group entities where applicable and deviations if any have been disclosed accordingly.

### **2.1 Basis of Consolidation** →

The Financial Statements of the Bank and the Group comprise the Financial Statements of the Bank and its Subsidiary in terms of the SLFRS 10 – ‘Consolidated Financial Statements’ and LKAS 27 – ‘Consolidated and Separate Financial Statements’.

#### **2.1.1 Subsidiary**

The Financial Statements of the subsidiary is fully consolidated from the date on which control is transferred to the Bank and continued to be consolidated until the date when such control ceases. 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. 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.

#### **2.1.2 Transactions Eliminated on Consolidation**

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full in preparing the Consolidated Financial Statements.

### **2.2 Foreign Currency Transactions and Balances** →

All foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates on which the transactions were affected.

Monetary assets and liabilities denominated in foreign currencies at the Reporting date are retranslated to Sri Lankan Rupees using the middle exchange rate ruling at that 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 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. The transactions of the Foreign Currency Banking Unit have been recorded in accordance with the above policy and the resulting gains/losses are recognised in the Income Statement.

## **2.3 Financial Instruments** →

### **2.3.1 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement**

#### **i. Date of Recognition**

All financial assets and financial 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.

Government Securities are recognised in the books of accounts on the settlement date which falls due after three days from the date of trade. The position is rectified at the date of reporting in preparation of the Financial Statements.

#### **ii. Recognition and 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, as per Sri Lanka Accounting Standard (LKAS) 39 – 'Financial Instruments: Recognition and Measurement'.

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 fair value 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 deferred and amortised using Effective Interest Rates (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

### **2.3.2 Classification and Subsequent Measurement of Financial Assets**

At inception a financial asset is classified in one of the following categories:

- Financial assets at fair value through profit or loss
  - (a) Financial assets held-for-trading
  - (b) Financial assets designated at fair value through profit or loss
- Held-to-maturity financial assets
- Loans and receivables
- Available-for-sale financial assets

The subsequent measurement of financial assets depends on their classification.

Detailed analysis of classification and subsequent measurement of financial assets is given in Note 15 on page 200.

### 2.3.2.1 Financial Assets at Fair Value through Profit or Loss (FVTPL)

Financial assets at fair value through profit or loss include financial assets held-for-trading and financial assets designated at fair value through profit or loss.

#### (a) Financials Assets Held-for-Trading

Details of Financial assets held-for-trading are given in Note 20 on page 209.

### Derivatives Recorded at Fair Value through Profit or Loss

Details of Derivatives recorded at fair value through profit or loss are discussed in Note 19 on page 205.

### Derivatives used as Hedge Instruments

Details of Derivatives used as hedge instruments are given in Note 19 on page 205.

#### (b) Financial Assets Designated at Fair Value through Profit or Loss

Details of Financial assets designated at fair value through profit or loss are discussed in Note 21 on page 214.

### 2.3.2.2 Held-to-Maturity Financial Investments

Details of Held-to-maturity financial investments are given in Note 25 on page 222.

### 2.3.2.3 Loans and Receivables to Banks and Other Customers

Details of Loans and receivables to banks and other customers are given in Note 22 and Note 23 respectively on pages 214 and 215.

#### (i) Securities Purchased under Resale Agreements

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 'Securities purchased under resale 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.

Details of Securities purchased under resale agreements are given in Note 22 and Note 23 on pages 214 and 215.

### 2.3.2.4 Available-for-Sale Financial Investments (AFS)

Details of Available-for-sale financial investments are given in Note 24 on page 219.

### 2.3.2.5 Cash and Cash Equivalents

Details of Cash and cash equivalents are given in Note 16 on Page 204.

## 2.3.3 Classification and Subsequent Measurement of Financial Liabilities

At the inception, the Group determines the classification of its financial liabilities into one of the following categories.

- Financial liabilities at fair value through profit or loss (FVTPL)
  - a) Financial liabilities held-for-trading
  - b) Financial liabilities designated at fair value through profit or loss
- Financial liabilities at amortised cost

### 2.3.3.1 Financial Liabilities at Fair Value through Profit or Loss (FVTPL)

Financial liabilities at FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, and changes there in recognised in profit or loss.

Financial liabilities are classified as held-for-trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. This category includes derivatives financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by the Sri Lanka Accounting Standard – LKAS 39 on ‘Financial Instruments: Recognition and Measurement’.

Gains or losses on liabilities held-for-trading are recognised in the Income Statement.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

### **2.3.3.2 Financial Liabilities at Amortised Cost**

Financial Instruments issued by the Group that are not designated at fair value through profit or loss, are classified as liabilities under ‘due to banks’, ‘due to other customers’, ‘securities sold under repurchase agreements’ and ‘debt issued and other borrowed funds’ as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares at amortised cost using the EIR method.

After initial recognition, such financial liabilities are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in ‘interest expenses’ in the Income Statement. Gains and losses are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

#### **(i) Due to Banks**

Details of Due to banks are given in Note 31 on page 232.

#### **(ii) Due to Other Customers**

Details of Due to other customers are given in Note 32 on page 232.

#### **(iii) Securities Sold under Repurchase Agreements**

Details of Securities sold under repurchase agreements are given in Note 33 on page 234.

#### **(iv) Other Borrowings – Debt Securities Issued**

Details of Other borrowings – debt securities issued are given in Note 33 on page 234.

### **2.3.4 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 on ‘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.

### **2.3.5 Derecognition of Financial Instruments**

#### **(a) Financial Assets**

The Group derecognises a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when—

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights 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 under a 'pass-through' arrangement and either the Group has transferred substantially all the risks and rewards of the asset or the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the

asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### **(b) Financial Liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

### **2.3.6 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.

*i. Impairment of Financial Assets Carried at Amortised Cost*

Details of the individual and collective assessment of impairments are given in Note 23 (d) on page 217.

*ii. Impairment of Available-for-Sale Financial Investments*

Detailed discussion on Impairment of available-for-sale financial investments is given in Note 24 on page 219.

**2.3.7 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 Group 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*

Details of Interest and similar income and expense are given in Note 3 and Note 4 on page 190.

*ii. Fee and Commission Income*

Details of Fee and commission income are given in Note 5 on page 192.

*iii. Net Trading Income*

Details of Net trading income are given in Note 6 on page 193.

*iv. Dividend Income*

Details of Dividend income are given in Note 9 on page 194.

**2.4 Property, Plant & Equipment (PPE)** →

Details of property, plant & equipment are given in Note 27 on page 223.

**2.5 Intangible Assets** →

Details of Intangible assets are given in Note 28 on page 229.

**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 – I is determined using the Projected Unit Credit actuarial valuation method. Actuarial gains and losses are recognised in 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.

*Notes to the Financial Statements*

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.

Based on the latest actuarial valuation an estimate has been made for the year 2015.

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 Deed 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 Unfunded 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 34 (a). 1.

### *2.7.1.3 Staff Pension Fund – II*

The Bank established and operates a defined benefit pension plan, for the permanent staff members who have joined the Bank on or after 1st October 1995, which requires the Bank to monthly contribute 12% of members' gross salary to a separately administered fund. The cost of providing benefits under the defined benefit pension plan is determined using the Projected Unit Credit actuarial valuation method. Actuarial gains and losses are recognised in 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 2015, 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 2015 are as follows:

Interest/Discount Rate	9.85 % p.a.
Increase in Average Basic Salary	6.50% 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 Deed 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.

Details of Staff pension fund II are given in Note 34 (a). 1. on page 236.

### *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 scheme – II. Members of Pension Scheme II are opts for be members of the Widows'/Widowers' and Orphans' Pension Scheme. The Bank does not contribute to the Fund while Bank's employees monthly contribute 5% of their basic salary, to the Fund.

### **2.7.2 Gratuity**

With the establishment of Staff Pension Scheme – II, employees who joined the Bank on or after 1st October 1995 become members of the Pension Scheme – II, thus they are not entitled to the rights and privileges under Service Gratuity Scheme. However, a minimum period of 120 months uninterrupted active service in the Bank at the time of retirement is required to be eligible for any retirement benefit under this pension scheme. Therefore employees who retire before 10 years of service and whose services are terminated after five years other than by retirement are eligible to receive a terminal gratuity under the Payment of Gratuity Act No. 12 of 1983, at the rate of on-half of the gross salary applicable to the last month of the financial year, for each year of continuous service.

Probability of occurrence of such event is rare according to management's judgment and past experiences. A gratuity provision is not maintained in the Financial Statements unless a significant liability is estimated at Reporting date. Where a gratuity is paid to an employee in such event under Payment of Gratuity Act No. 12 of 1983, it is recognised as a gratuity expense in the Income Statement in the same year.

### **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, 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. 67 Million has been provided from the profit of 2015.

Details of Post-employment medical benefits are given in Note 34 (a). 2. on page 239.

### **2.7.4 Defined Contribution Plans**

Details of Defined contribution plans are given in Note 11 on page 195.

### **2.8 Other Liabilities →**

Details of Other liabilities are given in Note 34 on page 235.

### **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 2015 was Rs. 94.35 Million. A provision of Rs. 89.11 Million already exists in the account.

### **2.10 Contingent Liabilities and Commitments →**

Details of Contingent liabilities and commitments are given in Note 38 on page 246.

### **2.11 Taxation →**

#### ***2.11.1 Current Taxation***

Details of Current taxation are given in Note 13 on page 197.

#### ***2.11.2 Deferred Taxation***

Details of Deferred taxation are given in Note 13 and Note 29 on page 197 and page 231 respectively.

### ***2.11.3 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 11% on operating profit before Value Added Tax and Nation Building Tax on financial services adjusted for emoluments of employees and economic depreciation.

### ***2.11.4 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.

### ***2.11.5 Super Gain Tax (SGT)***

As per the provisions of Part III of the Finance Act No. 10 of 2015 which was certified on 30th October 2015, the Group is liable for Super Gain Tax of Rs. 1,150 Million. According to the Act, the Super Gain Tax shall be deemed to be an expenditure in the Financial Statements relating to the year of assessment which commenced on 1st April 2013. The Act supersedes the requirements of the Sri Lanka Accounting Standards, hence the expense of Super Gain Tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax issued by the Institute of Chartered Accountants of Sri Lanka, dated 24th November 2015.

### ***2.12 Statement of Cash Flows*** →

The Statement of Cash Flows has been prepared by using the 'Indirect Method' of preparing cash flows in accordance with 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.

### ***2.13 Regulatory Provisions*** →

#### ***2.13.1 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.

#### ***2.13.2 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.

### ***2.14 Events after the Reporting Date*** →

Details of Events after Reporting date are given in Note 45 on page 252.

### ***2.15 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 SLFRSs 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 →

#### ► Accounting Policy

Gross revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The specific recognition criteria must also be met before revenue recognition is discussed under respective income notes.

For the year ended 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Interest income	78,128,498	74,022,734	78,747,364	74,656,751
Fee and commission income	475,374	356,092	477,214	356,173
Net gain/(loss) from trading	297,847	1,904,725	301,417	1,970,243
Net gain/(loss) from financial investments	27,838	1,349,348	27,838	1,349,348
Other operating income (net)	352,665	257,513	336,391	240,686
<b>Gross income</b>	<b>79,282,222</b>	<b>77,890,413</b>	<b>79,890,224</b>	<b>78,573,202</b>

### 4. Net Interest Income →

#### ► Accounting Policy

##### Recognition of Interest Income and Interest Expenses

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 interest income for financial assets and interest expense for financial liabilities. 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.

**4. Net Interest Income (Cont.)** →

For the year ended 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<b>4. (a) Interest Income</b> →				
Cash and cash equivalents	24,313	7,733	24,313	7,733
Placements with banks	329,862	367,562	329,862	367,562
Derivative financial instruments	-	-	-	-
Other financial assets held-for-trading	496,089	783,859	746,776	783,894
Loans and receivables to banks	1,010,459	688,532	1,014,608	702,305
Loans and receivables to other customers	25,135,621	22,276,769	25,137,457	22,277,006
Financial investments – Held-to-maturity	51,132,154	49,898,278	51,373,337	50,518,251
Financial investments – Available-for-sale	-	-	121,011	-
<b>Total interest income</b>	<b>78,128,498</b>	<b>74,022,734</b>	<b>78,747,364</b>	<b>74,656,751</b>
<b>4. (b) Interest Expenses</b> →				
Due to other customers	36,257,472	41,500,097	36,285,549	41,500,097
Other borrowings	14,888,522	11,142,391	15,200,998	11,495,895
Debt securities issued	-	-	-	-
Others	-	-	-	-
<b>Total interest expenses</b>	<b>51,145,994</b>	<b>52,642,488</b>	<b>51,486,547</b>	<b>52,995,992</b>
<b>Net interest income</b>	<b>26,982,504</b>	<b>21,380,246</b>	<b>27,260,817</b>	<b>21,660,759</b>
<b>4. (c) Net Interest Income from Sri Lanka Government Securities</b> →				
Interest income	51,628,243	50,682,137	52,120,113	51,302,145
(Less): Interest expenses	-	-	-	383,512
<b>Net interest income</b>	<b>51,628,243</b>	<b>50,682,137</b>	<b>52,120,113</b>	<b>50,918,633</b>

**4. Net Interest Income (Cont.)** →**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. 4,409 Million (2014 - Rs. 4,200 Million) for the Bank and Rs. 4,474 Million (2014 - Rs. 4,228 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** →**Accounting Policy**

The Group earns fee and commission income from range of services it provides to customers which can be divided in to the following two categories:

(a) Fee and commission income earned from services that are provided over a certain period of time

Fee and commission earned for the provision of services over a period of time are accrued over that period.

(b) Fee and commission income from providing transaction services

Fee and commission income arising from renegotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised as the related services are performed.

Fees and commission expenses relating to transaction and service fees are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<i>For the year ended 31st December</i>				
Fee and commission income	475,374	356,092	477,214	356,173
Fee and commission expenses	(111,135)	(70,056)	(112,109)	(72,035)
<b>Net fee and commission income</b>	<b>364,239</b>	<b>286,036</b>	<b>365,105</b>	<b>284,138</b>
<b>Earned from –</b>				
Loans	377,971	283,376	377,971	283,376
Cards	(52,933)	(30,088)	(52,933)	(30,088)
Others	39,201	32,749	40,067	30,851
<b>Net fee and commission income</b>	<b>364,239</b>	<b>286,036</b>	<b>365,105</b>	<b>284,138</b>

## 6. Net Gain/(Loss) from Trading →

### Accounting Policy

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/income from foreign exchange.

Dividend income is recognised when the Group's right to receive the payment is established.

For the year ended 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Foreign exchange				
From banks	-	-	-	-
From other customers	178,826	73,881	178,826	73,881
Interest rates – mark-to-market gain/(loss) and others	390,544	849,034	394,114	914,552
Equities – mark-to-market gain/(loss) and others	(279,353)	981,810	(279,353)	981,810
Others – forward swap	7,830	-	7,830	-
<b>Total</b>	<b>297,847</b>	<b>1,904,725</b>	<b>301,417</b>	<b>1,970,243</b>

## 7. Net Gain/(Loss) from Financial Instruments Designated at Fair Value through Profit or Loss →

Bank/Group has not designated any financial assets at fair value through profit or loss as at the Reporting date.

## 8. Net Gain/(Loss) from Financial Investments →

### Accounting Policy

'Net gains/(losses) from financial investments' comprise gains less losses related to available-for-sale investments and loans and receivables, and include all realised and unrealised fair value changes.

For the year ended 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Assets available-for-sale				
Debt securities	-	-	-	-
Equities [Note (a)]	27,838	1,349,348	27,838	1,349,348
Others	-	-	-	-
<b>Total</b>	<b>27,838</b>	<b>1,349,348</b>	<b>27,838</b>	<b>1,349,348</b>

### 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) →

### Accounting Policy

#### i. Gain/(Loss) on Disposal of Property, Plant & Equipment

The gains or losses on the disposal of property, plant & equipment is determined on the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, net of disposal costs. This is recognised in other operating income in the year in which significant risks and rewards of ownership are transferred to the buyer.

#### ii. Foreign Exchange Gain/(loss)

Foreign currency positions are revalued at each Reporting date. Gains and losses arising from changes in exchange rates are included in Income Statement in the period in which they arise.

#### iii. Dividend Income

Dividend earned from available-for-sale financial investments is recognised when the Group's right to receive the payment is established.

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<i>For the year ended 31st December</i>				
Gain on sale of property, plant & equipment	642	9,631	642	9,631
Gain/(Loss) on revaluation of foreign exchange	85,871	(21,965)	85,871	(21,965)
Equities – Divided income	181,059	173,979	166,659	159,026
Others	85,093	95,869	83,219	93,995
<b>Other operating income (Net )</b>	<b>352,665</b>	<b>257,513</b>	<b>336,391</b>	<b>240,686</b>

## 10. Impairment for Loans and Other Losses →

### Accounting Policy

The Group recognises the changes in the impairment provisions for loans and receivables to banks and other customers, which are assessed as per Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'. The methodology adopted for impairment is explained in Note 23 (d) to the Financial Statements. The Bank also makes provisions/(write-backs) for impairment of financial investments – available-for-sale and financial investments – loans and receivables when there is a permanent diminution in the carrying value of these investments. Further, the Bank/Group recognises an impairment loss when the carrying amount of a non-financial asset exceeds the estimated recoverable amount from that asset.

**10. Impairment for Loans and Other Losses (Cont.)** →

For the year ended 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Loans and receivables				
To other customers [Refer Note 23. (d)]	2,139,553	3,475,695	2,139,553	3,475,695
<b>Total</b>	<b>2,139,553</b>	<b>3,475,695</b>	<b>2,139,553</b>	<b>3,475,695</b>

**11. Personnel Expenses** →▶ **Accounting Policy** .....**i. Defined Contribution Plans** →

The Group operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability. The Group contributes to the following defined contribution plans:

**(a). 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.

NSB Fund Management Company and its employees contribute 12% and 8% respectively to the Employees' Provident Fund (EPF) maintained by Central Bank of Sri Lanka.

**(b). 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.

**11. Personnel Expenses (Cont.)** →**ii. Defined Benefit Plans**

Contribution to defined benefit plans are recognised in the Income Statement based on an Actuarial Valuation carried out separately for each defined benefit plan in accordance with Sri Lanka Accounting Standard LKAS 19 – ‘Employee Benefits’.

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<i>For the year ended 31st December</i>				
Salary and bonus	4,390,991	3,464,219	4,415,097	3,478,526
Contribution – staff provident fund	318,948	258,515	319,651	259,152
Contribution – Employees’ Trust Fund	79,741	64,593	79,916	64,752
Contribution – staff pension fund I [Note 11. (a) and 34. (a) 1]	707,259	641,919	707,705	642,500
Contribution – staff pension fund II [Note 11. (b)]	185,956	149,025	186,166	149,038
Gratuity on termination of service [Note 34. (a) 3]	317	44,916	629	45,346
Retired Staff Medical Assistance Scheme [Note 34. (a) 2]	67,312	53,850	67,312	53,850
Others	160,028	120,334	160,593	120,819
<b>Total</b>	<b>5,910,552</b>	<b>4,797,371</b>	<b>5,937,068</b>	<b>4,813,983</b>

**11. (a) Provision for Staff Pension Fund – I** →

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<i>For the year ended 31st December</i>				
Amount recognised as expense	707,259	641,919	707,705	642,500

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)] and base on the actuarial valuation in 2014, an estimate has been made for the year 2015.

**11. (b) Provision for Staff Pension Fund – II** →

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<i>For the year ended 31st December</i>				
Amount recognised as expense	185,956	149,025	186,166	149,038

Pension scheme II has been established for the employees who joined the Bank on or after 1st October 1995. Actuarial valuation was carried out by Mr. Piyal S. Goonetilleke, Fellow of Society of Actuaries (USA) of Piyal S. Goonetilleke & Associates, on 31st December 2015 [Refer Note 34. (a)].

## Notes to the Financial Statements

**12. Other Expenses** →

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<i>For the year ended 31st December</i>				
Directors' emoluments	1,133	1,879	1,476	2,029
Auditors' remunerations	3,552	3,090	3,857	3,379
Professional and legal expenses	19,712	23,755	19,712	23,755
Depreciation of property, plant & equipment	265,169	253,024	265,499	253,205
Amortisation of leasehold property	6,752	7,228	6,752	7,228
Amortisation of intangible assets	36,854	43,279	36,861	43,357
Special fees paid to Treasury [Note 30. (a)]	1,333,333	1,333,333	1,333,333	1,333,333
Office administration and establishment expenses	2,370,196	2,286,006	2,371,723	2,257,701
Others	467,419	445,376	430,723	445,376
<b>Total</b>	<b>4,504,120</b>	<b>4,396,971</b>	<b>4,469,936</b>	<b>4,369,365</b>

**13. Income Tax Expenses** →**Accounting Policy**

As per Sri Lanka Accounting Standard – LKAS 12 on 'Income Taxes', tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognised in Income Statement, except to the extent it relates to items recognised directly in Equity or Other Comprehensive Income (OCI).

**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 below.

**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.

## Notes to the Financial Statements

**13. Income Tax Expenses (Cont.)** →

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 re-assessed 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.

