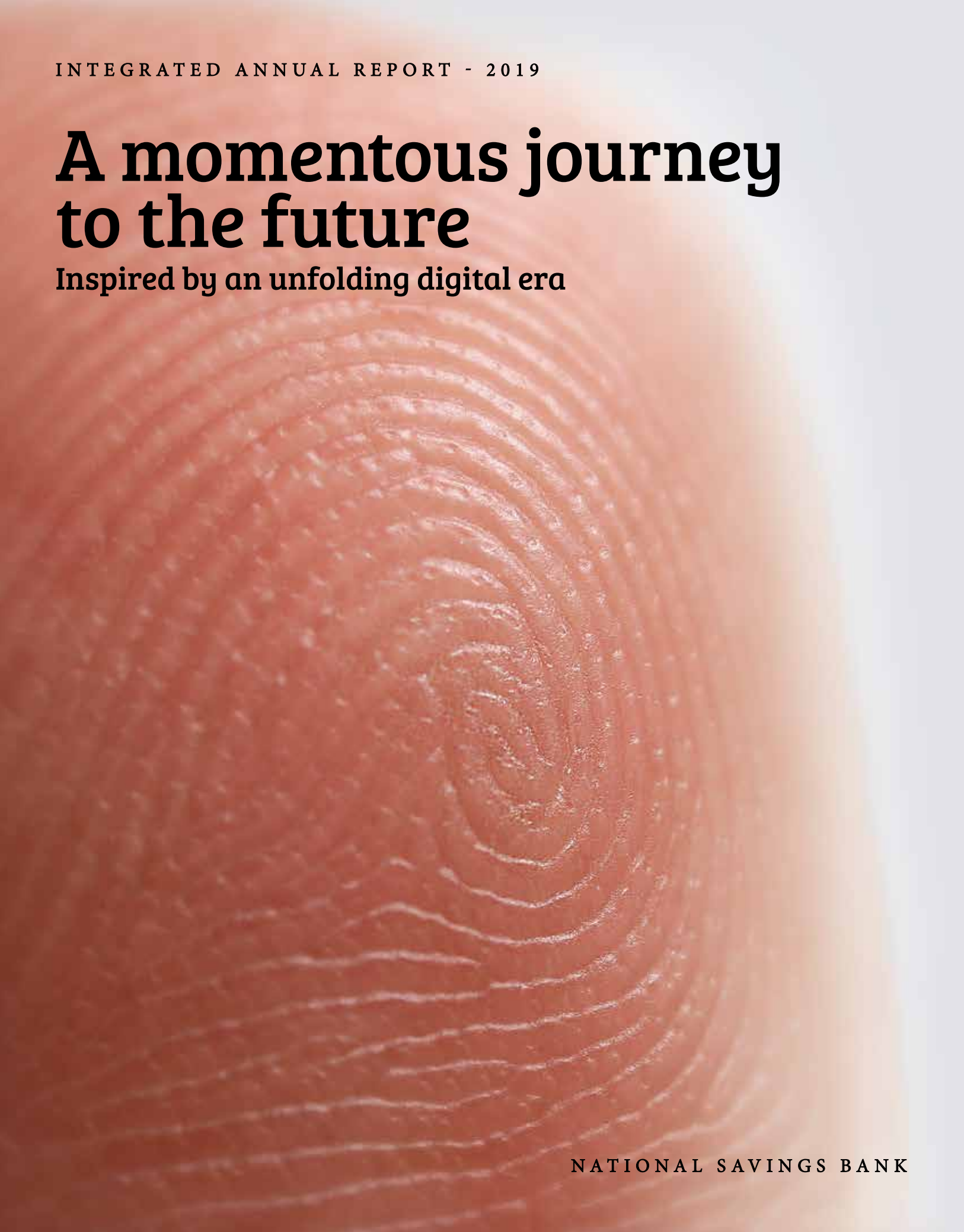
INTEGRATED ANNUAL REPORT - 2019

A momentous journey to the future

Inspired by an unfolding digital era



NATIONAL SAVINGS BANK

A momentous journey to the future

Inspired by an unfolding digital era

With a legacy associated with trust, safety, and strength, we are on a momentous journey to the future to provide 360° financial solutions to our customers.
At present, we are at an exciting juncture where the ever-unfolding digital landscape and all its possibilities have dissolved the traditional boundaries between sectors.
As we venture forward on this journey, we reinforce our commitment to foster a savings culture, our pledge to sustainability, and our responsibility to serve the Nation.

Our journey is inspired. Our journey is momentous.

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Our Value Creation Model

A comprehensive discussion of the Bank's value creation process guided by NSB's Vision, Mission, Values, and the Strategy. This section includes NSB's Business Model that presents an overview of the value creation process. Further, it presents the operating environment and outlines the Bank's stakeholder engagement process, materiality identification process, and sustainability policy which contributes to the formulation of the Bank's strategy.