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<i>For the year ended 31st December</i>				
Current tax expenses				
Current year tax expenses	4,036,322	3,479,237	4,116,188	3,584,072
Prior years' (over)/under provision	90,364	–	88,502	–
Deferred tax expenses				
Temporary differences [Refer Note 13. (b)]	234,669	126,304	235,109	126,204
<b>Total</b>	<b>4,361,355</b>	<b>3,605,541</b>	<b>4,439,799</b>	<b>3,710,276</b>
Effective tax rate (%)	33.46	34.43	33.45	34.47
Effective tax rate (excluding deferred tax) (%)	31.66	33.22	31.68	33.30

**13. (a) Reconciliation of Tax Expenses** →

Profit before tax	13,033,669	10,472,146	13,272,031	10,763,898
Income tax for the period (Accounting profit @ 28%)	3,649,427	2,932,201	3,716,169	3,013,891
Add: Tax effect of expenses that are not deductible for tax purposes	2,166,632	2,633,136	2,177,242	2,656,567
(Less): Tax effect of expenses that are deductible for tax purposes	1,779,737	2,086,100	1,777,223	2,086,386
<b>Tax expense for the period</b>	<b>4,036,322</b>	<b>3,479,237</b>	<b>4,116,188</b>	<b>3,584,072</b>

**13. Income Tax Expenses (Cont.)** →**13. (b) The Deferred Tax Charge in the Income Statement Comprise the Following:** →

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<i>For the year ended 31st December</i>				
Deferred tax assets	(81,947)	37,511	(82,086)	37,611
Deferred tax liabilities	152,722	163,815	153,023	163,815
<b>Deferred tax (credit)/charge to Income Statement</b>	<b>234,669</b>	<b>126,304</b>	<b>235,109</b>	<b>126,204</b>

**14. Earnings Per Share (EPS)** →**Accounting Policy** .....

The Group presents basic and diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<i>For the year ended 31st December</i>				
Net profit attributable to ordinary equity holders	8,672,314	6,866,605	8,832,232	7,053,622
Adjustment for the effect of dilution	-	-	-	-
Net profit attributable to ordinary equity holders adjusted for the effect of dilution	8,672,314	6,866,605	8,832,232	7,053,622
Weighted average number of ordinary shares for basic earnings per share	320,000	320,000	320,000	320,000
Effect of dilution	-	-	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	320,000	320,000	320,000	320,000
<b>Basic earnings per ordinary share (Rs.)</b>	<b>27.10</b>	<b>21.46</b>	<b>27.60</b>	<b>22.04</b>
<b>Diluted earnings per ordinary share (Rs.)</b>	<b>27.10</b>	<b>21.46</b>	<b>27.60</b>	<b>22.04</b>

## 15. Analysis of Financial Instruments by Measurement Basis →

### ► Accounting Policy

The carrying amounts of financial instruments by category as defined in Sri Lanka Accounting Standard – LKAS 39 on ‘Financial Instruments: Recognition and Measurement’ under headings of the Statement of Financial Position are summarised below:

#### 15. (a) Bank – 2015 →

	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	-	-	3,240,253	-	-	-	3,240,253
Balances with central banks	-	-	-	-	-	-	-
Placements with banks	-	-	12,626,509	-	-	-	12,626,509
Derivative financial instruments	-	-	-	-	-	3,735,284	3,735,284
Other financial assets held-for-trading	13,542,721	-	-	-	-	-	13,542,721
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Loans and receivables to banks	-	-	23,717,823	-	-	-	23,717,823
Loans and receivables to other customers	-	-	248,032,842	-	-	-	248,032,842
Financial investments	-	515,302,705	-	4,385,767	-	-	519,688,472
<b>Total financial assets</b>	<b>13,542,721</b>	<b>515,302,705</b>	<b>287,617,427</b>	<b>4,385,767</b>	<b>-</b>	<b>3,735,284</b>	<b>824,583,904</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	-	-	75,093	-	-	75,093
Derivative financial instruments	-	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Due to other customers	-	-	595,775,709	-	-	595,775,709
Other borrowings	-	-	207,025,525	-	-	207,025,525
Debt securities issued	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>802,876,327</b>	<b>-</b>	<b>-</b>	<b>802,876,327</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

## Notes to the Financial Statements

**15. Analysis of Financial Instruments by Measurement Basis (Cont.)** →**15. (b) 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>745,252,586</b>	<b>-</b>	<b>-</b>	<b>745,252,586</b>

**15. Analysis of Financial Instruments by Measurement Basis (Cont.)** →**15. (c) Group – 2015** →

	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	-	-	3,247,469	-	-	-	3,247,469
Balances with central banks	-	-	729	-	-	-	729
Placements with banks	-	-	12,626,509	-	-	-	12,626,509
Derivative financial instruments	-	-	-	-	-	3,735,284	3,735,284
Other financial assets held-for-trading	17,804,872	-	-	-	-	-	17,804,872
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Loans and receivables to banks	-	-	23,735,825	-	-	-	23,735,825
Loans and receivables to other customers	-	-	248,037,737	-	-	-	248,037,737
Financial investments	-	517,514,189	-	6,407,037	-	-	523,921,226
<b>Total financial assets</b>	<b>17,804,872</b>	<b>517,514,189</b>	<b>287,648,269</b>	<b>6,407,037</b>	<b>-</b>	<b>3,735,284</b>	<b>833,109,651</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	-	-	110,196	-	-	110,196
Derivative financial instruments	-	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Due to other customers	-	-	595,775,709	-	-	595,775,709
Other borrowings	-	-	213,703,431	-	-	213,703,431
Debt securities issued	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>809,589,336</b>	<b>-</b>	<b>-</b>	<b>809,589,336</b>

## Notes to the Financial Statements

**15. Analysis of Financial Instruments by Measurement Basis (Cont.)** →**15. (d) 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>	11,555,186	513,709,164	234,274,656	4,037,955	-	2,879,931	766,456,891

	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>	-	-	750,763,413	-	-	750,763,413

## 16. Cash and Cash Equivalents →

### Accounting Policy

Cash and cash equivalents include cash in hand, balances with banks, money at call and short notice that are subject to an insignificant risk of change in their value. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Cash in hand	600,185	570,277	600,195	570,277
Balances with banks	2,548,571	1,260,687	2,555,777	1,264,620
Money at call and short notice	91,497	95,630	91,497	95,630
<b>Total</b>	<b>3,240,253</b>	<b>1,926,594</b>	<b>3,247,469</b>	<b>1,930,527</b>

## 17. Balances with Central Banks →

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Balances with Central Bank of Sri Lanka	-	-	729	167
<b>Total</b>	<b>-</b>	<b>-</b>	<b>729</b>	<b>167</b>

## 18. Placements with Banks →

### Accounting Policy

Placement with banks include short-term deposits placed in banks that are subjected to insignificant risk of changes in fair value, and are used by the Bank and the Group in the management of its short-term commitments. They are recorded in the Financial Statements at their face values or the gross values, where appropriate.

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Placements with banks – Sri Lanka	12,626,509	9,645,621	12,626,509	9,645,621
<b>Total</b>	<b>12,626,509</b>	<b>9,645,621</b>	<b>12,626,509</b>	<b>9,645,621</b>

## ***19. Derivative Financial Instruments*** →

### ► **Accounting Policy** .....

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as 'trading' unless they are designated as hedging instruments. The Group uses derivatives such as interest rate swaps and forward foreign exchange contracts.

#### **Derivatives Recorded at Fair Value through Profit or Loss**

Derivatives except for derivatives used as hedging instrument 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'.

#### **Derivatives used as Hedge Instruments**

The Group entered into derivative contacts to hedge against the foreign exchange rate or interest rate. These derivatives are measured at fair value. The Group adopts hedge accounting mismatch to eliminate the accounting resulting from volatility in the Financial Statements between derivatives measured at fair value and the financial asset or liability (hedge exposure) measured at cost/amortised cost, if hedge is efficient.

#### **Cash flow hedge**

Cash flow hedge is measured at fair value at the end of each Reporting period.

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 Statements.

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 asset 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.

**19. Derivative Financial Instruments (Cont.)** →**Bank and Group**

<i>As at 31st December</i>	<b>Assets 2015</b>	<b>Notional amount – 2015</b>	<b>Assets 2014</b>	<b>Notional amount – 2014</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>
<b>Forward foreign exchange contract</b>				
Forward exchange purchases (Note 19.1)	7,830	140,900	–	–
<b>Foreign currency derivative/Cash flow hedges</b>				
Foreign currency swaps – (Note 19.2)	3,727,454	71,196,422	2,879,931	71,196,422
<b>Total</b>	<b>3,735,284</b>	<b>71,337,322</b>	<b>2,879,931</b>	<b>71,196,422</b>

**19.1 Forward Exchange Purchases** →

Bank has entered into a forward exchange contract with DFCC Bank on 27th August 2015 to purchase 1,000,000 US Dollars.

**19.2 Foreign Currency Swaps** →

The Bank has raised USD 750 Million on 18th September 2013 through foreign borrowings for a period of five years against which two Swaps agreements have been entered into with the Central Bank of Sri Lanka for USD 183.425 Million and USD 187.5 Million with annual and monthly renewal basis respectively.

The Bank has also raised USD 250 Million on 10th September 2014 through foreign borrowings for a period of five years against which a Swaps agreements has been entered into with the Central Bank of Sri Lanka for USD 249.31 Million with monthly renewal basis.

The objective of the Swaps is to hedge the risk of the foreign currency denominated above mentioned borrowings (only the capital portion) attributable to changes in LKR/USD exchange rate.

**19. Derivative Financial Instruments (Cont.)** →

A brief description of the Swaps is given below:

**19.2 (a) Swap Agreement 1 and 2** →

Details	Description of the Hedge	
Hedge Instrument	<b>Swap Contract – 1</b> Counter party – Central Bank of Sri Lanka Notional amount – USD 183.425 Million 24.5% of the total foreign borrowings <b>Swap Contract – 2</b> Counter party – Central Bank of Sri Lanka Notional amount – USD 187.5 Million 25% of the total foreign borrowings	
Hedge Item	5 years USD denominated Senior Note – USD 750 Million with interest payable semi annually Capital is repayable in 18th September 2018 in full	
The period when the cash flows are expected to occur	<b>Swap Contract – 1</b>	Annually
	<b>Swap Contract – 2</b>	Monthly
The amount recognised in Other Comprehensive Income during the year	<b>Swap Contract – 1</b>	Nil
	<b>Swap Contract – 2</b>	LKR 85,519 Million debit to the cash flow hedge reserve
Fair value of Hedged item as at 31st December 2015	LKR 98,899 Million	
Fair value of Hedged instrument as at 31st December 2015	<b>Swap Contract – 1</b>	LKR 2,315 Million
	<b>Swap Contract – 2</b>	LKR 204 Million
Any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur	None	
The amount that was reclassified from equity to profit or loss during the period	None	

**19. Derivative Financial Instruments (Cont.)** →**19.2 (a) Swap Agreement 3** →

Details	Description of the Hedge
Hedge Instrument	<b>Swap Contract</b> Counter party – Central Bank of Sri Lanka Notional amount – USD 249.31 Million 99.72% of the total foreign borrowings
Hedge Item	5 years USD denominated Senior Note – USD 250 Million with interest payable semi annually Capital is repayable in 10th September 2019 in full
The period when the cash flows are expected to occur	Monthly
The amount recognised in Other Comprehensive Income during the year	LKR 230 Million credit to the cash flow hedge reserve
Fair value of Hedged item as at 31st December 2015	LKR 32,966 Million
Fair value of Hedged instrument as at 31st December 2015	LKR 810 Million
Any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur	None
The amount that was reclassified from equity to profit or loss during the period	None

**19.2 (c) Amount Recognised in Other Comprehensive Income Relating to the Currency Swaps** →

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<i>For the year ended 31st December</i>				
Swap Agreement – 01	-	(61,092)	-	(61,092)
Swap Agreement – 02	(85,519)	119,338	(85,519)	119,338
Swap Agreement – 03	230,129	(18,426)	230,129	(18,426)
<b>Total</b>	<b>144,610</b>	<b>39,820</b>	<b>144,610</b>	<b>39,820</b>

## 20. Other Financial Assets Held-for-Trading →

### Accounting Policy

Financial assets are classified as held-for-trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking as per Sri Lanka Accounting Standard – LKAS 39 on ‘Financial Instruments: Recognition and Measurement’. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships.

Financial assets held-for-trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in ‘Net trading income’. Dividend income is also recorded in ‘Net trading income’ while interest income and expenses are recorded in ‘Net interest income’ according to the terms of the contract, or when the right to the payment has been established.

The Group evaluates its financial assets held-for-trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management’s intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets, in rare circumstances.

Financial assets held-for-trading includes Government Securities held-for-trading and dealing securities.

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<b>Held-for-trading</b>				
Sri Lanka Government Securities				
Treasury Bills	-	182,311	1,184,757	1,778,098
Treasury Bonds	9,870,590	3,479,689	12,947,984	5,990,595
Equity securities – [Refer Note 20. (a)]	3,672,131	3,769,459	3,672,131	3,769,459
Debt securities – Debenture	-	-	-	17,035
<b>Total</b>	<b>13,542,721</b>	<b>7,431,458</b>	<b>17,804,872</b>	<b>11,555,186</b>

**20. Other Financial Assets Held-for-Trading (Cont.)** →**20. (a) Equity Securities (Quoted) – Bank and Group** →

As at 31st December	2015			2014		
	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	395,236	67,008	54,909	-	-	-
Commercial Bank of Ceylon PLC (NV)	236,667	31,644	28,807	-	-	-
DFCC Bank	430,000	85,787	71,814	-	-	-
Hatton National Bank PLC (NV)	236,355	41,864	41,577	-	-	-
Lanka Orix Leasing Company PLC	606,900	68,594	54,909	606,900	68,594	52,809
Lanka Orix Finance PLC	4,550,000	50,340	16,197	4,550,000	50,340	18,446
Pan Asia Banking Corporation PLC	-	-	-	5,000	116	129
Sampath Bank PLC (NV)	1,153,517	300,125	285,149	-	-	-
Union Bank PLC	245,000	6,009	4,942	-	-	-
		651,371	558,304		119,049	71,384
<b>2. Beverage, Food and Tobacco</b>						
Cargills (Ceylon) PLC	598,040	109,872	111,764	783,568	143,957	118,543
Lanka Milk Foods (CWE) PLC	-	-	-	75,421	9,567	8,986
		109,872	111,764		153,523	127,530
<b>3. Chemical and Pharmaceuticals</b>						
CIC Holdings PLC	135,839	15,558	13,472	233,700	20,184	15,344
CIC Holdings PLC (NV)	13,700	1,183	1,100	-	-	-
Haycarb PLC	447,211	83,786	72,875	447,491	83,838	76,549
		100,527	87,447		104,023	91,893
<b>4. Construction and Engineering</b>						
Access Engineering PLC	3,470,023	132,692	79,603	3,470,023	132,692	111,170
Colombo Dockyard PLC	1,234,706	275,603	186,794	1,234,706	275,603	235,629
		408,295	266,397		408,294	346,799

**20. Other Financial Assets Held-For-Trading (Cont.)** →**20. (a) Equity Securities (Quoted) – Bank & Group (Cont.)** →

As at 31st December	2015			2014		
	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	251,318	2,593,516	306,499	265,423
Browns Capital PLC	2,900,000	13,279	3,728	-	-	-
Browns Investments PLC	93,606,200	468,031	138,837	93,606,200	468,031	185,116
C T Holdings PLC	750,265	131,498	104,603	700,265	124,420	99,016
Hayleys PLC	111,748	38,540	34,088	-	-	-
John Keells Holdings PLC	2,327,667	465,818	410,835	1,103,023	267,845	272,667
Free Lanka Capital Holdings PLC	-	-	-	2,900,000	13,279	6,022
Richard Pieris & Company PLC	12,001,659	113,095	100,872	12,001,659	113,095	100,872
Vallibel One PLC	3,143,693	72,975	67,143	3,300,000	77,299	79,025
		<b>1,609,735</b>	<b>1,111,423</b>		<b>1,370,468</b>	<b>1,008,140</b>
<b>6. Footwear and Textile</b>						
Heyleys MGT Knitting Mills PLC	-	-	-	362,623	5,294	6,239
		-	-		5,294	6,239
<b>7. Health Care</b>						
Nawaloka Hospitals PLC	17,789,400	79,421	58,048	17,789,400	79,421	58,048
		<b>79,421</b>	<b>58,048</b>		<b>79,421</b>	<b>58,048</b>
<b>8. Hotels and Travels</b>						
Asian Hotels & Properties PLC	1,366,132	106,609	79,699	1,366,132	106,609	92,532
Aitken Spence Hotel Holdings PLC	2,102,133	188,903	141,344	2,102,133	188,903	164,209
Ceylon Hotels Corporation PLC	3,793,842	128,776	94,909	3,793,842	128,776	86,656
Eden Hotels Lanka PLC	576,566	28,590	9,977	576,566	28,590	14,652
John Keells Hotels PLC	5,541,205	103,475	84,379	5,541,205	103,475	94,241
Lighthouse Hotels PLC	1,575,667	95,816	85,691	1,900,000	115,539	103,330
Mahaweli Reach Hotels PLC	133,300	4,884	3,282	133,300	4,884	3,071
Marawila Resorts PLC	1,899,556	16,063	5,259	1,899,556	16,063	11,458
The Kingsbury PLC	4,669,876	105,764	80,808	4,569,876	104,096	81,336
		<b>778,880</b>	<b>585,348</b>		<b>796,935</b>	<b>651,484</b>

**20. Other Financial Assets Held-For-Trading (Cont.)** →**20. (a) Equity Securities (Quoted) – Bank & Group (Cont.)** →

<i>As at 31st December</i>	2015			2014		
	No. of shares	Cost Rs. '000	Market value Rs. '000	No. of shares	Cost Rs. '000	Market value Rs. '000
<b>9. Investment Trusts</b>						
Renuka Holdings PLC	5,356,146	235,077	145,644	5,356,146	235,077	166,299
Renuka Holdings PLC (NV)	466,438	11,307	10,516	496,812	12,043	11,643
		246,384	156,160		247,120	177,942
<b>10. Land and Property</b>						
Overseas Reality (Ceylon) PLC	943,473	23,777	21,737	50,000	1,213	1,300
		23,777	21,737		1,213	1,300
<b>11. Manufacturing</b>						
ACL Cables PLC	-	-	-	2,059,267	172,418	155,362
Dipped Products PLC	-	-	-	190,812	23,782	26,981
Lanka Ceramic PLC	445,955	60,344	52,474	446,000	60,350	52,965
Lanka Walltile PLC	-	-	-	1,838,387	154,859	177,962
Royal Ceramics Lanka PLC	1,834,159	232,734	201,311	1,844,159	234,003	213,350
Textured Jersey PLC	-	-	-	4,335,000	87,201	88,301
Tokyo Cement Company (Lanka) PLC	574,160	29,030	27,819	-	-	-
Tokyo Cement Company (Lanka) PLC (NV)	559,217	24,821	21,842	-	-	-
		346,929	303,446		732,612	714,921

**20. Other Financial Assets Held-For-Trading (Cont.)** →**20. (a) Equity Securities (Quoted) – Bank & Group (Cont.)** →

As at 31st December	2015			2014		
	No. of shares	Cost Rs. '000	Market value Rs. '000	No. of shares	Cost Rs. '000	Market value Rs. '000
<b>12. Plantation</b>						
Namunukula Plantations PLC	150,000	12,432	8,899	150,000	12,432	13,260
Watawala Plantations PLC	-	-	-	588,301	13,979	10,936
		12,432	8,899		26,411	24,196
<b>13. Power and Energy</b>						
Resus Energy PLC	203,341	4,653	5,027	1,627,415	37,238	29,287
		4,653	5,027		37,238	29,287
<b>14. Telecommunication</b>						
Dialog Axiata PLC	6,790,960	168,982	71,849	6,790,960	168,982	89,308
		168,982	71,849		168,982	89,308
<b>15. Trading</b>						
Browns & Company PLC	985,000	315,149	98,566	1,000,000	319,948	105,802
		315,149	98,566		319,948	105,802
<b>16. Unit Trust</b>						
Comtrust Equity Fund	556,793	10,000	11,476	556,793	10,000	11,339
Ceybank Unit Trust	7,604,797	85,110	216,242	7,604,797	85,110	253,848
		95,110	227,718		95,110	265,187
<b>Total</b>		<b>4,951,517</b>	<b>3,672,131</b>		<b>4,665,644</b>	<b>3,769,459</b>

## ***21. Financial Assets Designated at Fair Value through Profit or Loss*** →

### ► **Accounting Policy**

The Group designates financial assets as fair value through profit or loss when –

- The designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring the assets on a different basis.
- The assets are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The asset contains one or more embedded derivatives which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets designated 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 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.

The Group has not designated any financial assets upon initial recognition as designated at fair value through profit or loss.

## ***22. Loans and Receivables to Banks*** →

### ► **Accounting Policy**

Loans and receivables to banks include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than –

- Those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss.
- Those that the Group, upon initial recognition, designates as available-for-sale.
- Those for which the Group may not recover substantially all of its initial investment, other than due to credit deterioration.

'Loans and receivables to banks' include amounts due from banks. After initial measurement, loans and receivables 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 income' in the Income Statement. The losses arising from impairment are recognised in 'impairment charge for loans and other losses' in the Income Statement.

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<i>As at 31st December</i>				
Gross loans and receivables	23,717,823	6,534,102	23,735,825	6,534,102
(Less): Individual impairment	-	-	-	-
<b>Net loans and receivables</b>	<b>23,717,823</b>	<b>6,534,102</b>	<b>23,735,825</b>	<b>6,534,102</b>

**22. Loans and Receivables to Banks (Cont.)** →**22. (a) Analysis by Product** →

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Loans and receivables				
Short-term loans	-	-	-	-
Long-term loans	18,082,182	4,152,195	18,082,182	4,152,195
Securities purchased under resale agreements	1,278,968	498,705	1,296,970	498,705
Debentures	4,356,673	1,883,202	4,356,673	1,883,202
<b>Gross total</b>	<b>23,717,823</b>	<b>6,534,102</b>	<b>23,735,825</b>	<b>6,534,102</b>

**22. (b) Analysis by Currency**

All loans and receivables to banks are in Sri Lankan Rupees.

**23. Loans and Receivables to Other Customers** →**Accounting Policy**

Loans and receivables to other customers include non derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than –

- Those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss.
- Those that the Group, upon initial recognition, designates as available-for-sale.
- Those for which the Group may not recover substantially all of its initial investment, other than due to credit deterioration.

After initial measurement, loans and receivables 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 income' in the Income Statement. The losses arising from impairment are recognised in 'impairment charge for loans and other losses' in the Income Statement.

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Gross loans and receivables	251,125,051	220,087,324	251,129,946	220,089,410
(Less): Individual impairment	-	-	-	-
Collective impairment [Refer – 23. (d)]	3,092,209	3,925,172	3,092,209	3,925,172
<b>Net loans and receivables</b>	<b>248,032,842</b>	<b>216,162,152</b>	<b>248,037,737</b>	<b>216,164,238</b>

**23. Loans and Receivables to Other Customers (Cont.)** →**23. (a) Analysis by Product** →

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Loans and receivables				
Pawning	29,869,149	38,184,641	29,869,149	38,184,641
Staff loans	3,389,283	2,791,077	3,389,283	2,791,077
Term loans				
Short-term	1,145,000	1,000,000	1,145,000	1,000,000
Long-term	209,789,004	169,647,494	209,789,004	169,647,494
Securities purchased under resale agreements	-	-	4,895	2,086
Others				
Securitisation/Commercial papers	2,413,639	3,797,575	2,413,639	3,797,575
Sri Lanka Government Securities	2,075,000	4,122,500	2,075,000	4,122,500
Others	2,443,976	544,037	2,443,976	544,037
<b>Gross total</b>	<b>251,125,051</b>	<b>220,087,324</b>	<b>251,129,946</b>	<b>220,089,410</b>

**23. (b) Analysis by Industry** →

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Agriculture and fishing	1,145,815	1,001,737	1,145,815	1,001,737
Tourism	98,828	145,375	98,828	145,375
Transport	971,097	913,895	971,097	913,895
Construction/Housing	61,277,060	56,776,500	61,277,060	56,776,500
Others				
Infrastructure	59,942,018	52,692,775	59,942,018	52,692,775
Leasing and Finance	5,981,910	4,521,533	5,981,910	4,521,533
Government	2,075,000	4,122,500	2,075,000	4,122,500
Education	19,100,178	12,924,747	19,100,178	12,924,747
Power and Energy	11,864,587	13,126,850	11,864,587	13,126,850
Pawning	29,869,149	38,184,641	29,869,149	38,184,641
Loan against deposit	19,330,552	19,802,230	19,330,552	19,802,230
Others/Personal	39,468,857	15,874,541	39,473,752	15,876,627
<b>Gross total</b>	<b>251,125,051</b>	<b>220,087,324</b>	<b>251,129,946</b>	<b>220,089,410</b>

**23. Loans and Receivables to Other Customers (Cont.)** →**23. (c) Analysis by Currency** →

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Sri Lankan Rupees	235,610,549	210,618,937	235,615,444	210,621,023
United States Dollars	15,514,502	9,468,387	15,514,502	9,468,387
<b>Gross total</b>	<b>251,125,051</b>	<b>220,087,324</b>	<b>251,129,946</b>	<b>220,089,410</b>

**23. (d) Movements in Collective Impairment Charges during the Year** →**Accounting Policy****Individual Assessment of Impairment**

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'.

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 receivables, 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.

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'.

### **23. Loans and Receivables to Other Customers (Cont.)** →

#### **23. (d) Movements in Collective Impairment Charges during the Year (Cont.)** →

##### **Collective Assessment of Impairment**

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.

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.

##### **Impairment of Re-negotiated 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.

##### **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.

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<i>As at 31st December</i>				
Collective impairment				
Opening balance	3,925,172	2,005,578	3,925,172	2,005,578
Charge to Income Statement (Note 10)	2,139,553	3,475,695	2,139,553	3,475,695
Net write-off during the year	(2,972,516)	(1,556,101)	(2,972,516)	(1,556,101)
<b>Closing balance</b>	<b>3,092,209</b>	<b>3,925,172</b>	<b>3,092,209</b>	<b>3,925,172</b>

## **24. Financial Investments – Available-for-Sale** →

### ► **Accounting Policy** .....

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.

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'.

### **Impairment of 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.

**24. Financial Investments – Available-for-Sale (Cont.)** →

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<b>Quoted Investments</b>				
Equity Securities [Note – 24. (a)]	3,526,070	3,634,808	3,526,070	3,634,808
Debt Securities [Note – 24. (b)]	-	-	186,061	-
<b>Other Investments</b>				
Sri Lanka Government Securities – Treasury Bonds [Note – 24. (c)]	-	-	1,834,209	-
<b>Unquoted Investments</b>				
Equity Securities [Note – 24. (d)]	859,697	402,147	860,697	403,147
<b>Net Available-for-sale investments</b>	<b>4,385,767</b>	<b>4,036,955</b>	<b>6,407,037</b>	<b>4,037,955</b>

**24. (a) Quoted Investments – Equity Securities – Bank and Group** →

	2015			2014		
	No. of shares	Cost Rs. '000	Fair value Rs. '000	No. of shares	Cost Rs. '000	Fair value Rs. '000
Hatton National Bank PLC	9,371,940	1,301,845	1,964,598	9,371,940	1,301,845	1,807,060
Sri Lanka Telecom PLC	13,158,700	445,643	611,532	13,158,700	445,643	657,072
People's Leasing Company PLC	43,668,157	784,405	949,940	48,323,927	868,036	1,170,676
		2,531,893	3,526,070		2,615,524	3,634,808

**24. (b) Quoted Investments – Debt Securities – Group** →

	2015			2014		
	No. of debentures	Cost Rs. '000	Fair value Rs. '000	No. of debentures	Cost Rs. '000	Fair value Rs. '000
Pan Asia Bank Corporation PLC	500,000	50,000	51,221	-	-	-
People's Leasing Company PLC	945,000	94,500	95,703	-	-	-
HDFC Bank of Sri Lanka	386,800	38,680	39,137	-	-	-
		183,180	186,061		-	-

**24. Financial Investments – Available-for-Sale (Cont.) →****24. (c) Other Investments – Group →**

	2015			2014		
	Face value	Cost of investment	Fair value	Face value	Cost of investment	Fair value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sri Lanka Government Securities – Treasury Bonds	1,675,000	1,963,120	1,834,209	–	–	–
		1,963,120	1,834,209		–	–

**24. (d) Unquoted Investments – Equity Securities →**

	2015 – Bank			2014 – Bank		
	No. of shares	Cost	Cost/Fair value	No. of shares	Cost	Cost/Fair value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000
Investment – Credit Information Bureau	30,450	57,364	57,364	30,450	57,364	57,364
Investment – Associated Newspapers Ceylon Ltd.	20,000	127	127	20,000	127	127
Investment – Regional Development Bank (RDB)	16,452,126	164,521	802,206	16,452,126	164,521	344,656
(Less): Impairment		–	–		–	–
		222,012	859,697		222,012	402,147

	2015 – Group			2014 – Group		
	No. of shares	Cost	Cost/Fair value	No. of shares	Cost	Cost/Fair value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000
Investment – Credit Information Bureau	30,450	57,364	57,364	30,450	57,364	57,364
Investment – Associated Newspapers Ceylon Ltd.	20,000	127	127	20,000	127	127
Investment – Regional Development Bank (RDB)	16,452,126	164,521	802,206	16,452,126	164,521	344,656
Investment – Sri Lankan Financial Services Bureau	100,000	1,000	1,000	100,000	1,000	1,000
(Less): Impairment		–	–		–	–
		223,012	860,697		223,012	403,147

## Notes to the Financial Statements

All unquoted available-for-sale equities (except RDB) are recorded at cost since its fair value cannot be reliably estimated. There is no active 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.

No financial investments available-for-sale were pledged as collateral.

## 25. Financial Investments – Held-to-Maturity →

### ► Accounting Policy

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 'Impairment charge for loans and other losses'.

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:

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<b>Sri Lanka Government Securities</b>				
Treasury Bills	65,977,455	46,587,182	65,977,455	46,587,182
Treasury Bonds	393,799,923	412,929,214	396,011,407	416,297,040
Sri Lanka Development Bond – USD	55,525,327	50,824,942	55,525,327	50,824,942
(Less): Impairment	-	-	-	-
<b>Net held-to-maturity investments</b>	<b>515,302,705</b>	<b>510,341,337</b>	<b>517,514,189</b>	<b>513,709,164</b>

The Bank has pledged Treasury Bills and Treasury Bonds held-to-maturity of Rs. 43,940 Million as collateral as at 31st December 2015 (2014 – Rs. 63,842 Million) and Rs. 51,656 Million for the Group (2014 – Rs. 69,708 Million).

## 26. Investments in Subsidiaries →

### Accounting Policy

Investments in subsidiary companies are accounted at cost less allowance for impairment in Financial Statements of the Bank. The net assets of subsidiary company are reviewed at each Reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of investment is estimated and the impairment loss is recognised to the extent of its loss in net assets.

As at 31st December	2015		2014		2015		2014	
	Holding	Holding	Cost	Directors' valuation	Cost	Directors' valuation	Cost	Directors' valuation
	%	%	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Unquoted Equity Share</b>								
NSB Fund Management Co. Ltd. (15,000,000 Ordinary Shares of Rs. 10/- each)	100	100	150,000	150,000	150,000	150,000	150,000	150,000
(Less): Impairment			-	-	-	-	-	-
<b>Net total</b>			<b>150,000</b>	<b>150,000</b>	<b>150,000</b>	<b>150,000</b>	<b>150,000</b>	<b>150,000</b>

## 27. Property, Plant & Equipment →

### Accounting Policy

#### Basis of Recognition

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.

#### Basis of Measurement

An item of property, plant & equipment that qualifies for recognition as an asset is initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs. The self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bring the asset to a working condition for its intended use and the cost of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of computer equipment.

When parts of an item of property, plant & equipment have different useful lives, they are accounted for as separate items (major components) of property, plant & equipment

#### Cost Model

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.

## 27. Property, Plant & Equipment (Cont.) →

### Revaluation Model

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 or more frequently, if the fair values are substantially different from their carrying amounts 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.

### Derecognition

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.

### Capital Work in Progress

These are expenses of capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost less any accumulated impairment losses. Capital work in progress is transferred to the relevant asset when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management.

### Depreciation

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 provides for depreciation of an assets commence from the date when they are available for use to the date of disposal of the asset.

**27. Property, Plant & Equipment (Cont.)** →**27. (a) Property, Plant & Equipment – Bank – 2015** →

	Land and buildings	Leasehold properties	Computer hardware	Office equipment, furniture and fittings	Others	Building work in progress	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost/Valuation</b>							
Opening balance as at 1st January 2015	4,350,222	475,549	1,700,164	1,361,893	263,383	44,991	8,196,202
Adjustments	-	-	(1,994)	-	-	-	(1,994)
Additions	-	-	192,000	168,609	28,979	90,806	480,394
Revaluation	1,231,119	-	-	-	-	-	1,231,119
Depreciation adjustment for revalued assets	(85,960)	-	-	-	-	-	(85,960)
Disposals	-	-	(12,190)	(17,715)	(1,536)	-	(31,441)
Transfers	2,911	(1,489)	-	-	-	(1,422)	-
Closing balance as at 31st December 2015	5,498,292	474,060	1,877,980	1,512,787	290,826	134,375	9,788,320
<b>(Less): Accumulated depreciation</b>							
Opening balance as at 1st January 2015	42,433	51,932	1,574,137	824,156	173,800	-	2,666,458
Adjustments	-	(447)	(330)	-	-	-	(777)
Charge for the year	43,527	7,198	78,086	108,461	35,426	-	272,698
Depreciation adjustment for revalued assets	(85,960)	-	-	-	-	-	(85,960)
Disposals	-	-	(12,189)	(17,444)	(1,536)	-	(31,169)
Closing balance as at 31st December 2015	-	58,683	1,639,704	915,173	207,690	-	2,821,250
(Less): Impairment	-	-	-	-	-	-	-
<b>Net book value as at 31st December 2015</b>	<b>5,498,292</b>	<b>415,377</b>	<b>238,276</b>	<b>597,614</b>	<b>83,136</b>	<b>134,375</b>	<b>6,967,070</b>

**27. Property, Plant & Equipment (Cont.)** →**27. (a) Property, Plant & Equipment – Bank – 2014** →

	Land and buildings	Leasehold properties	Computer hardware	Office equipment, furniture and fittings	Others	Building work in progress	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost/Valuation</b>							
Opening balance as at 1st January 2014	4,284,992	475,549	1,639,899	1,311,733	239,037	88,534	8,039,744
Adjustments	-	-	-	(37)	-	-	(37)
Additions	-	-	64,809	53,457	41,444	21,687	181,397
Revaluation	-	-	-	-	-	-	-
Disposals	-	-	(4,544)	(3,260)	(17,098)	-	(24,902)
Transfers	65,230	-	-	-	-	(65,230)	-
Closing balance as at 31st December 2014	4,350,222	475,549	1,700,164	1,361,893	263,383	44,991	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
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>4,307,789</b>	<b>423,617</b>	<b>126,027</b>	<b>537,737</b>	<b>89,583</b>	<b>44,991</b>	<b>5,529,743</b>

**27. Property, Plant & Equipment (Cont.)** →**27. (b) Property, Plant & Equipment – Group – 2015** →

	Land and buildings	Leasehold properties	Computer hardware	Office equipment, furniture and fittings	Others	Building work in progress	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost/Valuation</b>							
Opening balance as at 1st January 2015	4,350,222	475,549	1,703,819	1,363,283	263,382	44,991	8,201,246
Adjustments	-	-	(1,994)	-	-	-	(1,994)
Additions	-	-	193,673	168,609	28,979	90,806	482,067
Revaluation	1,231,119	-	-	-	-	-	1,231,119
Depreciation adjustment for revalued assets	(85,960)	-	-	-	-	-	(85,960)
Disposals	-	-	(12,190)	(17,715)	(1,536)	-	(31,441)
Transfers	2,911	(1,489)	-	-	-	(1,422)	-
Closing balance as at 31st December 2015	5,498,292	474,060	1,883,308	1,514,177	290,825	134,375	9,795,038
<b>(Less): Accumulated depreciation</b>							
Opening balance as at 1st January 2015	42,433	51,932	1,577,447	825,012	173,800	-	2,670,624
Adjustments	-	(447)	(330)	-	-	-	(777)
Charge for the year	43,527	7,198	78,310	108,567	35,426	-	273,028
Depreciation adjustment for revalued assets	(85,960)	-	-	-	-	-	(85,960)
Disposals	-	-	(12,189)	(17,444)	(1,536)	-	(31,169)
Closing balance as at 31st January 2015	-	58,683	1,643,238	916,135	207,690	-	2,825,746
(Less): Impairment	-	-	-	-	-	-	-
<b>Net book value as at 31st December 2015</b>	<b>5,498,292</b>	<b>415,377</b>	<b>240,070</b>	<b>598,042</b>	<b>83,135</b>	<b>134,375</b>	<b>6,969,292</b>

**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	Building work in progress	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost/Valuation</b>							
Opening balance as at 1st January 2014	4,284,992	475,549	1,643,415	1,313,127	239,037	88,534	8,044,654
Adjustments	-	-	-	(37)	-	-	(37)
Additions	-	-	65,173	53,466	41,443	21,687	181,769
Revaluation	-	-	-	-	-	-	-
Disposals	-	-	(4,769)	(3,273)	(17,098)	-	(25,140)
Transfers	65,230	-	-	-	-	(65,230)	-
Closing balance as at 31st December 2014	4,350,222	475,549	1,703,819	1,363,283	263,382	44,991	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
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>4,307,789</b>	<b>423,617</b>	<b>126,372</b>	<b>538,271</b>	<b>89,582</b>	<b>44,991</b>	<b>5,530,622</b>

**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. 1,231 Million had been credited to the Revaluation Reserve in 2015.

**27. Property, Plant & Equipment (Cont.)** →**27. (d) Land and Buildings of the Bank** →

Land and building balance include freehold land value of Rs. 3,422,049,000/-.

**27. (e) Property, Plant & Equipment Pledged as Security for Liabilities** →

There were no items of property, plant & equipment pledged as securities for liabilities.

**27. (f) 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	Group	
	2015 Rs. '000	2014 Rs. '000
Computer hardware	1,501,480	585,131
Office equipment, furniture and fittings	257,972	83,340
Intangible assets	399,678	89,235
Others	148,267	111,651

**28. Intangible Assets** →**Accounting Policy** .....

The Group's intangible assets consist of the value of purchased computer software.

**Basis of Recognition**

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.

**Basis of Measurement**

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.

## 28. Intangible Assets (Cont.) →

### Useful Economic Life and Amortisation

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.

### Derecognition

Intangible assets 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.

The Group does not possess intangible assets with indefinite useful economic life. The estimated economic life of the Group's computer software is four years (25% per annum).

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<b>Cost</b>				
Opening balance	474,351	448,223	476,321	450,193
Additions	30,059	26,128	30,059	26,128
Disposals	-	-	-	-
<b>Closing balance</b>	<b>504,410</b>	<b>474,351</b>	<b>506,380</b>	<b>476,321</b>
<b>(Less): Accumulated Amortisation</b>				
Opening balance	409,699	366,420	411,662	368,305
Charge for the year	36,854	43,279	36,861	43,357
Disposals	-	-	-	-
<b>Closing balance</b>	<b>446,553</b>	<b>409,699</b>	<b>448,523</b>	<b>411,662</b>
<b>Net book value</b>	<b>57,857</b>	<b>64,652</b>	<b>57,857</b>	<b>64,659</b>

**29. Deferred Tax Assets/Liabilities** →**Accounting Policy** .....

Detailed discussion on deferred tax is given in Note 13 on pages 197 and 198.

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<b>29. (a) Deferred Tax Assets</b> →				
Deferred tax assets	-	-	668	568
Income Statement	-	-	(440)	100
<b>Deferred tax assets</b>	-	-	228	668

**29. (b) Deferred Tax Liabilities** →

Deferred tax liabilities	269,754	143,450	269,754	143,450
Income Statement	234,669	126,304	234,669	126,304
Net deferred tax liabilities	504,423	269,754	504,423	269,754

**30. Other Assets** →

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
WHT receivable [Refer Note 4. (e)]	4,787,341	4,419,382	4,814,802	4,447,394
Receivables	2,043,055	1,793,930	2,042,593	1,793,941
Receivable from Treasury on interest (Senior citizen)	1,894,847	-	1,894,847	-
Deposits and prepayments	250,638	59,689	250,638	59,689
Advance payment to Treasury [Note (a)]	5,333,333	6,666,667	5,333,333	6,666,667
Sundry debtors	2,369	1,485	2,369	1,485
Other assets	2,008,598	1,822,611	2,008,598	1,822,511
<b>Total</b>	<b>16,320,181</b>	<b>14,763,764</b>	<b>16,347,180</b>	<b>14,791,687</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. Effective from 1st January 2016, Treasury has agreed to set-off the balance amount of Rs. 5,333 Million against the profit within a period of 10 years.

## Notes to the Financial Statements

**31. Due to Banks** →**Accounting Policy**

Due to banks represents overdrafts, call money borrowings and Repos by the subsidiary. Subsequent to initial recognition deposits are measured at their amortised cost using EIR method. Interest paid/payable on these dues are recognised in the Income Statement under Interest Expense.

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Securities sold under repurchase (Repo) agreements	-	-	35,103	604,719
Other facilities	75,093	90,150	75,093	90,150
<b>Total</b>	<b>75,093</b>	<b>90,150</b>	<b>110,196</b>	<b>694,869</b>

**32. Due to Other Customers** →**Accounting Policy**

Due to other customers include savings deposits and term deposits. Subsequent to initial recognition deposits are measured at their amortised cost using EIR method. Interest paid/payable on deposits are recognised in the Income Statement under Interest Expense.