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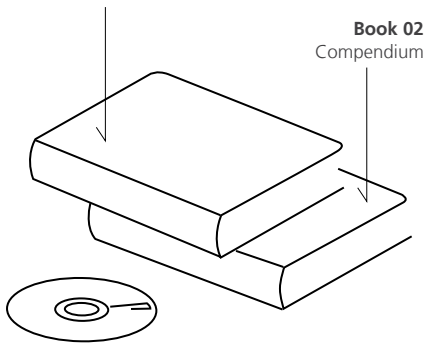
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About this Report GRI 102-1

Book 01
Integrated
Annual Report 2019



National Savings Bank (NSB) is pleased to present its sixth consecutive Integrated Annual Report for the calendar year of 2019. The Report presents detailed information about the Bank's position with regard to its financial performance in the context of the surrounding economic, social, and environmental conditions.

Our integrated thinking Approach for value creation

As an exemplary organisation operating in a complex world, we are navigating through the challenges of internal and external drivers, interdependencies and trade-offs that influence our ability to create value. In our process to sustainable value creation, our customers, stakeholders, and our strategy are consistent with our integrated thinking.

Integrated thinking is intrinsic to how we manage our business and to our internal strategy development and reporting practices. Our strategy has been developed to ensure that we manage the resources and relationships needed to create value over time. A considered assessment of the six capitals (as referred to in the IIRC's <IR> Framework) informed both our strategy and the internal materiality process used to determine the content and structure of this report.

Accordingly, this report provides concise and material information on the Bank's strategy, governance, performance and prospects. It describes our strategy to create sustainable competitive advantage in a fast-changing landscape and assesses our progress in executing on it. Our ability to deliver outstanding customer service quality, which is at the core of our strategy, depends on the quality of our relationships with our stakeholders. Our credibility as a trusted corporate citizen, depends on the goodwill of our many other stakeholders. Our report, therefore, is addressed to all our stakeholders, in our sector and society, with whom we partner and to whom we account in creating value.

How to read this Report

This Report is presented in two parts:

Book 01

Integrated Annual Report 2019

The Integrated Annual Report 2019 offers a comprehensive insight into the strategy, capital management, risk management and governance of National Savings Bank. It addresses the Bank's value creation process over the short, medium, and long term towards its stakeholders. This section addresses the Bank's operations, its achievements, the execution of strategic objectives, expansion of its product portfolio, its contribution to the community, and its relationship with the environment. Where applicable, information in this report have been extracted from **Book 02** Compendium of the reporting suite.

Book 02

Compendium

Compendium contains a detailed review of the Bank's corporate governance and risk management practices applied at NSB. It includes Audited Financial Statements with notes portraying the financial performance of the Bank and the Group for the year ended 2019 and its financial position as at 31 December 2019 along with supplementary information.

Navigation icons

This Report uses icons for ease of navigation and as a communication tool to support or replace textual content where possible. Icons are developed primarily for capitals, stakeholders, strategic objectives, and materiality matters. An index of the primary icons utilised in the Report will appear on page 6.

Scope and boundary of reporting

GRI 102-10, 45, 46, 48, 49, 50, 51 and 52

- **Reporting boundary**

  The overall boundary of this Annual Report comprises the National Savings Bank and its fully owned subsidiaries, NSB Fund Management Company Ltd and Sri Lanka Savings Bank 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.

- **Reporting period**

  The scope of the NSB Annual Report 2019 covering the 12-month period from 1 January to 31 December 2019 and is consistent with the annual reporting cycle for financial and sustainability reporting. Any material events after this date and up to the Board approval date of 24 March 2020 have also been included.

  There are no significant changes from previous reporting periods in the scope and aspect boundaries. The most recent Annual Report, dated 14 March 2019, covered the 12-month period ended 31 December 2018. Comparative financial information, if reclassified or restated, has been disclosed and explained in the relevant sections.

GRI 102-46

- **Scope and materiality**

  The report extends beyond financial reporting and includes non-financial performance, opportunities, risks and outcomes attributable to or associated with our key stakeholders, which have a significant influence on our ability to create value. Further, it explains material information relating to our strategy and business model, operating context, material risks, stakeholder interests, performance and governance.

  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 assessment process is discussed under the section titled Materiality Matters on page 78.

  The Report covers the strategic progress made during 2019 and provides insight into the Bank's strategy and financial and non-financial targets for the short, medium (two to three years) and long term (five years or more). Given the impact of the COVID-19 pandemic, the guidance for 2020 has subsequently been withdrawn and key targets are under review.