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Amount due to other customers	595,775,709	554,060,312	595,775,709	554,060,312
<b>Total</b>	<b>595,775,709</b>	<b>554,060,312</b>	<b>595,775,709</b>	<b>554,060,312</b>

**32. Due to Other Customers (Cont.)** →**32. (a) Analysis by Product** →

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Savings deposits	163,381,708	141,598,577	163,381,708	141,598,577
Fixed deposits	432,394,001	412,461,735	432,394,001	412,461,735
<b>Total</b>	<b>595,775,709</b>	<b>554,060,312</b>	<b>595,775,709</b>	<b>554,060,312</b>

**32. (b) Analysis by Currency** →

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Sri Lankan Rupee	588,402,326	547,692,326	588,402,326	547,692,326
United States Dollar	4,253,868	3,607,111	4,253,868	3,607,111
Euro	1,294,986	1,213,323	1,294,986	1,213,323
Great Britain Pound	1,077,841	967,373	1,077,841	967,373
Australian Dollar	746,688	580,180	746,688	580,180
<b>Total</b>	<b>595,775,709</b>	<b>554,060,312</b>	<b>595,775,709</b>	<b>554,060,312</b>

### 33. Other Borrowings →

#### Accounting Policy

#### 33.1 Securities Sold under 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 'Securities sold under 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.

#### 33.2 Senior Notes Issued →

These represent the funds borrowed by the Bank for long-term funding requirement. It consists of borrowings 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.

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Securities sold under repurchase (Repo) agreements	60,127,470	56,828,947	66,805,376	61,735,055
Senior notes issued [Note 33. (a)]	146,898,055	134,273,177	146,898,055	134,273,177
<b>Total</b>	<b>207,025,525</b>	<b>191,102,124</b>	<b>213,703,431</b>	<b>196,008,232</b>

#### 33. (a) Senior Notes Issued →

Senior notes issued	Interest payable Frequency	Issued date	Maturity date	Coupon rate %	2015 Rs. '000	2014 Rs. '000
750 Million US Dollar senior note	Semi Annually	18.09.2013	18.09.2018	8.875	110,434,196	100,935,186
250 Million US Dollar senior note	Semi Annually	10.09.2014	10.09.2019	5.150	36,463,859	33,337,991
					<b>146,898,055</b>	<b>134,273,177</b>

**34. Other Liabilities** →**Accounting Policy** .....

Other liabilities include provisions made in account of interests, fees and expenses, pensions, leave encashment and other expenses. These liabilities are recorded at amounts expected to be payable at Reporting date.

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Sundry creditors	89,467	63,250	89,467	63,250
Interest payable	88,058	98,574	88,058	98,574
Provision for pension scheme I [Note 34. (a) 1]	4,258,336	4,258,336	4,258,336	4,258,336
Provision for pension scheme II [Note 34. (a) 1]	984,906	-	984,906	-
Provision for medical assistance scheme [Note 34. (a) 2]	549,827	549,827	549,827	549,827
Provision for gratuity [Note 34. (a) 3]	-	292,667	1,471	295,019
Unamortised day one difference currency Swaps (Refer Note 19.2.)	3,189,262	2,304,449	3,189,262	2,304,449
Other payables	3,114,578	3,116,642	3,124,969	3,130,313
<b>Total</b>	<b>12,274,434</b>	<b>10,683,745</b>	<b>12,286,296</b>	<b>10,699,769</b>

**34. (a) Defined Benefit Plans** →

The Bank has two separate pension schemes established, Pension Scheme I for permanent employees joined before 1st October 1995 and Pension Scheme II for permanent employees joined on or after 1st October 1995 and a Medical Assistance Scheme for retired employees.

The assets of these schemes 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 respective funds.

All the funds are subject to annual audits independent to the audit of the Bank, by a firm/s of Chartered Accountants appointed by the members and actuarial valuations are carried out at least once in every two years, as per the rules governing these funds.

**34. Other Liabilities (Cont.)** →**34. (a) Defined Benefit Plans (Cont.)****34. (a) 1. National Savings Bank Employees' Pension Scheme***Pension Scheme I*

The latest 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.

An estimation (amount need to be expensed in profit & loss) has been made for the year 2015, based on the actuarial valuation carried out on 31st December 2014.

*Pension Scheme II*

An actuarial valuation was carried out by Mr. Piyal S. Goonetilleke, Fellow of Society of Actuaries (USA) of Piyal S. Goonetilleke & Associates, on 31st December 2015.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31st December 2015.

	Pension Scheme II		Pension Scheme I	
	2015		2014	
	Bank Rs. '000	Group Rs. '000	Bank Rs. '000	Group Rs. '000
<b>(a) Net Asset/(Liability) Recognised in Statement of Financial Position</b>				
Fair value of plan assets	218,065	218,065	11,918,372	11,918,372
Defined benefit obligation	(1,220,714)	(1,220,714)	(16,176,708)	(16,176,708)
Advanced payment made to pension fund II	17,743	17,743	-	-
<b>Total</b>	<b>(984,906)</b>	<b>(984,906)</b>	<b>(4,258,336)</b>	<b>(4,258,336)</b>
<b>(b) Amount Recognised in Income Statement</b>				
Current service cost	100,237	100,447	202,014	202,595
Interest cost on benefit obligation	85,719	85,719	440,773	440,773
Adjustments	-	-	(868)	(868)
<b>Net benefit expense</b>	<b>185,956</b>	<b>186,166</b>	<b>641,919</b>	<b>642,500</b>

**34. Other Liabilities (Cont.)** →**34. (a) Defined Benefit Plans (Cont.)** →**34. (a) 1. National Savings Bank Employees' Pension Scheme (Cont.)**

	Pension Scheme II		Pension Scheme I	
	2015		2014	
	Bank Rs. '000	Group Rs. '000	Bank Rs. '000	Group Rs. '000
<b>(c) Amount Recognised in Other Comprehensive Income (OCI)</b>				
Provision adjustment	879,166	879,166	1,674,629	1,674,629
Experience (gain)/loss	20,880	20,880	(417,168)	(417,168)
(Gain)/loss due to changes in assumptions	135,894	135,894	912,963	912,963
Actuarial gain/(loss) on plan assets	(7,097)	(7,097)	80,762	80,762
Difference in interest income on plan assets	-	-	108,531	108,531
<b>Total</b>	<b>1,028,843</b>	<b>1,028,843</b>	<b>2,359,718</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	11,477,736
Expected return on plan assets	-	-	1,031,049	1,031,049
Actual employer contribution	212,359	212,359	643,368	643,368
Benefits paid	(1,391)	(1,391)	(1,153,019)	(1,153,019)
Actuarial gain/(loss) on plan assets	7,097	7,097	(80,762)	(80,762)
<b>Closing fair value of plan assets</b>	<b>218,065</b>	<b>218,065</b>	<b>11,918,372</b>	<b>11,918,372</b>
<b>(e) Changes in Present Value of Defined Benefit Obligation are as follows:</b>				
Opening defined benefit obligation	879,166	879,166	15,050,984	15,050,984
Interest cost	85,719	85,719	1,580,353	1,580,353
Current service cost	100,447	100,447	202,595	202,595
Benefits paid	(1,392)	(1,392)	(1,153,019)	(1,153,019)
(Gain)/loss due to changes in assumptions	135,894	135,894	912,963	912,963
Actuarial (gain)/loss on obligation	20,880	20,880	(417,168)	(417,168)
<b>Closing defined benefit obligation</b>	<b>1,220,714</b>	<b>1,220,714</b>	<b>16,176,708</b>	<b>16,176,708</b>

**34. Other Liabilities (Cont.)** →**34. (a) Defined Benefit Plans (Cont.)** →**34. (a) 1. National Savings Bank Employees' Pension Scheme (Cont.)**

	Pension Scheme II		Pension Scheme I	
	2015		2014	
	Bank Rs. '000	Group Rs. '000	Bank Rs. '000	Group Rs. '000
<b>(f) Plan Assets Consists of followings:</b>				
Treasury Bonds	159,761	159,761	6,339,689	6,339,689
Treasury Bills	-	-	100,893	100,893
Fixed deposits	41,270	41,270	4,158,314	4,158,314
Securities purchased under resale agreements	17,034	17,034	802,016	802,016
Cash at Bank of Ceylon	-	-	8,971	8,971
Other assets	-	-	508,491	508,491
<b>Total</b>	<b>218,065</b>	<b>218,065</b>	<b>11,918,372</b>	<b>11,918,372</b>

	Bank and Group	
	Pension Scheme II	Pension Scheme I
	2015	2014
<b>(g) Actuarial Assumption</b>		
Future salary increment rate (%)	6.50	5.50
Discount rate (%)	9.85	9.75
Increase in future Cost of Living Allowance (COLA) (%)	4.50	4.50
Mortality	GA 1983 Mortality table	GA 1983 Mortality table
Retirement age	57 years	57 years
Normal form of payment	Monthly	Monthly

**Turnover rate**

Age	2015	2014
	%	%
20	2	2
25	1.5	1.5
30	1	1
35	1	1
40	1	1
45	1	1
50	1	1
55	-	-

**34. Other Liabilities (Cont.)** →**34. (a) Defined Benefit Plans (Cont.)** →**34. (a) 1. National Savings Bank Employees' Pension Scheme (Cont.)**

**(h) Increase/decrease in the following assumptions will have an impact on the Present Value of Defined Benefit Obligation as illustrated below:**

	Bank and Group			
	Pension Scheme II		Pension Scheme I	
	1% increase	1% decrease	1% increase	1% decrease
Future salary increment rate	1,406,723	1,064,681	16,215,521	16,139,777
Discount rate	1,012,490	1,490,174	14,980,418	17,561,380

**34. (a) 2. Medical Assistance Scheme for the Retired Employees of NSB**

The latest 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.

An estimation (amount need to be expensed in profit & loss) has been made for the year 2015, based on the actuarial valuation carried out on 31st December 2014.

	Bank and 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
	(549,827)
<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>

**34. Other Liabilities (Cont.)** →**34. (a) Defined Benefit Plans (Cont.)** →**34. (a) 2. Medical Assistance Scheme for the Retired Employees of NSB (Cont.)**

	Bank and Group
	2014 Rs. '000
<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
	549,827
<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)
(Gain)/loss due to changes in assumptions	50,109
Actuarial (gain)/loss 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.)**

	Bank and Group
	2014 %
<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**

With the establishment of Pension Scheme II, employees who joined the Bank on or after 1st October 1995 are become members of the Pension Scheme II, thus are not entitle to the rights and privileges under Service Gratuity Scheme. Accordingly Bank has transferred the Provision for Gratuity to Pension Scheme II liability.

Where there are payment of termination gratuity, Bank recognise the expense on cash basis.

	2015		2014	
	Bank Rs. '000	Group Rs. '000	Bank Rs. '000	Group Rs. '000
<b>(a) Net Benefit Expense (recognised under personal expenses)</b>				
Current service cost	-	191	23,445	23,664
Interest cost on benefit obligation	-	120	21,471	21,682
<b>Net benefit expense</b>	-	311	44,916	45,346
<b>(b) Provision for Gratuity</b>				
Defined benefit obligation as at 1st January	-	2,352	158,698	160,901
Interest cost	-	120	21,471	21,682
Current service cost	-	191	23,445	23,664
Benefits paid	-	(939)	(1,791)	(1,976)
Actuarial (gain)/loss on obligation (recognised in OCI)	-	(378)	90,845	90,749
<b>Defined benefit obligation at 31st December</b>	-	1,346	292,667	295,019

**34. Other Liabilities (Cont.)** →**34. (a) Defined Benefit Plans (Cont.)** →**34. (a) 3. National Savings Bank Gratuity Plan (Cont.)**

	Bank and Group
	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	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<i>As at 31st December</i>				
<b>Authorised</b>				
One Billion Ordinary Share of Rs. 10/- each	<b>10,000,000</b>	10,000,000	<b>10,000,000</b>	10,000,000
<b>Issued and Fully Paid</b>				
320 Million Ordinary Shares of Rs. 10/- each	<b>3,200,000</b>	3,200,000	<b>3,200,000</b>	3,200,000
<b>Total</b>	<b>3,200,000</b>	3,200,000	<b>3,200,000</b>	3,200,000

**36. Statutory Reserve Fund** →

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.

## Notes to the Financial Statements

**36. Statutory Reserve Fund (Cont.)** →

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Opening balance	1,874,135	1,736,803	1,874,135	1,736,803
Transfer during the period – 2% of profit after tax	173,446	137,332	173,446	137,332
<b>Closing balance</b>	<b>2,047,581</b>	<b>1,874,135</b>	<b>2,047,581</b>	<b>1,874,135</b>

**37. Other Reserves** →**Bank – 2015** →

	Opening balance at 01.01.2015 Rs. '000	Movement/ transfers Rs. '000	Closing balance at 31.12.2015 Rs. '000
General reserve	14,716,287	4,122,740	18,839,027
Revaluation reserve	2,065,446	1,231,119	3,296,565
Available-for-sale reserve	1,199,419	432,443	1,631,862
Cash flow hedging reserve	(5,504)	144,610	139,106
Other reserves (Refer Notes 37.1 and 37.2)	210,440	3,059,246	3,269,686
<b>Total</b>	<b>18,186,088</b>	<b>8,990,158</b>	<b>27,176,246</b>

**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 Notes 37.1 and 37.2)	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.)** →**Group – 2015** →

	Opening balance at 01.01.2015 Rs. '000	Movement/ transfers Rs. '000	Closing balance at 31.12.2015 Rs. '000
General reserve	16,050,550	4,128,320	<b>20,178,870</b>
Revaluation reserve	2,065,446	1,231,119	<b>3,296,565</b>
Available-for-sale reserve	1,199,419	253,342	<b>1,452,761</b>
Cash flow hedging reserve	(5,504)	144,610	<b>139,106</b>
Other reserves (Refer Notes 37.1, 37.2 and 37.3)	640,967	3,102,826	<b>3,743,793</b>
<b>Total</b>	19,950,880	8,860,217	<b>28,811,095</b>

**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	3,055,424	16,050,550
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 Notes 37.1, 37.2 and 37.3)	3,861,326	(3,220,359)	640,967
<b>Total</b>	18,860,023	1,090,857	19,950,880

**37.1 Unclaimed Deposit Reserve** →

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Opening balance	<b>208,259</b>	218,865	<b>208,259</b>	218,865
Transferred during the year	<b>3,059,246</b>	(10,606)	<b>3,059,246</b>	(10,606)
<b>Closing balance</b>	<b>3,267,505</b>	208,259	<b>3,267,505</b>	208,259

In terms of the Section 47 of the National Savings Bank Act No. 30 of 1971 as amended by the Section 30 of the National Savings Bank (Amendment) Act No. 28 of 1995, where an amount lain dormant in a savings or deposit account for a period of ten years, it should be transferred to, Unclaimed Deposit Reserve. Accordingly, amount transferred (net) to the Reserve during the year 2015, was Rs. 3,059,246/-.

**37. Other Reserves (Cont.)** →**37.2 Special Reserve** →

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Opening balance	2,181	2,180	2,181	2,180
Transferred during the year	1	1	1	1
<b>Closing balance</b>	<b>2,182</b>	<b>2,181</b>	<b>2,182</b>	<b>2,181</b>

The special reserve represents the amount transferred from the dormant accounts of customers where the aggregate of the amount dormant is less than Rs. 10/- (Ten Rupees).

The whole or such part of the monies lying to the credit of 'Special Reserve' and 'Unclaimed Deposit Reserve' may be capitalised and shares to the value of money capitalised may be issued in the name of Secretary to the Treasury. The entirety of the issue and fully paid share capital of Rs. 3.2 Million reflected in the Statement of Financial Position was issued by capitalising the Unclaimed Deposit Reserve from time to time.

**37.3 Special Risk Reserve – (NSB Fund Management Company Ltd.)** →

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Opening balance	-	-	430,527	380,035
Transferred during the year – 25% of profit after tax	-	-	43,580	50,492
<b>Closing balance</b>	<b>-</b>	<b>-</b>	<b>474,107</b>	<b>430,527</b>

## Notes to the Financial Statements

In order to promote the safety, soundness and the stability of the Primary Dealer (PD) system and to build up PD capital base, Primary Dealers (PDs) are required to annually transfer a percentage of their profit after tax to a Special Risk Reserve as follows, with effect from 1st July 2004.

- 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.

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<b>Total Other Reserves</b>	<b>3,269,686</b>	210,440	<b>3,743,793</b>	640,967

### **38. Contingent Liabilities and Commitments** →

#### ► Accounting Policy

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future event or present obligation where the transfer of economic benefit is not probable or cannot be reliably measured.

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recoveries to its customers. These consist of financial guarantees, undrawn loan commitments and other contingent liabilities.

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<b>Guarantees</b>	<b>1,404,851</b>	355,250	<b>1,404,851</b>	355,250
<b>Other contingent items</b>	<b>20,150</b>	49,700	<b>20,150</b>	49,700
<b>Undrawn loan commitments</b>	<b>33,505,088</b>	59,039,688	<b>33,505,088</b>	59,039,688
<b>Total</b>	<b>34,930,089</b>	59,444,638	<b>34,930,089</b>	59,444,638

No material losses are anticipated as a result of these transactions.

**39. Related Party Disclosures** →**39. (a) Transactions with State and State Controlled Entities** →**Accounting Policy** .....

The financial dealings carried out with the Government of Sri Lanka and state controlled entities for the year and as of the date of the Statement of Financial Position are disclosed below on a collective basis:

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<b>Assets</b>				
Loans to Government	2,075,000	4,122,500	2,075,000	4,122,500
Investments made on Government Securities	525,173,295	514,003,337	533,481,139	521,477,856
Investments on State and State-controlled entities	116,600,696	95,943,765	116,600,696	95,943,765
Securities purchased under resale agreements	1,278,968	498,705	1,301,865	500,791
Tax receivable (Notional tax)	4,787,341	4,276,544	4,814,802	4,276,544
Postmaster-General's current account	428,721	98,547	428,721	98,547
Advance payment to Government	5,333,333	6,666,667	5,333,333	6,666,667
Other receivable from Government	1,898,009	17,930	1,898,009	17,930
	<b>657,575,363</b>	<b>625,627,995</b>	<b>665,933,565</b>	<b>633,104,600</b>
<b>Liabilities</b>				
Securities sold under repurchase agreements	60,127,470	56,828,947	66,805,376	61,735,055
<b>Taxes Paid</b>				
Income tax	4,361,355	3,605,541	4,439,799	3,710,276
Value Added Tax	2,062,246	1,744,872	2,092,524	1,784,099
Nation Building Tax	374,954	290,812	380,456	298,134
Contribution to Consolidated Fund/Dividend	2,800,000	4,000,000	2,801,600	4,001,661
Super Gain Tax	1,040,362	-	1,149,899	-
	<b>10,638,917</b>	<b>9,641,225</b>	<b>10,864,278</b>	<b>9,794,170</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, Treasury Bonds and Repos 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 Company Ltd., on which a service charge of Rs. 41.3 Million has been made (Rs. 34.5 Million in 2014).

The Bank holds following balances with NSB Fund Management Company Ltd., as at the Reporting date.

<i>As at 31st December</i>	<b>2015</b>	<b>2014</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>
<b>Assets</b>		
Inter company current account	88	100
Other assets	388	324
<b>Liabilities</b>		
Repo borrowings	214,037	-

**39. (c) Transactions with Post-Employment Benefit Plans of the Bank** →

Transactions which were taken place between the Bank and Post-Employment Benefit Plans of the Bank as at the year end are summarised below:

<i>As at 31st December</i>	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<b>National Savings Bank Employees' Pension Scheme I</b>				
Fixed deposits	3,114,553	4,597,588	3,114,553	4,597,588
Securities purchased under resale agreements	670,791	217,174	670,791	217,174
<b>National Savings Bank Employees' Pension Scheme II</b>				
Fixed deposits	41,400	-	41,400	-
Securities purchased under resale agreements	17,300	-	17,300	-

**39. Related Party Disclosures (Cont.) →****39. (c) Transactions with Post-Employment Benefit Plans of the Bank (Cont.) →**

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<b>Medical Assistance Scheme for the Retired Employees of NSB</b>				
Fixed deposits	102,596	256,741	102,596	256,741
Securities purchased under resale agreements	152,331	-	152,331	-
<b>National Savings Bank Employees' Provident Fund</b>				
Fixed deposits	1,177,799	2,191,427	1,177,799	2,191,427
Securities purchased under resale agreements	951,358	159,478	951,358	159,478
<b>Widows'/Widowers' and Orphans' Pension Fund</b>				
Fixed deposits	6,500	-	6,500	-
Securities purchased under resale agreements	6,700	-	6,700	-
	<b>6,241,328</b>	<b>7,422,408</b>	<b>6,241,328</b>	<b>7,422,408</b>

**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 Ltd.
- (ii) Loans and advances in the names of key managerial persons are given below:

As at 31st December	Bank and Group	
	2015 Rs. '000	2014 Rs. '000
Loans and advances	27,964	15,702

- (iii) Chairman's, Directors', GM/CEO's and DGM's emoluments and fees amounted to Rs. 44.51 Million in 2015 (Rs. 27.27 Million in 2014).

**39. Related Party Disclosures (Cont.)** →**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.)

As at 31st December	Bank and Group	
	2015 Rs. '000	2014 Rs. '000
<b>Key Managerial Persons</b>		
Loan and advances	27,964	15,702
Total net accommodation	27,964	15,702
Regulatory Capital	19,469,456	21,527,650
Net accommodation as a percentage of the Bank's Regulatory Capital (%)	0.1	0.1

**40. Net Assets Value per Ordinary Share** →

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Amount used as the numerator				
Shareholders' funds	32,423,827	23,260,223	34,058,676	25,025,015
Number of ordinary share used as the denominator				
Total number of shares	320,000	320,000	320,000	320,000
Net assets value per ordinary share (Rs.)	101.32	72.69	106.43	78.20

## Notes to the Financial Statements

**41. Non-Cash Items Included in Profit Before Tax** →

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<i>For the year ended 31st December</i>				
Depreciation of property, plant & equipment	265,169	253,024	265,499	253,205
Amortisation of leasehold property	6,752	7,228	6,752	7,228
Amortisation of intangible assets	36,854	43,279	36,861	43,357
Impairment losses on loans and receivables	2,139,553	3,475,695	2,139,553	3,475,695
Profit on disposal of property, plant & equipment	(642)	(9,631)	(642)	(9,631)
Accretion of discounts and amortisation of premiums of investment securities	403,484	(422,394)	403,484	(422,394)
Others	(27,838)	(1,349,348)	(27,838)	(1,349,348)
<b>Total</b>	<b>2,823,332</b>	<b>1,997,853</b>	<b>2,823,669</b>	<b>1,998,113</b>

**42. Change in Operating Assets** →

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<i>For the year ended 31st December</i>				
Change in derivative financial instruments	(710,743)	2,278,504	(710,743)	2,278,504
Net increase in debt securities, Treasury Bills & Bonds and equity shares held at fair value through profit or loss	(11,561,986)	(71,055,084)	(10,544,066)	(70,748,235)
Net increase in loans and receivables to banks	(17,183,721)	1,016,407	(17,201,723)	1,315,867
Net increase in loans and receivables to customers	(34,010,243)	(60,768,021)	(34,013,052)	(60,768,007)
Change in other assets	(1,470,546)	157,082	(1,469,622)	143,411
<b>Total</b>	<b>(64,937,239)</b>	<b>(128,371,112)</b>	<b>(63,939,206)</b>	<b>(127,778,460)</b>

## Notes to the Financial Statements

**43. Change in Operating Liabilities** →

	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<i>For the year ended 31st December</i>				
Change in deposits from banks, customers and debt securities issued	41,715,397	52,170,624	41,145,781	48,783,810
Change in other liabilities	1,795,921	(1,327,814)	1,792,134	(1,328,866)
<b>Total</b>	<b>43,511,318</b>	<b>50,842,810</b>	<b>42,937,915</b>	<b>47,454,944</b>

**44. Litigation Against the Bank and the Group** →

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>	2015	2014
<b>Tribunal/Court</b>		
Labour Tribunal	9	8
District Court	26	28
Commercial High Court	8	8
Supreme Court	1	1
Court of Appeal	4	–
Magistrate's Court	6	9

**45. Events Occurring after the Reporting Date** →**Accounting Policy**

Events Occurring after the Reporting date are those events, both favourable and unfavourable, that occur between the Reporting date and the date when the Financial Statements are authorised for issue.

Where necessary, all material events after the Reporting date have been considered and appropriate adjustments/disclosures have been made in the Financial Statements as per the LKAS 10 – 'Events after the Reporting Period'.

No circumstances have arisen since the Reporting date which would require adjustments to or disclosure in the Financial Statements, other than the adjustments/disclosures given on page 253.

#### **45. Event Occurring after the Reporting Date (Cont.)** →

##### **Management of Entrust Securities PLC**

As per the direction issued by the Central Bank of Sri Lanka on 5th January 2016, the management of Entrust Securities PLC was vested with National Savings Bank with effect from 5th January 2016. Accordingly, Entrust Securities PLC becomes a related party to the Bank from 5th January 2016.

##### **Transactions**

The Bank's Other borrowings includes repo borrowings amounting to Rs. 2 Billion from Entrust Securities PLC, which was borrowed in year 2014, before becoming a related party.

##### **Merger with Sri Lanka Savings Bank**

In 2016 Budget proposals, Hon. Minister of Finance has proposed that National Savings Bank to be merged with Sri Lanka Savings Bank and Bank is in the process of evaluating the proposal as at the Reporting date.

#### **46. Comparative Figures** →

The comparative information is reclassified wherever necessary to comply with the current year's classification in order to provide a better presentation.

#### **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, capital 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 capital 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:

BIRMC	Board Integrated Risk Management Committee
BAC	Board Audit Committee
ERMC	Executive Risk Management Committee
ALCO	Asset and Liability Management Committee
RMD	Risk Management Division
CRMU	Credit Risk Management Unit
MRMU	Market Risk Management Unit
MO	Middle Office
ORMU	Operational Risk Management Unit

## ***47. Financial Risk Management (Cont.)*** →

### ***47.2 Broad Risk Categories in Focus*** →

Following broad risk categories arising from financial instruments are in focus:

- a. Credit risk
- b. Liquidity risk
- c. Market risk
  - (i) Foreign Exchange risk
  - (ii) Equity risk
  - (iii) Interest Rate risk
- d. Operational 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.

#### ***i. Credit Risk Exposures of the Bank***

The total credit exposure which is 32.1% of the Bank's total assets is the second major line of business (The investment in risk free securities is 62.02% 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.

#### ***ii. Management of the Credit Portfolio***

##### ***Collateral and Other Credit Enhancement***

The amount and type of collateral required depends as an assessment of the credit risk of the counterparty. Guidelines are in place covering the accessibility and valuation of each type of collateral.

The main type of collateral obtained are as follows:

- a. for commercial lending – mortgages over immovable and movable fixed assets, inventory, corporate and personal guarantees
- b. for retail lending – mortgage over residential property, gold stocks, personal guarantees.

##### ***Net Exposure to Credit Risk***

The following tables show the maximum exposure and net exposure (fair value of any collateral held, value of risk free investments and Government guarantees were deducted in arriving the net exposure) to credit risk by class of financial assets.

**47. Financial Risk Management (Cont.)** →**47.2 Broad Risk Categories in Focus (Cont.)** →**Net Exposure to Credit Risk (Cont.)**

As at 31st December	2015		2014	
	Maximum exposure to credit risk Rs. '000	Net exposure Rs. '000	Maximum exposure to credit risk Rs. '000	Net exposure Rs. '000
<b>Bank</b>				
Cash and cash equivalents	3,240,253	2,640,068	1,926,594	1,356,317
Balances with Central Banks	-	-	-	-
Placements with banks	12,626,509	12,626,509	9,645,621	9,645,621
Derivative financial instruments	3,735,284	3,735,284	2,879,931	2,879,931
Other financial assets – held-for-trading	13,542,721	3,672,131	7,431,458	3,769,458
Financial assets designated at fair value through profit or loss	-	-	-	-
Loans to and receivables from banks	23,717,823	22,438,855	6,534,102	6,035,397
Loans to and receivables from other customers	248,032,842	55,995,525	216,162,152	29,263,871
Financial assets – available-for-sale	4,385,767	4,385,767	4,036,955	4,036,955
Financial assets – held-to-maturity	515,302,705	-	510,341,337	-
<b>Total</b>	<b>824,583,904</b>	<b>105,494,139</b>	<b>758,958,150</b>	<b>56,987,550</b>

As at 31st December	2015		2014	
	Maximum exposure to credit risk Rs. '000	Net exposure Rs. '000	Maximum exposure to credit risk Rs. '000	Net exposure Rs. '000
<b>Group</b>				
Cash and cash equivalents	3,247,469	2,647,274	1,930,527	1,360,250
Balances with central banks	729	729	167	167
Placements with banks	12,626,509	12,626,509	9,645,621	9,645,621
Derivative financial instruments	3,735,284	3,735,284	2,879,931	2,879,931
Other financial assets – held-for-trading	17,804,872	3,672,131	11,555,186	3,786,493
Financial assets designated at fair value through profit or loss	-	-	-	-
Loans to and receivables from banks	23,735,825	22,438,855	6,534,102	6,035,397
Loans to and receivables from other customers	248,037,737	55,995,525	216,164,238	29,263,871
Financial assets – available-for-sale	6,407,037	4,572,828	4,037,955	4,037,955
Financial assets – held-to-maturity	517,514,189	-	513,709,164	-
<b>Total</b>	<b>833,109,651</b>	<b>105,689,135</b>	<b>766,456,891</b>	<b>57,009,685</b>

**47. Financial Risk Management (Cont.)** →**47.2 Broad Risk Categories in Focus (Cont.)** →*Concentration of Credit Risk by Product and Sector*

The Bank monitors the concentration of credit risk by product and sectors. An analysis of concentration risk of the Bank portfolio (Loan and receivable to other customers) is given below:

<i>As at 31st December</i>	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<b>Loans and receivables to other customers</b>				
<b>Concentration by sector</b>				
Agriculture and fishing	1,145,815	1,001,737	1,145,815	1,001,737
Tourism	98,828	145,375	98,828	145,375
Transport	971,097	913,895	971,097	913,895
Construction/Housing	61,277,060	56,776,500	61,277,060	56,776,500
Others				
Infrastructure	59,942,018	52,692,775	59,942,018	52,692,775
Leasing and finance	5,981,910	4,521,533	5,981,910	4,521,533
Government	2,075,000	4,122,500	2,075,000	4,122,500
Education	19,100,178	12,924,747	19,100,178	12,924,747
Power and energy	11,864,587	13,126,850	11,864,587	13,126,850
Pawning	29,869,149	38,184,641	29,869,149	38,184,641
Loan against deposit	19,330,552	19,802,230	19,330,552	19,802,230
Others/Personal	39,468,857	15,874,541	39,473,752	15,876,627
<b>Gross total</b>	<b>251,125,051</b>	<b>220,087,324</b>	<b>251,129,946</b>	<b>220,089,410</b>

**47. Financial Risk Management (Cont.)** →**47.2 Broad Risk Categories in Focus (Cont.)** →**Concentration of Credit Risk by Product and Sector (Cont.)**

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<b>Loans and receivables to other customers</b>				
<b>Concentration by product</b>				
Pawning	29,869,149	38,184,641	29,869,149	38,184,641
Staff loans	3,389,283	2,791,077	3,389,283	2,791,077
Term loans				
Short-term	1,145,000	1,000,000	1,145,000	1,000,000
Long-term	209,789,004	169,647,494	209,789,004	169,647,494
Securities purchased under resale agreements	-	-	4,895	2,086
Others				
Securitisation/Commercial papers	2,413,639	3,797,575	2,413,639	3,797,575
Sri Lanka Government Securities	2,075,000	4,122,500	2,075,000	4,122,500
Others	2,443,976	544,037	2,443,976	544,037
<b>Gross total</b>	<b>251,125,051</b>	<b>220,087,324</b>	<b>251,129,946</b>	<b>220,089,410</b>

**47. Financial Risk Management (Cont.)** →**47.2 Broad Risk Categories in Focus (Cont.)** →**Impairment Analysis**

The methodology of the impairment assessment has explained in the Note 2.3.6 to the Financial Statements. Analysis of impairment on loan and receivable to other customers is given below:

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Individually impaired				
Gross amount	-	-	-	-
Allowance for impaired	-	-	-	-
Carrying amount	-	-	-	-
Collectively impaired				
Gross amount	224,835,556	193,442,661	224,835,556	193,442,661
Allowance for impaired	(3,092,209)	(3,925,172)	(3,092,209)	(3,925,172)
Carrying amount	221,743,347	189,517,489	221,743,347	189,517,489
Past due but not individually impaired	26,328	39,707	26,328	39,707
Carrying amount	26,328	39,707	26,328	39,707
Neither past due nor impaired	26,263,167	26,604,956	26,268,062	26,607,042
Carrying amount	26,263,167	26,604,956	26,268,062	26,607,042
<b>Total carrying amount – amortised cost</b>	<b>248,032,842</b>	<b>216,162,152</b>	<b>248,037,737</b>	<b>216,164,238</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.

**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 81.1% which is well above the statutory requirement of 20%. The investment in Government Securities represent 96% from the total liquid assets of the Bank.

**47. Financial Risk Management (Cont.)** →**47.2 Broad Risk Categories in Focus (Cont.)** →**Concentration of Liquid Assets (Cont.)**

As at 31st December	Bank		Group	
	2015	2014	2015	2014
Liquidly assets ratio				
Year end	<b>81.1</b>	91.5	<b>81.1</b>	91.5
30th June	<b>84.8</b>	89.5	<b>84.8</b>	89.5
Year beginning	<b>91.5</b>	92.7	<b>91.5</b>	92.7
Gross loans and receivables to deposit	<b>46.1</b>	40.9	<b>46.1</b>	40.9
Net loans and receivables to total assets	<b>32.1</b>	28.6	<b>31.8</b>	28.6

**(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 lendings
- Foreign exchange deposits and placements
- Equity investments
- Derivatives
- Assets-liabilities mismatch

**(i) 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.

**(ii) 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 0.99% and 0.01% 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.

**47. Financial Risk Management (Cont.)** →**47.2 Broad Risk Categories in Focus (Cont.)** →**(iii) 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 70% of total On-Balance Sheet liabilities. Of this, 27% represent savings deposits where 73% 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.

**Bank's Interest Rate Sensitivity Report as at 31st December 2015 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>21,430,930</b>	<b>54,777,903</b>	<b>122,976,548</b>	<b>206,497,189</b>
Bank balances and placements	1,453,118	7,088,892	9,586,797	13,494,086
Other financial assets – held-for-trading	126,442	210,540	361,043	492,918
Loan and receivables to banks	1,340,425	4,528,503	5,230,800	6,743,873
Loan and receivables to other customers	5,851,927	11,435,093	21,825,612	52,187,542
Financial investment – held-to-maturity	12,659,018	31,514,875	85,972,296	133,578,770
<b>Interest-Bearing Liabilities</b>	<b>140,077,193</b>	<b>371,951,502</b>	<b>494,050,390</b>	<b>644,767,201</b>
Due to banks	75,093	75,093	75,093	75,093
Due to other customers	115,670,695	329,215,221	431,108,304	581,630,752
Other borrowings	24,331,405	42,661,188	62,866,993	63,061,356
Net Rate Sensitive Assets (Liabilities)	(118,646,263)	(317,173,599)	(371,073,842)	(438,270,012)
Interest Rate Sensitivity Ratio (%)	15	15	25	32

**47. Financial Risk Management (Cont.)** →**47.2 Broad Risk Categories in Focus (Cont.)** →

**Group's Interest Rate Sensitivity Report as at 31st December 2015 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>21,564,527</b>	<b>55,178,694</b>	<b>124,467,638</b>	<b>210,168,880</b>
Bank balances and placements	1,453,118	7,088,893	9,586,797	13,494,086
Other financial assets – held-for-trading	225,576	507,944	1,268,312	2,619,917
Loan and receivables to banks	1,346,426	4,546,505	5,248,802	6,761,875
Loan and receivables to other customers	5,853,282	11,439,157	21,829,953	52,192,437
Financial investment – held-to-maturity	12,659,018	31,514,875	86,452,454	135,019,245
Financial investments – available-for-sale	27,107	81,320	81,320	81,320
<b>Interest-Bearing Liabilities</b>	<b>141,092,213</b>	<b>374,996,562</b>	<b>498,318,046</b>	<b>651,480,046</b>
Due to banks	86,794	110,196	110,196	110,196
Due to other customers	115,670,695	329,215,221	431,108,304	581,630,752
Other borrowings	25,334,724	45,671,145	67,099,546	69,739,098
Net Rate Sensitive Assets (Liabilities)	(119,527,686)	(319,817,868)	(373,850,408)	(441,311,166)
Interest Rate Sensitivity Ratio (%)	15	15	25	32

**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
Net Rate Sensitive Assets (Liabilities)	(174,515,014)	(308,167,156)	(338,555,131)	(340,837,686)
Interest Rate Sensitivity Ratio (%)	12	22	27	42

**47. Financial Risk Management (Cont.)** →**47.2 Broad Risk Categories in Focus (Cont.)** →

**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>	24,014,898	85,327,771	122,035,859	252,956,482
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>	199,443,563	396,236,213	466,669,875	596,477,323
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
Net Rate Sensitive Assets (Liabilities)	(175,428,665)	(310,908,442)	(344,634,016)	(343,520,841)
Interest Rate Sensitivity Ratio (%)	12	22	26	42

**(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 is guided by the Board approved operational risk management policy of the Bank.

The operational risk of the Bank is managed through the ORMU of the Risk Management Division and reported to the ERMC, BIRMC and the Board.

## Notes to the Financial Statements

**48. Maturity Analysis** →

Bank	Up to 3 months	3 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Total as at 31.12.2015	Total as at 31.12.2014
	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	867,577	-	-	-	-	867,577	95,630
Placements with banks	6,221,315	6,405,194	-	-	-	12,626,509	9,645,621
Other financial assets – held-for-trading	210,540	282,378	4,886,800	2,433,382	2,057,490	9,870,590	3,661,999
Loans and receivables to banks	4,528,503	2,215,370	7,568,490	9,405,460	-	23,717,823	6,534,102
Loans and receivables to other customers	11,435,093	40,752,449	73,410,982	42,084,287	80,350,031	248,032,842	216,162,152
Financial investments – held-to-maturity	31,514,875	102,063,895	212,428,651	58,568,277	110,727,007	515,302,705	510,341,337
	54,777,903	151,719,286	298,294,923	112,491,406	193,134,528	810,418,046	746,440,841
<b>Other Asset (Non-Interest-Bearing Asset)</b>							
Cash and cash equivalents	2,372,676	-	-	-	-	2,372,676	1,830,964
Balances with central banks	-	-	-	-	-	-	-
Derivative financial instruments	315,588	954,593	2,278,928	186,175	-	3,735,284	2,879,931
Other financial assets – held-for-trading	918,033	2,754,098	-	-	-	3,672,131	3,769,459
Financial investments – available-for-sale	-	-	-	-	4,385,767	4,385,767	4,036,955
Investments in subsidiaries	-	-	-	-	150,000	150,000	150,000
Property, plant & equipment	-	-	-	-	6,967,070	6,967,070	5,529,743
Intangible assets	-	-	-	-	57,857	57,857	64,652
Deferred tax assets	-	-	-	-	-	-	-
Other assets	1,432,331	3,127,138	5,415,367	4,048,420	2,296,925	16,320,181	14,763,764
	5,038,628	6,835,829	7,694,295	4,234,595	13,857,619	37,660,965	33,025,468
<b>Total Asset</b>	59,816,531	158,555,115	305,989,218	116,726,001	206,992,147	848,079,011	779,466,309
<b>Liabilities with Contractual Maturity (Interest-Bearing Liability)</b>							
Due to banks	75,093	-	-	-	-	75,093	90,150
Due to other customers	329,215,221	252,415,531	9,379,643	4,765,314	-	595,775,709	554,060,312
Other borrowings	42,661,188	20,400,168	107,958,595	36,005,574	-	207,025,525	191,102,124
	371,951,502	272,815,699	117,338,238	40,770,888	-	802,876,327	745,252,586
<b>Other Liabilities (Non-Interest-Bearing Liability)</b>							
Current tax liabilities	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	504,423	504,423	269,754
Other liabilities	945,524	2,163,074	1,459,017	1,456,899	6,249,920	12,274,434	10,683,745
Stated capital/Assigned capital	-	-	-	-	3,200,000	3,200,000	3,200,000
Statutory reserve fund	-	-	-	-	2,047,581	2,047,581	1,874,135
Other reserves	-	-	-	-	27,176,246	27,176,246	18,186,088
	945,524	2,163,074	1,459,017	1,456,899	39,178,170	45,202,684	34,213,723
<b>Total Liabilities</b>	372,897,026	274,978,773	118,797,255	42,227,787	39,178,170	848,079,011	779,466,309

## Notes to the Financial Statements

**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 31.12.2015	Total as at 31.12.2014
	Rs. '000	Rs. '000	Rs. '000				
<b>Assets with Contractual Maturity (Interest-Bearing Asset)</b>							
Cash and cash equivalents	867,577	-	-	-	-	867,577	95,630
Placements with banks	6,221,316	6,405,193	-	-	-	12,626,509	9,645,621
Other financial assets – held-for-trading	507,944	2,111,973	6,382,969	2,979,930	2,149,925	14,132,741	7,785,727
Loans and receivables to banks	4,546,505	2,215,370	7,568,490	9,405,460	-	23,735,825	6,534,102
Loans and receivables to other customers	11,439,157	40,753,280	73,410,982	42,084,287	80,350,031	248,037,737	216,164,238
Financial investments – available-for-sale	81,320	-	243,181	724,597	971,172	2,020,270	-
Financial investments – held-to-maturity	31,514,875	103,504,370	213,199,660	58,568,277	110,727,007	517,514,189	513,709,164
	55,178,694	154,990,186	300,805,282	113,762,551	194,198,135	818,934,848	753,934,482
<b>Other Asset (Non-Interest-Bearing Asset)</b>							
Cash and cash equivalents	2,379,892	-	-	-	-	2,379,892	1,834,897
Balances with central banks	729	-	-	-	-	729	167
Derivative financial instruments	315,588	954,593	2,278,928	186,175	-	3,735,284	2,879,931
Other financial assets – held-for-trading	918,033	2,754,098	-	-	-	3,672,131	3,769,459
Financial investments – available-for-sale	-	-	-	-	4,386,767	4,386,767	4,037,955
Investments in subsidiaries	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	6,969,292	6,969,292	5,530,622
Intangible assets	-	-	-	-	57,857	57,857	64,659
Deferred tax assets	-	-	-	-	228	228	668
Other assets	1,432,345	3,154,123	5,415,367	4,048,420	2,296,925	16,347,180	14,791,687
	5,046,587	6,862,814	7,694,295	4,234,595	13,711,069	37,549,360	32,910,045
<b>Total Asset</b>	<b>60,225,281</b>	<b>161,853,000</b>	<b>308,499,577</b>	<b>117,997,146</b>	<b>207,909,204</b>	<b>856,484,208</b>	<b>786,844,527</b>
<b>Liabilities with Contractual Maturity (Interest-Bearing Liability)</b>							
Due to banks	110,196	-	-	-	-	110,196	694,869
Due to other customers	329,215,221	252,415,531	9,379,643	4,765,314	-	595,775,709	554,060,312
Other borrowings	45,671,145	24,067,953	107,958,759	36,005,574	-	213,703,431	196,008,232
	374,996,562	276,483,484	117,338,402	40,770,888	-	809,589,336	750,763,413
<b>Other Liabilities (Non-Interest-Bearing Liability)</b>							
Current tax liabilities	-	45,477	-	-	-	45,477	86,575
Deferred tax liabilities	-	-	-	-	504,423	504,423	269,754
Other liabilities	955,914	2,163,074	1,459,017	1,456,898	6,251,393	12,286,296	10,699,769
Stated capital/Assigned capital	-	-	-	-	3,200,000	3,200,000	3,200,000
Statutory reserve fund	-	-	-	-	2,047,581	2,047,581	1,874,135
Other reserves	-	-	-	-	28,811,095	28,811,095	19,950,880
	955,914	2,208,551	1,459,017	1,456,898	40,814,492	46,894,872	36,081,114
<b>Total Liabilities</b>	<b>375,952,476</b>	<b>278,692,035</b>	<b>118,797,419</b>	<b>42,227,786</b>	<b>40,814,492</b>	<b>856,484,208</b>	<b>786,844,527</b>

#### **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** →

As at 31st December	Minimum requirement	Bank		Group	
		2015	2014	2015	2014
<b>Capital to Risk-Weighted Assets Ratio</b>					
Tier I (%)		20.31	22.96	21.04	24.01
Deduction – Tier I (%)		(2.41)	(2.50)	(2.32)	(2.42)
Core capital ratio (%)	5	17.90	20.46	18.72	21.59
Tier II (%)		18.81	21.48	19.62	22.61
Deduction – Tier II (%)		(2.41)	(2.50)	(2.32)	(2.42)
<b>Total Capital Ratio (%)</b>	10	16.40	18.98	17.30	20.19

**49. Capital Adequacy and Management (As per Regulatory Reporting) (Cont.)** →**Details of Computation** →

## Capital Base

As at 31st December	Bank		Group	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 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	2,082,225	1,903,809	2,082,225	1,903,809
General and other reserves	25,759,434	20,941,142	27,459,267	22,282,734
	<b>31,041,659</b>	<b>26,044,951</b>	<b>32,741,492</b>	<b>27,386,543</b>
<b>Less: Deductions</b>				
50% investment in the capital of other banks and financial institutions/subsidiary	3,687,562	2,839,759	3,612,562	2,764,759
Total Tier I Capital	<b>27,354,097</b>	<b>23,205,192</b>	<b>29,128,930</b>	<b>24,621,784</b>
<b>Tier II: Supplementary Capital</b>				
General provisions and revaluation reserve	1,405,267	1,162,217	1,405,267	1,162,217
<b>Less: Deductions</b>				
50% investment in the capital of other banks and financial institutions/subsidiary	3,687,562	2,839,759	3,612,562	2,764,759
Eligible Tier II Capital	<b>(2,282,295)</b>	<b>(1,677,542)</b>	<b>(2,207,295)</b>	<b>(1,602,542)</b>
<b>Capital Base</b>	<b>25,071,802</b>	<b>21,527,650</b>	<b>26,921,635</b>	<b>23,019,242</b>

**Composition of Total Risk-Weighted Assets** →

Total risk-weighted assets and off-balance sheet exposure for credit risk	106,554,182	77,087,034	106,562,098	77,090,344
Total risk-weighted assets equivalent for market risk	14,895,300	12,397,030	17,086,500	12,710,870
Total risk-weighted assets equivalent for operational risk	31,405,130	23,930,514	31,956,120	24,235,794
<b>Total Risk-Weighted Assets</b>	<b>152,854,612</b>	<b>113,414,578</b>	<b>155,604,718</b>	<b>114,037,008</b>

## **50. Fair Value of Financial Instruments** →

### **50.1 Financial Instruments Recorded at Fair Value** →

#### **Accounting Policy** .....

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 Group'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.

#### **Financial Assets Available-for-Sale**

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 2015</i>	<b>Level 1</b> <b>Rs. '000</b>	<b>Level 2</b> <b>Rs. '000</b>	<b>Level 3</b> <b>Rs. '000</b>	<b>Total</b> <b>Rs. '000</b>
Derivative financial instruments				
Forward exchange purchases	7,830	-	-	7,830
Foreign currency swaps	-	-	3,727,454	3,727,454
Financial assets – held-for-trading				
Government Treasury Bills and Bonds	9,870,590	-	-	9,870,590
Equity securities	3,672,131	-	-	3,672,131
Available-for-sale				
Equity securities – Quoted	3,526,070	-	-	3,526,070
Equity securities – Unquoted	-	802,206	-	802,206
<b>Total financial assets</b>	<b>17,076,621</b>	<b>802,206</b>	<b>3,727,454</b>	<b>21,606,281</b>

<b>Bank</b> <i>As at 31st December 2014</i>	<b>Level 1</b> <b>Rs. '000</b>	<b>Level 2</b> <b>Rs. '000</b>	<b>Level 3</b> <b>Rs. '000</b>	<b>Total</b> <b>Rs. '000</b>
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>

**50. Fair Value of Financial Instruments (Cont.)** →**50.2 Determination of Fair Value and Fair Value Hierarchy (Cont.)** →

<b>Group</b> <i>As at 31st December 2015</i>	<b>Level 1</b> <b>Rs. '000</b>	<b>Level 2</b> <b>Rs. '000</b>	<b>Level 3</b> <b>Rs. '000</b>	<b>Total</b> <b>Rs. '000</b>
<b>Derivative financial instruments</b>				
Forward exchange purchases	7,830	-	-	7,830
Foreign currency swaps	-	-	3,727,454	3,727,454
<b>Financial assets – held-for-trading</b>				
Government Treasury Bills and Bonds	14,132,741	-	-	14,132,741
Equity Securities	3,672,131	-	-	3,672,131
<b>Available-for-sale</b>				
Equity Securities – Quoted	3,526,070	-	-	3,526,070
Debt Securities – Debenture	-	186,061	-	186,061
Other Investment – Government Securities	1,834,209	-	-	1,834,209
Equity Securities – Unquoted	-	802,206	-	802,206
<b>Total financial assets</b>	<b>23,172,981</b>	<b>988,267</b>	<b>3,727,454</b>	<b>27,888,702</b>

<b>Group</b> <i>As at 31st December 2014</i>	<b>Level 1</b> <b>Rs. '000</b>	<b>Level 2</b> <b>Rs. '000</b>	<b>Level 3</b> <b>Rs. '000</b>	<b>Total</b> <b>Rs. '000</b>
<b>Derivative Financial Instruments</b>				
Foreign currency swaps	-	-	2,879,931	2,879,931
<b>Financial assets – held-for-trading</b>				
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
<b>Available-for-sale</b>				
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>

**50. Fair Value of Financial Instruments (Cont.)** →**50.3 Fair Value of Financial Instruments – Bank** →

As at 31st December

	2015		2014	
	Carrying amount Rs. '000	Fair value Rs. '000	Carrying amount Rs. '000	Fair value Rs. '000
<b>Financial Assets</b>				
Cash and cash equivalents	3,240,253	3,240,253	1,926,594	1,926,594
Balances with central banks	-	-	-	-
Placement with banks	12,626,509	12,626,509	9,645,621	9,645,621
Derivative financial instruments	3,735,284	3,735,284	2,879,931	2,879,931
Other financial assets – held-for-trading	13,542,721	13,542,721	7,431,458	7,431,458
Loans and receivable to banks	23,717,823	23,270,188	6,534,102	6,534,102
Loans and receivable to other customers	248,032,842	246,721,529	216,162,152	216,941,792
Financial investments – available-for-sale	4,385,767	4,385,767	4,036,955	4,036,955
Financial investments – held-to-maturity	515,302,705	505,460,587	510,341,337	524,654,742
<b>Total financial assets</b>	<b>824,583,904</b>	<b>812,982,838</b>	<b>758,958,150</b>	<b>774,051,195</b>
<b>Financial Liabilities</b>				
Due to banks	75,093	75,093	90,150	90,150
Due to other customers	595,775,709	594,857,393	554,060,312	550,043,022
Other borrowings	207,025,525	207,025,525	191,102,124	191,102,124
<b>Total financial liabilities</b>	<b>802,876,327</b>	<b>801,958,011</b>	<b>745,252,586</b>	<b>741,235,297</b>

**50. Fair Value of Financial Instruments (Cont.)** →**50.3 Fair Value of Financial Instruments – Group** →

As at 31st December	2015		2014	
	Carrying amount Rs. '000	Fair value Rs. '000	Carrying amount Rs. '000	Fair value Rs. '000
<b>Financial Assets</b>				
Cash and cash equivalents	3,247,469	3,247,469	1,930,527	1,930,527
Balances with central banks	729	729	167	167
Placement with banks	12,626,509	12,626,509	9,645,621	9,645,621
Derivative financial instruments	3,735,284	3,735,284	2,879,931	2,879,931
Other financial assets – held-for-trading	17,804,872	17,804,872	11,555,186	11,555,186
Loans and receivable to banks	23,735,825	23,288,190	6,534,102	6,534,102
Loans and receivable to other customers	248,037,737	246,726,424	216,164,238	216,943,878
Financial investments – available-for-sale	6,407,037	6,407,037	4,037,955	4,037,955
Financial investments – held-to-maturity	517,514,189	507,632,032	513,709,164	528,042,145
<b>Total financial assets</b>	<b>833,109,651</b>	<b>821,468,546</b>	<b>766,456,891</b>	<b>781,569,512</b>
<b>Financial Liabilities</b>				
Due to banks	110,196	110,196	694,869	694,869
Due to other customers	595,775,709	594,857,393	554,060,312	550,043,022
Other borrowings	213,703,431	213,703,431	196,008,232	196,008,232
<b>Total financial liabilities</b>	<b>809,589,336</b>	<b>808,671,020</b>	<b>750,763,413</b>	<b>746,746,124</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 and receivables 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 receivable 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 tenure 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.

# *Annexes*

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## *About this Report*

### **Report Structure**

Before you is the Bank's second Integrated Annual Report. It follows a similar reporting format to our past report. The triple bottom line evaluator process that examines economic, social and environmental impacts on our business and by our business remains integral to the reporting process.

### **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)

### **The 2015 Story**

Our integrated report takes the form of a story. It explains how we are gearing up to meet the challenges that go with such an ambitious goal and our progress so far on this journey.

In fact, our roots have always been firmly entrenched in the ideal of a financially-savvy Sri Lanka – a nation that understands and implements a sound culture of saving for the future. This year we take that story to the next level. We look beyond savings and focus on the bigger picture of asset creation for all our stakeholders.

### **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 2014 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 280 and also reflects 'The 2015 Story,' as already described.

### **Compliance**

The Bank's Annual Report 2015 covers the 12-month period from 1st January to 31st December 2015, 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 26th March 2015, covered the 12-months period ended 31st December 2014. Comparative financial information, if reclassified or restated, has been disclosed and explained in the relevant sections.

*About this Report*

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 168.

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, No. 255, Galle Road, Colombo 3 (email: [nsbgen@nsb.lk](mailto:nsbgen@nsb.lk)).

## Stakeholders

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 and when required	Plans to launch new products and re-launch existing products.	
	Publications	As and 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	Weekly		
	Procurement Plan	Annually		

## Stakeholders

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	
<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		

## Stakeholders

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 and when required	Registration of suppliers	Signing agreements to supply goods and services
	Meetings with suppliers	As and when required	Procurement opportunities	Payments on contractual obligations
	Site inspections	As and when required	Delivery of contractual obligations	Short listing suppliers
	Product demonstrations	As and when required	After sales maintenance service arrangements	Awarding contracts
	Tender notices	As and when required	Warranty arrangements	Renewal of license
	Publication of information/ notices	As and when required	Product quality defects Price negotiations	
<b>Regulators and Government Institutions</b>	Directions and circulars	As and when issued	Performance of the Bank	Periodic returns
	Financial Statements	Quarterly/Annually	Regulations and directives for Licensed specialised 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 and 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 and when required	Banking license fee	
	Participation in competitions	As and when required	Labour regulations	
	Annual Report	Annually	Marketing and promotional Campaigns	
			Awards and accolades	
			Approval to open new branches	
		Relevant laws and regulations		

## Stakeholders

Stakeholder	Mode of engagement	Frequency of engagement	Topics discussed	Method of response
<b>Society and Environment</b>	Media campaigns	As and 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

## Materiality and Value Creation

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.

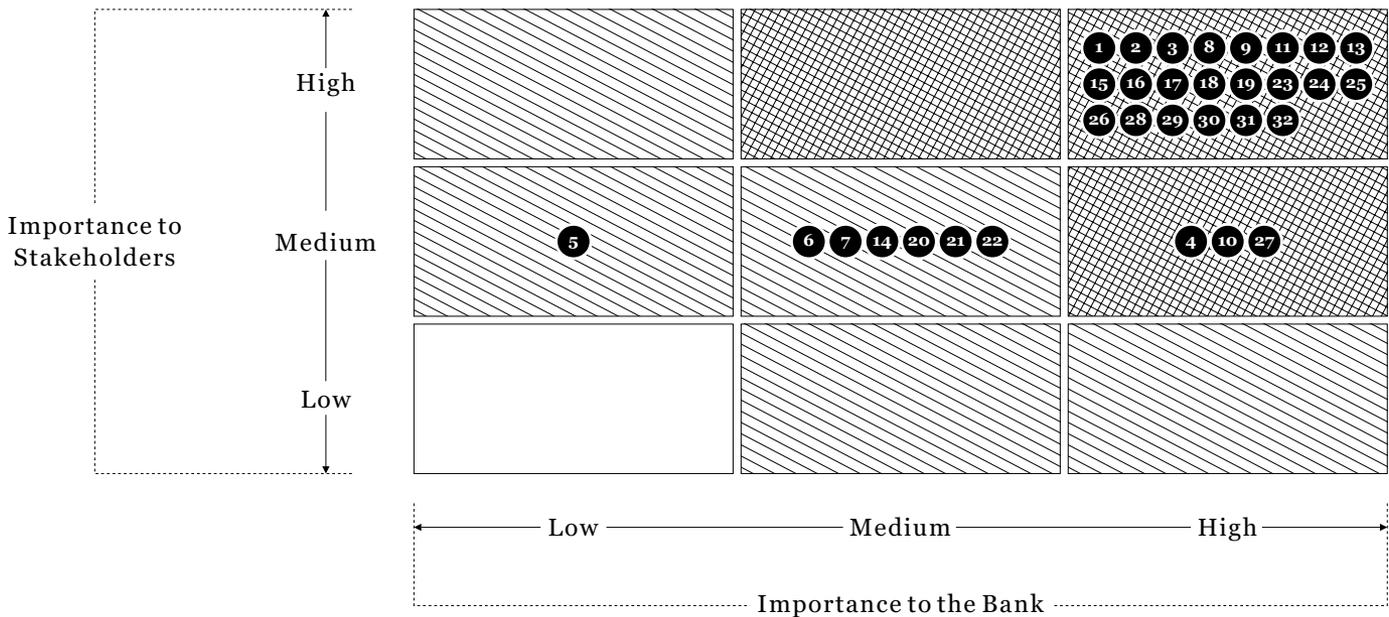
Aspects	Significance in terms of Bank's sustainability context	Internal	Customers	Communities	Suppliers	Regulators	To the Bank	To the stakeholders	Report
<b>Economic</b>									
1	Economic performance	H	⊗				H	H	Yes
2	Market presence	H	⊗				H	H	Yes
3	Indirect economic impact	H		⊗			H	H	Yes
<b>Environmental</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

*Materiality and Value Creation*

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

Materiality and Value Creation

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



## Management Approach

Amidst global & local economic uncertainties faced, nurturing a savings culture in Sri Lanka has been a passionate objective. It is this passionate objective that becomes ever so important for National Savings Bank (NSB and also referred here as ‘the Bank’) since it’s ingrained in its reason for existence.

Stemming from this objective, it is the Bank’s goal to fend Sri Lankans in weathering financial setbacks experienced as stumbling blocks in their lives. Such setbacks could be due to uncontrollable external factors such as a global recession or an internal factor such as a sudden long-term illness of a family member, which could also lead to individual or collective financial crisis scenarios. It is in such a context that NSB is motivated to perform best, its role of offering financial resilience to its fellow countrymen.

‘The Bank for all generations’ is the slogan that drives the Bank in its quest for a financially resilient Sri Lanka. NSB has been so far comfortable, resting on its laurels, by riding on public image of being the safest Savings Bank. However, 2015 witnessed an aggressive twist to this previous listless public image which saw the Bank redoubling its efforts and honing on its full scope of activities that extended beyond mere deposit collections. Keeping to the Bank’s slogan of being relevant to all generations, 2015 also saw the Bank fine tuning its products and services to remain relevant to all segments in the Bank’s customer base with value creation for them.

Economic, social and environmental implications of the Bank have always been NSB’s driving guidelines in the Bank’s business dealings with the public. In this context, being ‘the Bank for all generations’ implies meeting the needs of all Stakeholders and so implicates those who wish to be increasingly associated with a Bank that is economically, socially and environmentally responsible.

The management of NSB outlines the Bank’s approach towards its economic, social and environmental impacts and how they are managed. This begets the Bank to initially identify aspects that our material to NSB and its Stakeholders.

The discussion that follows on the Bank’s economic, social and environmental aspects considers the issues

- Why NSB considers these aspects to be material
- What NSB does to manage them
- How NSB evaluates its approach and results

These issues are further elaborated in the next section of the 2015 story which outlines

- What NSB are passionate about and why
- How NSB aims to foster a savings, culture in Sri Lanka
- What NSB have done so far in moving towards its vitally important goal

It was considered to be material to the Bank if any one of the following aspects met any of the mentioned criteria such as

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

### Material Economic Aspects

The Bank attaches due prominence to its economic performance since economic prosperity is a *sine qua non* for the Bank to be able to contribute to social and environmental prosperity besides the well-being of the nation. Both Financial and Non-Financial Goals have been accordingly set in the Corporate Business Plan and related budgets.

*Management Approach*

Recurrent organic growth was witnessed within the Bank by consistently expanding its market position in terms of reach. This growth also included enhancing its value proposition in terms of

- Products and services
- Benchmarked service standards
- Streamlined internal processes

NSB, being a National Bank, envisages its immense success today, mainly due to its island wide presence. The Bank prefers local hires wherever possible and practical, since such a drive improves NSB team's diversity besides providing fresh insights to local needs that may be also replicable elsewhere.

While effectively managing the Bank's reach besides its products and services portfolio, NSB pays due attention to the needs of the underserved communities in rural areas for conveniently accessible and affordable services it offers. As at the end of last year, the Bank's branch network consisted of 245 branches with the majority of this quantum located in rural areas, where fewer facilities were available to communities for savings and asset creation. This drive has prevented hapless communities from being ensnared by informal financial services. 24-hour accessibility to banking services is now available with internet banking and SMS banking.

A total of 271 ATMs in the Bank's island wide network includes 25 offsite ATMs as well. In parallel with the branch network expansion drive, hand held Point of Sale (POS) mobilisation too continued to grow. Hand held POS Banking provided banking solutions and gained immense success by encouraging the savings habit amongst schools, weekly/ weekday trade fairs, offices and factories.

It's an undeniable fact that the vast majority of Sri Lankans have learnt the basics of savings from NSB, enabling the Bank to get close to peoples' hearts. In its drive to broaden its previous scope of promoting domestic savings, the Bank now recognises the immense economic contribution made towards the Gross Domestic Production by Sri Lankan migrant workers. As such, to support the Sri Lankan expatriates,

the Bank is now focused on enhancing its capabilities in handling inward remittances besides NRFC and RFC deposit mobilisation. NSB is proud to play the role of a guardian to their remittances as a trusted and responsible state owned Bank. In order to facilitate these remittances, the Bank has established relationships with well-established and prominent exchange houses. Money-Gram International and the Eurogiro fraternity are amongst a total of 37 exchange companies the Bank deals with to facilitate this service.

With a prime focus towards infrastructure projects, NSB continued its quest in contributing towards strengthening the national framework by ensuring the availability of funds for development initiatives. Investments in Government Securities amounted to over 90% of the Bank's Investment Portfolio.

NSB's market presence impacts the local communities in many ways which includes

- Employment creation
- Support extended to those in the supply chain
- Development of skills and knowledge
- Assistance in attracting other investors

These are beyond the value created by the Bank and its significant contribution to the Government coffers by way of

- Income tax
- Indirect taxes
- Special fees to Treasury
- Contributions to the Consolidated Fund in the form of dividends

The financial services sector has immense bearing and influence by technological advancements. As such, the Bank has taken measures to keep abreast of such requirements. For those wishing or were capable of managing their banking transactions whilst on the move or from the convenience of their homes, NSB's Internet Banking & SMS Banking facilities added contemporary convenience. Accordingly, the Bank has created a one-stop-shop convenience by introducing utility bill payment facilities through its network. To facilitate these

functions, NSB is now connected with major utility suppliers, telecom providers and insurance companies. Online fund transfers to most Banks within the country are now possible through NSB's Internet Banking facility. In order to maximise customer convenience and satisfaction, NSB continued to conduct research on products and services offered by the Bank in order to redesign them.

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

Secretary-General of the United Nations – Ban Ki-moon is once quoted to have said “Climate change is destroying our path to sustainability”. He further stated “Ours is a world of looming challenges and increasingly limited resources. Sustainable development offers the best chance to adjust our course.” Mr. Ban Ki-moon couldn't have put it better.

NSB recognises the fact that the Bank too is a Stakeholder of planet earth where natural resources are fast depleting. This earth's course would eventually lead to the Bank together with earth's inhabitants someday perishing with planet earth. NSB is well aware of the dilemma faced so acts to strengthen the Bank's belief in joining all earth's inhabitants in acting fast to delay the onset of such an impending earth's destruction.

NSB, as a service-oriented organisation, has minimal use of physical input materials. As such, the Bank's operations do not have a material-direct impact on the environment in terms of

- Intensive resource utilisation
- Emission generation of hazardous waste

In its role as a responsible public entity, NSB strives to foster a culture of responsibility amongst its employees in encouraging them to take personal responsibility for effective and efficient use of materials and energy.

The majority of NSB's promotional materials consist of biodegradable substances. As such, non-biodegradable substances such as polythene are excluded. The Bank is mindful of the environmental impact created with usage

of paper and its wastage. As such, waste paper collections are handed over for recycling to the Paper Corporation. Keeping in vogue, the Bank invests in teleconferencing, telecommunicating besides conducts online staff training whenever possible. In addition, the Bank is focused on investing in more energy efficient office spaces. As such, the Bank is in the process of planning to switch to alternate energy sources, reducing waste, recycling and reusing materials.

NSB invests in creating and maintaining attractive ambience at its branch premises with a bias towards natural landscaping that even involves the addition of new plants. Special attention is focused on retaining natural environmental cycles by preservation of existing plants and trees, when constructing office buildings. NSB takes such eco-friendly values across the board even when granting home loans by obtaining legal clearances from local authorities for construction of houses.

### ***Material Social Aspects***

#### ***Labour Practices and Decent Work***

NSB focuses well beyond meeting minimum standards in its Human Resource (HR) protocols, in its adherence of labour laws applicable to its operations. These values hold true for related activities such as

- Recruitment
- Training and retention of best talent
- Creating work environments consistent with NSB's corporate values and business goals

*Management Approach*

The Bank's HR policy provides Bank employees with guidelines pertaining to

- NSB's culture
- NSB's work ethics
- Acceptable/unacceptable behaviour
- Norms and standard procedures of the Bank
- Ensuring operational efficiency and addressing NSB's HR Mission

In this manner, NSB's able to invite its employees to be Stakeholders to achieving the Bank's strategic objectives.

Achieving organisational excellence and sustainable competitive advantages are intentions of NSB's HR Vision, meant for cultivating a workforce focussed on individual and business needs.

Conversely, NSB's HR Mission supports NSB's business strategy. This is through a relentless focus on organisational excellence which involves sourcing and retention of the most suited staff who are placed at the most befitting locations to meet the needs of the Bank.

The general objectives of the Bank's HR approaches are –

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

NSB's staff recruitment process is focused on attempting to identify prospective candidates with the required attitude and professional skills which would in turn enable both parties to cultivate a long-term relationship with each other. All new recruits are considered members of the NSB team in helping the Bank to achieve its overall goals. NSB invests in training

and development of its staff with the objectives of promoting the Bank's business needs and long –term goals besides developing capacities in the Bank's employees. As a major Sri Lankan employer, NSB displays by example, the Bank's commitment of offering

- A workplace as an equal opportunity employer
- Employee self-improvement
- Meaningful careers to its employees

As a Government entity, NSB is responsible for complying with the ILO conventions, which have been ratified by Sri Lanka. As such, the Bank complies with International Labour Standards such as

- Avoidance of forced labour
- Providing for freedom of association and the right to organise
- Collective bargaining
- Equal remuneration
- Non-discrimination
- Adherence to minimum age limits and hours of work
- Maternity protection
- Employee compensation

among others, this enshrined such rights and privileges within its policies and procedures.

NSB encourages its staff to embrace the healthy 'work-life' balance so that staff could benefit by the correct balance between evolving social order exigencies and workplace priorities mixing up with personal lifestyle priorities – more so with the newer generation demanding greater flexibility with their 'connected lifestyles'. The Bank recognises this imminent lifestyle change in staff so is actively preparing itself in meeting the needs of the 'future employee'.

## Human Rights

As stated before, NSB is an equal opportunity employer when focusing on issues such as

- Recruitment
- Hiring
- Compensation
- Benefits
- Transfers
- Training and development
- Educational assistance
- Recreational programmes
- 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 bona fide occupational qualification, exists. As such, providing a prospective individual recruit concerned is suitably qualified for the role sought, any physical handicap or disability would not preclude the prospective recruit from being hired, promoted, compensated or trained at NSB. NSB is accommodative towards diverse religions and beliefs in the Bank's hiring and employment practices.

NSB envisages in fostering a work ambience free from any form of staff harassment by transforming the workplace to a learning environment to its staff. As such, NSB scorns on staff harassment occurrences in any form to be taboo within its premises, that involves either its staff or visitors, in whatever capacity. Parties involved in staff harassment are considered to be violating the Bank's behaviour norms so are subject to disciplinary action, irrespective of their social capacities.

Providing a safe and healthy workplace towards the Bank's employees is a firm commitment of NSB. As such, there is shared responsibility between the Management and all employees of the Bank to ensure high standards are retained in both safety and health procedural issues at their respective Branches/Divisions.

The freedom of association of NSB's staff is upheld by the Bank.

## Society

NSB, as a Bank for all generations, is proud to claim of touching the lives of all Sri Lankans in some way or the other. As such, NSB recognises community engagement as a business imperative and a cornerstone in sustainability of the Bank's operations. Through this focus, NSB attempts to make a difference in the lives of the communities it touches.

The Bank operates a country wide network of delivery channels comprising

- Branches
- ATMs
- Post Offices
- Sub-post Offices
- School Banking Units

that reaches both urban and rural parts of Sri Lanka.

NSB strives to achieve a corporate image of being perceived as a socially responsible corporate entity. The Bank does so by continuously engaging with local communities in order to strengthen the role of the Bank. To achieve this objective, NSB have in place a wide range of corporate socially responsible initiatives. NSB are mindful that the Bank's sustainability depends on the highest level of community buy-in and acceptance.

### Management Approach

Education takes a high ranking in the Bank's outline of social responsibilities. Bribery and Corruption in the Bank's operations is prevented by the establishment of a necessary and effective internal control mechanism. Adding to this focus, the Bank has strengthened its Risk Management function in order to cover major categories of Risks in its drive to minimise the risk of Bribery, Corruption and Fraud. Only in respect of Risk and Compliance, Liaison Officers appointed at all branches and divisions, report directly to the Head of Risk and Compliance Officer for their respective activities.

Catering to the needs of customers ranging from infants to senior citizens, NSB offers a wide range of products and services. The *Ithurum Ayojana Kawa* savings scheme, targeted at low income segments warrants special mention as it caters to communities having savings potential but show reluctance to transact with the formal banking sector.

### Product Responsibility

The rapid pace of development seen in Information and Communication Technology and the consequent ease of accessing research information, has seen a transformation of consumers now becoming more financially literate and consequently making more informed decisions before investing in products or services. The many avenues opening up in forums created has also witnessed a growth in popularity for social media and public interest groups, were dissatisfied customers are now able to air their grievances publicly or even seek redress to misleading products or services promoted with misrepresentation.

Surprisingly, despite such an abundance of easily accessible information, there still remains a vast majority of customers who tend not to be so financially literate, so often negatively perceive financial products or services as being complicated. Mindful of this scenario, the Bank invests much in providing accurate and relevant information, simplified in its presentation that can be easily understood by even laymen.

NSB's marketing communications guidelines ensure that all applicable

- Laws
- Directions
- Codes of conduct
- Ethical norms

are strictly followed in all forms of

- Public communications
- Advertising
- Promotion and sponsorship

of products and services.

Product and service responsibility for NSB entails offering the highest possible benefits to customer, whilst not misleading the customer. This is in the absence of issues relating to safety standards and environmental concerns.

A breach in customer privacy can have adverse effects, leading to fines, penalties and consequently to a loss of reputation. The Bank is much aware of such consequences, be it financial or otherwise. Mindful of this, NSB gives the highest priority to customer privacy in maintaining secure systems and procedures. This includes a staff oath of confidentiality.

## *Products*

### *Deposit Products*

#### ***Ordinary savings account***

The Bank offers ordinary savings accounts to anyone over seven years old, with a minimum deposit of Rs. 100. Account holders can deposit or withdraw funds at any Postal service point and Bank branch or via SMS Banking or internet Banking.

#### ***Hapan children's savings account***

The “Hapan” and “Punchi Hapan” are children’s savings account programs designed for children between the ages of seven and 16 and younger than seven years old, respectively. Both accounts are offered with interest rates one percent higher than the Bank’s ordinary savings account interest rate.

#### ***Ithuru Mithuru savings account***

The “Ithuru Mithuru” savings account is a savings program designed with the purpose of fostering savings among youth between the ages of 16 and 30, offering an interest rate 0.5% higher than the Bank’s ordinary savings account. Account holders who retain their “Ithuru Mithuru” accounts can enjoy this higher interest rate until they reach the age of 35.

#### ***Sthree savings account***

The “Sthree” savings accounts are designed specifically for women over 16 years of age and allow account holders to be eligible for interest rate rebates on pawning advances obtained from the Bank.

#### ***NSB Pension + account***

The “NSB Pension +” account is a contributory pension scheme that allows holders to invest any amount into the accounts over a period of time or make a lump sum investment. With a minimum balance of Rs. 100,000 in their accounts, the account holders can start receiving benefits of the pension when they reach the age of 55.

#### ***Term deposits***

The Bank also offers tenure based deposits of fixed amounts over fixed terms that accrue interest at fixed rates and may be withdrawn before maturity in accordance with applicable rates. Tenures range from three months to five years and include a range of targeted segments, including for corporate, seniors and children.

#### ***Foreign currency savings/Term deposits***

The Bank also offers foreign currency savings deposits or fixed rate term deposits to non-resident Sri Lankans and resident Sri Lankans, such as Non-Resident Foreign Currency (“NRFC”) accounts to Sri Lankan nationals employed abroad, Resident Foreign Currency (“RFC”) accounts to Sri Lankan residents who are in possession of foreign currencies or who receive remittances in foreign currencies and the Special Foreign Investment Deposit Account (“SFIDA”) for foreign nationals, Sri Lankan citizens residing abroad, corporate entities incorporated outside Sri Lanka and foreign institutional investors.

### *Retail Lending Products*

#### ***Housing and Property Loans***

The Bank offers housing loans designed for borrowers who wish to use the proceeds of such loans to construct, renovate, purchase or repair their homes, to purchase land to build a house and to pay back an existing housing loan obtained from another financial institution. Following are the Housing Loans product brands which are available for different customer segments.

- *Ge Dora*
- *Ithurum Niwasa*
- *Alankara*

### **Personal loans**

The Bank offers personal loans to its customers for the purchase of, among others, consumer goods, healthcare, travel abroad and education expenses. The Bank holds a security interest over properties such as a primary mortgage of the borrower's immovable property, the surrender value of their life insurance policies or Government Securities they own. Such loans are also available with personal guarantees. The tenor and the principal amount of personal loans depend on the collateral and borrower.

### **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. The loan facility could be obtained to redeem an existing loan. The loan will be released within two or three days.

### **Loans against deposits – speed loans**

Speed loans are loans against the deposits of an account holder. The Bank offers speed loans of up to 90% of the amount of deposits to account holders, with the Bank holding a security interest over such deposits.

### **Card Services**

#### **Shopping + ATM Card**

The Bank issues “Shopping + ATM Cards” connected to customers' savings accounts that provide easy access to cash and to make purchases. Shopping + ATM cards also provide access to its ATM facilities.

#### **NSB Easy Card**

The “NSB Easy Card” is a Master Card that is issued to individuals holding fixed deposit accounts with credit limits up to 80% of the deposit balance. Additionally, cardholders can also withdraw cash with their NSB Easy Card from any ATM with a Master Card logo, including all Bank ATMs.

### **Corporate Lending**

The Bank is also engaged in corporate lending for long-term infrastructure and other development projects, such as power, telecommunication, health, highway and irrigation projects. Such loans are available in the form direct loans to banks and financial institutions, syndicated loans to private corporations and SOEs and direct loans to SOEs.

### **Other Services**

#### **Guarantees**

The Bank provides guarantee services to its customers, under which, the Bank assumes unconditionally the personal liability of its customers and discharges its customers' liabilities up to the amount of their deposit accounts, when the customers fail to do so themselves. The letters of guarantee issued by the Bank can be only used domestically, according to Central Bank regulations.

#### **Utility Bill Payments.**

The Bank provides utility bill payment services, through which customers can pay their bills at any of the NSB branches.

#### **SMS Banking**

SMS Banking services are also available to any holder of a savings account with the Bank. With SMS Banking, customers can make payments of their utility bills and transfers of funds between their savings accounts.

#### **Internet Banking**

The Bank also provides Internet banking services to its customers. Internet banking allows the Bank's customers to check account balances, transfer funds between accounts and other Banks and pay bills online.

#### **NSB call centre**

The NSB call centre provides assistance to customers who contact the Bank with inquiries related to their banking activities. Customers may obtain information related to the Bank's products and services by contracting the call centre via telephone, e-mail, Skype or web chat.

## Statement of Comprehensive Income in US Dollars

For the year ended 31st December	Bank			Group		
	2015 US \$ '000	2014 US \$ '000	Change %	2015 US \$ '000	2014 US \$ '000	Change %
<b>Gross income</b>	<b>550,342</b>	590,683	(7)	<b>554,562</b>	595,861	(7)
Interest income	<b>542,333</b>	561,352	(3)	<b>546,629</b>	566,160	(3)
Less: Interest expenses	<b>355,033</b>	399,215	(11)	<b>357,397</b>	401,896	(11)
<b>Net interest income</b>	<b>187,300</b>	162,137	16	<b>189,232</b>	164,264	15
Fee and commission income	<b>3,300</b>	2,700	22	<b>3,313</b>	2,701	23
Less: Fee and commission expenses	<b>771</b>	531	45	<b>778</b>	546	42
<b>Net fee and commission income</b>	<b>2,529</b>	2,169	17	<b>2,535</b>	2,155	18
Net gain/(loss) from trading	<b>2,068</b>	14,445	(86)	<b>2,092</b>	14,941	(86)
Net gain/(loss) from financial instruments designated at fair value through profit or loss	-	-	-	-	-	-
Net gain/(loss) from financial investments	<b>193</b>	10,233	(98)	<b>193</b>	10,233	(98)
Other operating income (net)	<b>2,448</b>	1,953	25	<b>2,335</b>	1,825	28
<b>Total operating income</b>	<b>194,538</b>	190,937	2	<b>196,387</b>	193,418	2
Less: Impairment charge for loans and other losses	<b>14,852</b>	26,358	(44)	<b>14,852</b>	26,358	(44)
<b>Net operating income</b>	<b>179,686</b>	164,579	9	<b>181,535</b>	167,060	9
<b>Less: Expenses</b>						
Personnel expenses	<b>41,028</b>	36,381	13	<b>41,212</b>	36,507	13
Other expenses	<b>31,266</b>	33,344	(6)	<b>31,028</b>	33,135	(6)
<b>Operating profit before value added tax (VAT) and nation building tax (NBT)</b>	<b>107,392</b>	94,854	13	<b>109,295</b>	97,418	12
Less: Value added tax on financial services	<b>14,315</b>	13,232	8	<b>14,525</b>	13,530	7
Nation building tax on financial services	<b>2,603</b>	2,205	18	<b>2,641</b>	2,261	17
<b>Operating profit after value added tax (VAT) and nation building tax (NBT)</b>	<b>90,474</b>	79,417	14	<b>92,129</b>	81,627	13
<b>Profit before Income tax</b>	<b>90,474</b>	79,417	14	<b>92,129</b>	81,627	13
Less: Income tax expenses	<b>30,275</b>	27,343	11	<b>30,819</b>	28,137	10
<b>Profit for the year</b>	<b>60,199</b>	52,074	16	<b>61,310</b>	53,490	15
<b>Profit attributable to:</b>						
Equity holders of the Bank	<b>60,199</b>	52,074	16	<b>61,310</b>	53,490	15
<b>Profit for the year</b>	<b>60,199</b>	52,074	16	<b>61,310</b>	53,490	15
<b>Earnings per share on profit</b>						
Basic earnings per ordinary share (Rs.)	<b>0.19</b>	0.16	16	<b>0.19</b>	0.16	15
Diluted earnings per ordinary share (Rs.)	<b>0.19</b>	0.16	16	<b>0.19</b>	0.16	15

## Statement of Comprehensive Income in US Dollars

For the year ended 31st December	Bank			Group		
	2015 US \$ '000	2014 US \$ '000	Change %	2015 US \$ '000	2014 US \$ '000	Change %
<b>Profit for the year</b>	<b>60,199</b>	52,074	16	<b>61,310</b>	53,490	15
<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	<b>1,004</b>	302	232	<b>1,004</b>	302	232
Net gains/(losses) on re-measuring available-for-sale financial assets	<b>3,170</b>	9,453	(66)	<b>1,927</b>	9,453	(80)
Fair value gains transferred to the Income Statement on disposal of available-for-sale financial assets	<b>(169)</b>	(231)	(27)	<b>(169)</b>	(231)	(27)
<b>Total other comprehensive income to be reclassified to Income Statement</b>	<b>4,005</b>	9,524	(58)	<b>2,762</b>	9,524	(71)
<b>Other comprehensive income not to be reclassified to Income Statement</b>						
Net gains/(losses) on revaluation of property, plant & equipment	<b>8,546</b>	-	100	<b>8,546</b>	-	100
Actuarial gains/(losses) on retirement benefit plans	<b>(3,138)</b>	(22,753)	(86)	<b>(3,135)</b>	(22,753)	(86)
<b>Total other comprehensive income not to be reclassified to Income Statement</b>	<b>5,408</b>	(22,753)	(124)	<b>5,411</b>	(22,753)	(124)
<b>Other comprehensive income for the year, net of taxes</b>	<b>9,413</b>	(13,229)	(171)	<b>8,173</b>	(13,229)	(162)
<b>Total comprehensive income for the year</b>	<b>69,612</b>	38,845	79	<b>69,483</b>	40,261	73
<b>Attributable to:</b>						
Equity holders of the Bank	<b>69,612</b>	38,845	79	<b>69,483</b>	40,261	73
<b>Total comprehensive income for the year</b>	<b>69,612</b>	38,845	79	<b>69,483</b>	40,261	73
US Dollar conversion rate (Rs.)	<b>144.0600</b>	131.8650		<b>144.0600</b>	131.8650	

## Statement of Financial Position in US Dollars

As at 31st December	Bank			Group		
	2015 US \$ '000	2014 US \$ '000	Change %	2015 US \$ '000	2014 US \$ '000	Change %
<b>Assets</b>						
Cash and cash equivalents	22,492	14,610	54	22,542	14,640	54
Balances with central banks	-	-	-	5	1	300
Placements with banks	87,648	73,148	20	87,648	73,148	20
Derivative financial instruments	25,929	21,840	19	25,929	21,840	19
Other financial assets held-for-trading	94,007	56,357	67	123,593	87,629	41
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Loans and receivables to banks	164,639	49,551	232	164,763	49,551	233
Loans and receivables to other customers	1,721,733	1,639,269	5	1,721,767	1,639,284	5
Financial investments – Available-for-sale	30,444	30,614	(1)	44,475	30,622	45
Financial investments – Held-to-maturity	3,577,001	3,870,180	(8)	3,592,352	3,895,720	(8)
Investments in subsidiaries	1,041	1,138	(8)	-	-	-
Property, plant & equipment	48,362	41,935	15	48,377	41,942	15
Intangible assets	402	490	(18)	402	490	(18)
Deferred tax assets	-	-	-	2	5	(69)
Other assets	113,287	111,961	1	113,475	112,173	1
<b>Total assets</b>	<b>5,886,985</b>	<b>5,911,094</b>	<b>(0)</b>	<b>5,945,330</b>	<b>5,967,048</b>	<b>(0)</b>
<b>Liabilities</b>						
Due to banks	521	684	(24)	765	5,270	(85)
Due to other customers	4,135,608	4,201,724	(2)	4,135,608	4,201,724	(2)
Other borrowings	1,437,079	1,449,226	(1)	1,483,434	1,486,431	(0)
Current tax liabilities	-	-	-	316	657	(51)
Deferred tax liabilities	3,501	2,046	71	3,501	2,046	71
Other liabilities	85,204	81,020	5	85,286	81,142	5
<b>Total liabilities</b>	<b>5,661,913</b>	<b>5,734,700</b>	<b>(1)</b>	<b>5,708,910</b>	<b>5,777,270</b>	<b>(1)</b>
<b>Equity</b>						
Stated capital/Assigned capital	22,213	24,267	(8)	22,213	24,267	(8)
Statutory reserve fund	14,213	14,213	0	14,213	14,213	0
Other reserves	188,646	137,914	37	199,994	151,298	32
Total equity of the owners of the Parent	225,072	176,394	28	236,420	189,778	25
<b>Total equity</b>	<b>225,072</b>	<b>176,394</b>	<b>28</b>	<b>236,420</b>	<b>189,778</b>	<b>25</b>
<b>Total equity and liabilities</b>	<b>5,886,985</b>	<b>5,911,094</b>	<b>(0)</b>	<b>5,945,330</b>	<b>5,967,048</b>	<b>(0)</b>
<b>Contingent liabilities and commitments</b>	<b>242,469</b>	<b>450,799</b>	<b>(46)</b>	<b>242,469</b>	<b>450,799</b>	<b>(46)</b>
US Dollar conversion rate (Rs.)	144.0600	131.8650		144.0600	131.8650	

## Statistical Indicators 2006-2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	Rs. Million									
<b>Operating Results</b>										
Gross income	24,439	30,830	41,247	49,803	50,070	46,545	52,903	65,573	77,890	<b>79,282</b>
Interest income	23,956	30,370	40,834	49,046	48,142	47,096	52,531	64,248	74,023	<b>78,128</b>
Interest expenses	16,536	22,188	31,190	36,067	31,487	29,296	39,142	54,141	52,642	<b>51,146</b>
Net interest income	7,420	8,182	9,643	12,979	16,655	17,800	13,389	10,107	21,380	<b>26,983</b>
Other income	483	460	413	757	1,929	(578)	347	1,292	3,798	<b>1,043</b>
Operating expenses, provisions & VAT	4,402	5,340	6,956	6,792	8,807	7,967	7,396	9,120	14,706	<b>14,991</b>
Profit before tax	3,501	3,302	3,100	6,943	9,777	9,255	6,340	2,279	10,472	<b>13,034</b>
Income tax	1,616	1,729	2,041	3,229	4,386	3,193	2,578	1,095	3,606	<b>4,361</b>
Profit after tax	1,885	1,573	1,059	3,714	5,391	6,062	3,763	1,184	6,867	<b>8,672</b>
<b>Contribution to the Government</b>										
	3,573	3,974	4,287	7,277	10,107	7,970	6,327	4,731	11,043	<b>11,016</b>
<b>Assets</b>										
Cash & short-term funds	480	533	1,146	855	1,355	1,398	1,466	1,546	1,927	<b>3,240</b>
Loans & investments	224,642	256,705	277,157	335,520	395,334	455,914	492,009	632,187	757,182	<b>821,494</b>
Property, plant & equipment/ leasehold property/ intangible assets	1,934	2,513	3,006	3,584	4,971	5,247	5,264	5,692	5,594	<b>7,025</b>
Other assets	8,522	10,453	13,010	14,463	2,733	3,415	10,075	14,943	14,764	<b>16,320</b>
<b>Total</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>848,079</b>
<b>Liabilities and Shareholders' Funds</b>										
Total deposits	212,233	235,304	259,562	313,007	364,430	421,849	457,650	501,890	554,060	<b>595,776</b>
Repo/borrowings	2,075	10,789	6,205	8,730	11,436	16,270	22,958	120,561	191,192	<b>207,101</b>
Differed taxation	16	29	56	84	27	96	123	143	270	<b>504</b>
Other liabilities	8,274	10,819	13,497	14,841	5,997	4,707	4,314	9,557	10,684	<b>12,274</b>
Shareholders' funds	12,979	13,263	15,000	17,760	22,503	23,052	23,767	22,217	23,260	<b>32,424</b>
<b>Total</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>848,079</b>

## Statistical Indicators 2006-2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	Rs. Million									
<b>Ratios</b>										
Income growth	15.21	26.15	33.79	20.74	0.54	(7.04)	13.66	23.95	18.78	1.79
Interest margin	3.2	3.2	3.4	4.0	4.4	4.1	2.7	1.7	3.0	3.3
NIM/gross income	30.4	26.5	23.4	26.1	33.3	38.2	25.3	15.4	27.4	34.0
Personnel cost/gross income	11.2	8.8	7.5	6.9	7.4	8.9	7.7	6.4	6.2	7.5
Overheads (excluding provisions)/ gross income	15.1	12.6	11.2	10.7	12.0	13.5	12.0	10.9	11.9	13.3
Profit before tax/ gross income	14.3	10.7	7.5	13.9	19.5	19.9	12.0	3.5	13.4	16.4
Contribution to the GOSL/ gross income	14.6	12.9	10.4	14.6	20.2	17.1	12.0	7.2	14.2	13.9
Cost to deposits	2.3	2.2	2.4	2.7	2.7	2.0	1.7	1.6	2.1	2.3
Cost to income with VAT	59.4	56.5	58.5	55.5	48.9	45.4	52.8	67.7	44.8	46.1
Cost to income without VAT	46.7	44.9	46.1	38.8	32.4	36.4	46.1	62.2	36.7	37.4
Return on average shareholders' funds (ROE)	14.8	12.0	7.5	22.7	27.3	26.61	16.07	5.15	30.20	31.15
Return on average assets (ROA)	1.5	1.3	1.1	2.1	2.6	2.13	1.30	0.39	1.46	1.60
Capital adequacy – Tier I (Minimum 5%)	40.7	33.3	23.2	25.1	22.2	20.10	20.40	18.50	20.46	17.9
Capital adequacy – Tier II (Minimum 10%)	11.8	12.2	17.7	21.5	19.2	17.70	19.10	16.72	18.98	16.4
Deposits as % of assets	90.1	87.1	88.2	88.3	88.0	90.5	89.9	76.7	71.1	70.3
Profit per employee (Rs. '000)	1,207	1,152	1,077	2,382	3,205	2,826	2,027	774	3,119	3,585
Deposit per employee (Rs. '000)	73,184	82,073	90,157	107,378	116,513	128,809	146,308	170,537	164,997	163,855
<b>Other Information</b>										
No. of employees	2,900	2,867	2,879	2,915	3,050	3,275	3,128	2,943	3,358	3,636
No. of branches	130	130	137	157	186	210	219	229	236	245
Post Offices/Sub-Post Offices	4,048	4,042	4,045	4,055	4,053	4,058	4,053	4,063	4,063	4,063
Account holders (Million)	15.1	15.5	15.6	16.3	16.7	17.0	17.4	17.9	18.3	18.8

## *Analysis of Deposits*

	2008 Rs. Million	2009 Rs. Million	2010 Rs. Million	2011 Rs. Million	2012 Rs. Million	2013 Rs. Million	2014 Rs. Million	2015 Rs. Million
<b>Local Currency Deposits</b>								
Savings	71,667	79,280	94,118	105,108	106,177	113,165	139,384	160,814
Time	185,755	230,147	266,007	311,569	345,794	379,969	408,309	427,588
	257,422	309,427	360,125	416,677	451,971	493,134	547,692	588,402
Growth %	10.0	20.2	13.5	15.7	8.5	9.1	11.1	7.4
<b>Foreign Currency Deposits</b>								
Savings	826	1,255	1,517	1,750	1,963	2,101	2,215	2,568
Time	1,314	2,325	2,788	3,422	3,717	6,654	4,153	4,806
	2,140	3,580	4,305	5,172	5,679	8,755	6,368	7,373
Growth %	59.3	67.3	20.3	20.1	9.8	54.2	-27.3	15.8
<b>Total Deposits</b>	259,562	313,007	364,430	421,849	457,650	501,890	554,060	595,776
Growth %	10.3	20.6	13.5	15.8	8.5	9.7	10.4	7.5

\*Note: Highlighted information is based on SLFRS/LKAS.

## Correspondent Banks

### Citi Bank NA →

388, Greenwich Street  
New York, NY 10013  
USA  
Tel: 800-285-3000  
www.citibank.com  
SWIFT: CITIUS33

### Deutsche Postbank →

AG., Friedrich-Ebert-Allee  
53113 Bonn,  
Germany.  
Tel: 114-126, 4922855005500  
www.postbank.de  
SWIFT: PBNKDEFF

### Commonwealth Bank →

Sydney, NSW 2001.  
Australia  
GPO Box 5227,  
Tel: 61 299993283  
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 Square London  
EC2M4WD  
Tel: 0207 377 1888  
Tel: 44 2073775430  
www.info@bankofceylon.co.uk  
SWIFT: BCEYGB2L

### Woori Bank →

1-203, Hoehyeon-dong,  
Jung-gu, Seoul  
Tel: 82-2-20065000  
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 →

271, Collins Street  
Melbourne, VIC 3000.  
Australia  
Tel: 61393227000  
www.nab.com.au  
SWIFT: NATAAU33025

### Unicredito SPA →

Piazza Gae Aulenti 3  
Tower A  
20154 Milano, Italy  
Tel: 390288621  
Tel: 39 02 88623340  
www.unicreditgroup.eu  
SWIFT: UNCRITMM

### Hana Bank →

55, Eulji-ro,  
Jung-gu  
Seoul  
Republic of Korea  
Tel: 82-02-2002-1111  
www.hanabank.com  
SWIFT: HNBKCRSE

### Kookmin Bank →

9-1, Namdaemunno 2-Ga,  
Jung-Gu  
Seoul 100-092  
82-(2)-2073-2869  
www.kbstar.com  
SWIFT: CZNBKRSE

## Exchange Companies

### Al Ahalia Exchange →

P.O. Box 35245,  
Abu Dhabi, U.A.E.  
Tel: 97126229666  
www.alahaliaexchange.com

### Al Rostamani International Exchange →

Al Rostamani International Exchange,  
P.O. Box 10072, Dubai, U.A.E.  
Tel: 97144543200  
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 6176,  
Abu Dhabi, U.A.E.  
Tel: 97600546000  
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: 97444360555

### City International Exchange →

Abdullah Dashti Building,  
Abdullah Mubarak Street,  
P.O. Box 21804,  
Safar 13079, Kuwait  
Tel: 96522431498  
citex@qualitynet.net

### Al Fardan Exchange- Abu Dhabi →

P.O. Box 498, Amin Khourl Building,  
Liwa Street, Abu Dhabi, U.A.E.  
Tel: 97444408234  
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: 97444408234  
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 Exchange →

Bolck 10, 02nd & 03rd Floor  
Ahmed Saleh & Sons Building  
Near KPTC Bus Stand, Murgab  
P.O. Box 177, Safat 13002, Kuwait  
Tel: 009651840123  
exch\_amx@almullagroup.com

### Bahrain Finance Co. →

P.O. Box 243, Manama  
Kingdom of Bahrain  
97317228888  
custservice@bfc.com.bh

### 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: 96614603333  
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: 0097126272656  
www.habibexchange.com  
hecoad@emirates.net.ae

### Habib Qatar International Exchange →

P.O. Box 1188, Mushirib Street,  
Doha Qatar  
Tel: 97444424373  
www.habibqatar.com  
habib@qatar.net.qa

## Exchange Companies

**Wall Street Exchange** →

3014,  
Twin Towers,  
Deira, Dubai  
UAE  
Tel: 97142284889  
info@wallstreet.ae

**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: 96824794017  
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: 390687451989  
www.nationalexchange.it  
nec@nationalexchange.it

**Instant Cash** →

East Wing Bldng 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: 966114797400  
www.samba.com.sa

**Trans Fast Remittance  
LLC** →

44, Wall Street,  
4th Floor,  
New York, NY  
10005, USA  
Tel: 18889736383  
customersupport@transfast.com

**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@uaeexchange.com

**UAE Exchange Centre-  
Kuwait** →

P.O. Box 26155, Safat 13122, Kuwait  
Tel: 9652459417  
www.uaexchangekuwait.com  
kuwait.ho@uaeexchange.com.kw

**Valutrans SPA** →

Sede Legale e Amministrativa,  
Via Melchiorre Gioria 168,  
20125, Milano,  
Italia  
Tel: 390291431300  
www.valutrans.eu

**Delma Exchange** →

Al Donah  
Abu Dhabi  
United Arab Emirates  
Tel: 0097124915757

**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

## *GRI Content Index: 'In accordance' with Core Criteria*

GRI Indicator	Description	Reported in	Page No.
<b>General Standard Disclosures</b>			
<b>Strategy and Analysis</b>			
G4-1	Statement from the Chairman	Letter from the Chairman	08
<b>Organisation Profile</b>			
G4-3	Name of the Organisation	Corporate Information	308
G4-4	Primary Brands, Products and/or Services	Products	289
G4-5	Location of Organisation's Headquarters	Corporate Information	308
G4-6	Number of countries where the Organisation operates and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report	N/A	
G4-7	Nature of ownership and legal form	Corporate Information	308
G4-8	Markets served	The 2015 Story	13
G4-9	Scale of the Reporting Organisation	Highlights	04
G4-10	Total workforce by employment type, employment contract and region, broken down by gender	The 2015 Story	58
G4-11	Report the percentage of total employees covered by collective bargaining agreements	The 2015 Story	58
G4-12	Organisation's supply chain	Stakeholders	278
G4-13	Significant changes during the reporting period regarding size, structure or ownership	N/A	
G4-14	Report whether and how the precautionary approach or principle is addressed by the organisation	Risk Management	113
G4-15	List externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes or which it endorses	Management Approach	283
G4-16	List of membership of associations and national or internal advocacy organisations	Stakeholders	279
<b>Identified Material Aspects and Boundaries</b>			
G4-17	Operational Structure of the Organisation	Organisational Structure	16
G4-18	Process for Defining Report Content	About this Report	274
G4-19	Material Aspects identified for Report Content	Materiality and Value Creation	280
G4-20	Aspect Boundary for identified Material Aspects within the organisation	Materiality and Value Creation	280
G4-21	Aspect Boundary for identified Material Aspects outside the organisation	Materiality and Value Creation	280
G4-22	Report the effect of any restatements of information provided in previous reports and the reasons for such restatements	About this Report	274
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries	About this Report	274
<b>Stakeholder Engagement</b>			
G4-24	List of stakeholder groups engaged by the Organisation	Stakeholders	276
G4-25	Basis for identification and selection of stakeholders with whom to engage	Stakeholders	276

## GRI Content Index: 'In accordance' with Core Criteria

GRI Indicator	Description	Reported in	Page No.
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G4-27	Key topics and concerns raised through stakeholders engagement and how the Organisation responded to them	Stakeholders	276
<b>Report Profile</b>			
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G4-29	Date of most recent previous report	About this Report	274
G4-30	Reporting cycle	About this Report	274
G4-31	Contact point for questions regarding the Report or its Contents	About this Report	274
G4-32	Compliance with GRI G4 guidelines, GRI Content index and the External Assurance Report	GRI Content Index	300
G4-33	Policy and current practice with regard to seeking external assurance for the Report	N/A	-
<b>Governance</b>			
G4-34	Governance Structure of the Organisation, including committees under the highest governance body responsible for decision-making on economic, environment and social impacts	Corporate Governance	82
<b>Ethics and Integrity</b>			
G4-56	The values, principles, standards and norms of behaviour	The 2015 Story	13
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G4 - DMA Aspect and Materiality fulfilled		Materiality and Value Creation	280
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<b>Aspect Economic Performance</b>			
G4-EC1	Direct economic value generated, distributed and retained	The 2015 Story	47
G4-EC3	Coverage of the Organisation's defined benefit plan obligations	The 2015 Story	30
<b>Aspect Market Presence</b>			
G4-EC6	Proportion of senior management hired from the local community at locations of significant locations of operation	Management Approach	283
<b>Aspect Indirect Economic Impact</b>			
G4-EC7	Development and impact of infrastructure investments and services supported	The 2015 Story	67
<b>Aspect Procurement Practices</b>			
G4-EC9	Proportion of spending on local suppliers at significant locations of Operations.	Management Approach	283
<b>CATEGORY: ENVIRONMENT</b>			
<b>Aspect Materials</b>			
G4-EN2	Percentage of materials used that are recycled input materials	Management Approach	283
<b>Aspect Energy</b>			
G4-EN3	Energy consumption within the organisation	Management Approach	283

## GRI Content Index: 'In accordance' with Core Criteria

GRI Indicator	Description	Reported in	Page No.
<b>CATEGORY: SOCIAL</b>			
<b>Labour Practices And Decent Work</b>			
<b>Aspect Employment</b>			
G4-LA1	Total number and rate of new employee hires and employee turnover by age group, gender and region	The 2015 Story	26
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	The 2015 Story	29
G4-LA3	Return to work and retention rates after parental leave, by gender.	The 2015 Story	29
<b>Aspect Labour/Management Relations</b>			
G4-LA4	Minimum notice periods regarding operational changes including whether these are specified in collective agreements	The 2015 Story	29
<b>Aspect Occupational Health and Safety</b>			
G4-LA6	Type of injury and rates of injury, occupational disease, lost days and absenteeism, and total number of work-related fatalities, by region and by gender	The 2015 Story	29
<b>Aspect Training and Education</b>			
G4-LA9	Average hours of training per year per employee by gender and by employee category	The 2015 Story	28
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	The 2015 Story	28
G4-LA11	Percentage of employees receiving regular performance and career development reviews by gender and employee category	The 2015 Story	28
<b>Aspect Diversity and Equal Opportunity</b>			
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	The 2015 Story	29
<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	The 2015 Story	29
<b>Aspect Labour Practices Grievance Mechanisms</b>			
G4-LA16	Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms	The 2015 Story	29
<b>Human Rights</b>			
<b>Aspect Non-Discrimination</b>			
G4-HR3	Total number of incidents of discrimination and corrective action taken	The 2015 Story	31
<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	The 2015 Story	31
<b>Aspect Human Rights Grievance Mechanisms</b>			
G4-HR12	Number of grievances about Human Rights impacts filed, addressed and resolved through formal grievance mechanisms	The 2015 Story	31

## GRI Content Index: 'In accordance' with Core Criteria

GRI Indicator	Description	Reported in	Page No.
<b>Society</b>			
<b>Aspect Local Communities</b>			
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes	The 2015 Story	66
<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 Report	113
<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	The Annual Report of Board of Directors	153
<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	N/A	-
<b>Aspect Supplier Assessment for Impact on Society</b>			
G4-SO9	Percentage of new suppliers that was screened using criteria for impacts on society	N/A	-
<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	The Annual Report of Board of Directors	153
<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	Management Approach	283
G4-PR5	Results of surveys measuring customer satisfaction	Management Approach	283
<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	Management Approach	283
<b>Aspect Customer Privacy</b>			
G4-PR8	Total number of substantial compliance regarding breaches of customer privacy and losses of customer data	Management Approach	283
<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	The Annual Report of Board of Directors	153

## Glossary of Financial and Banking Terms

### 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.

## Corporate Information

### 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

245 Branches

2,287 School Bank Units

271 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 Silva – *Chairman*

D.L.P.R. Abeyaratne – *Director (Ex Officio)*

A.K. Seneviratne – *Director (Ex Officio)*

Suranga Naullage – *Director*

Ajith Pathirana – *Director*

Chandima Hemachandra – *Director*

Anil Rajakaruna – *Director*

### General Manager/CEO

S.D.N. Perera

### Board Secretary

Ms. Y.F. Deen

### Board Audit Committee

D.L.P.R. Abeyaratne – *Chairman*

A.K. Seneviratne – *Member*

Anil Rajakaruna – *Member*

### Human Resource and Remuneration Committee

Aswin De Silva – *Chairman*

D.L.P.R. Abeyaratne – *Member*

Ajith Pathirana – *Member*

### Nomination Committee

Aswin De Silva – *Chairman*

D.L.P.R. Abeyaratne – *Member*

Ajith Pathirana – *Member*

### Board Integrated Risk Management Committee

A.K. Seneviratne – *Chairman*

Suranga Naullage – *Member*

Chandima Hemachandra – *Member*

### Compliance Officer

Ms. I.K.L. Sasi Mahendran

### Auditors

Auditor General

### Subsidiary

#### Name of the Company

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*

D.L.P.R. Abeyaratne – *Director*

Suranga Naullage – *Director*

S.D.N. Perera – *Director*

Ajith Pathirana – *Director*

Ravi Amarasekera – *Director*

Dammika Ambewela – *Director*

Nimal Jayasundara – *Director*

D.S.W. Samarasekera – *Director*

Yasas De Silva – *Director*

Srilal Fernando – *Director*

### Chief Executive Officer

Ms. B.P.J. Gunasekara

### Auditors

Ernst & Young Co.

### Company Secretary

Ms. Y.F. Deen



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This National Savings Bank annual report has been produced by Smart Media The Annual Report Company, a certified carbon neutral organisation. Additionally, the greenhouse gas emissions resulting from activities outsourced by Smart Media in the production of this annual report, including the usage of paper and printing, are offset through verified sources.

## This is an Integrated Annual Report

This National Savings Bank annual report has been prepared using the Smart Integrated Reporting Methodology™ of Smart Media The Annual Report Company.



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