- **Targeted readers**

  This report is primarily intended to address the information requirements of long-term investors (our shareholder, bondholders and prospective investors). We also present information relevant to the way we create value for other key stakeholders, including our staff, clients, regulators and society.

Reporting framework and compliance

GRI 102-12, 54

NSB has followed the GRI guidelines in formulating its past Annual Reports. For sustainability reporting, we have transitioned to the recently published Global Reporting Initiative (GRI) Standards since 2017 and this report has been prepared in accordance with the GRI Standards; core option. Sustainability is an integral part of the Bank's overall business; it is subject to the Bank's existing internal and external control and assurance systems.

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 (IRD). 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 several reports and statements that appear under the section on Financial Reports commencing on page 296.

This Integrated Annual Report draws on concepts, principles, and guidance given in the following, where applicable:

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)
- The International Integrated Reporting Council (IIRC) Framework (www.theiirc.org)
- Global Reporting Initiative (GRI) Sustainability Reporting Guidelines GRI Standards (www.globalreporting.org)
- Code of Best Practice on Corporate Governance issued by the CA Sri Lanka
- Sustainable Development Goals (SDGs) – The UN initiative with 17 aspirational "Global Goals"
- Smart Integrated Reporting Methodology™ (www.smart.lk)

External assurance

The Bank has complied with all the regulatory and statutory requirements in producing the Annual Report. The Financial Statements were audited by the Auditor General while the assurance on sustainability reporting was issued by Messrs KPMG Sri Lanka.

Forward-looking statements

Certain statements in this Report regarding our business operations may constitute forward-looking statements. These include all statements other than statements of historical fact, including those regarding the financial position, business strategy, management plans, and objectives for future operations. Forward-looking statements are necessarily dependent on assumptions, data, or methods that may be incorrect or imprecise and that may be incapable of being realised, and as such, are not

intended to be a guarantee of future results, but constitute our current expectations based on reasonable assumptions. The readers are advised to consider this information with due caution and not to place undue reliance on the projected data in making their decisions. We neither intend to nor assume any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Queries

GRI 102-53

We welcome your comments or inquiries on this Report, which can be addressed to:

Senior Deputy General Manager,
Finance and Planning Division,
National Savings Bank,
No. 255, Galle Road, Colombo 3.
sdgm.kithsiri@nsb.lk

Selected Sustainable Development Goals

As part of our strategy we have prioritised the following SDGs to ensure our economically, environmentally and socially sustainable.



Good Health and Well-Being



Quality Education



Clean Water and Sanitation



Affordable and Clean Energy

Index of navigation icons

Capitals



Financial capital



Manufactured capital



Intellectual capital



Human capital



Social and relationship capital



Natural capital

Stakeholders



Shareholder/ Investor



Customers



Employees



Business partners



Society and environment



Regulators and Government institutions

Long-term strategies



Customer driven



Excellence in governance



Strength and sustainability



Transformation leader

Short to medium-term strategic priorities



Heightening customer experience



Enhancing employee engagement



Reinforcing risk culture



Promoting organic growth



Leading by example

Material matters



Customer service and experience



Risk-focused organisational culture



Digital transformation



Cybersecurity, fraud prevention, and anti-money laundering



Economic value for contributors



Regulatory compliance



Responsible lending



Financial inclusion



Economic and social impact



Attracting, developing, and retaining talent



Diversity and inclusion



Environmental footprint



Workplace safety, health, and well-being



Supply chain responsibility



Operational efficiency

NSB at a Glance GRI 102-7

The National Savings Bank was established in 1972 through a Parliamentary Act that amalgamated four traditional savings organisations in the country into one establishment. At its inception, NSB inherited a savings legacy of over a century old from its predecessor the Ceylon Savings Bank (CBS) established in 1832.

NSB was granted the status of a Licensed Specialised Bank (LSB) under the Banking Act No. 30 of 1988 to foster a savings culture in all Sri Lankans irrespective of class, race, and gender. The Bank holds 20.9 million accounts that attest to the claim of being the Bank for all segments of society.

Our Vision

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

Our Mission

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

Our Values

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

Ownership structure and functions

- Branch Banking
- Corporate Finance
- International Banking
- Treasury



National Savings Bank

- NSB Fund Management Co. Ltd (100%)
  - Primary Dealer
- Sri Lanka Savings Bank Ltd (100%)
  - Leasing, SME and Micro Finance

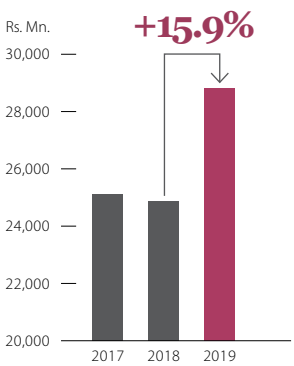


What differentiates us?

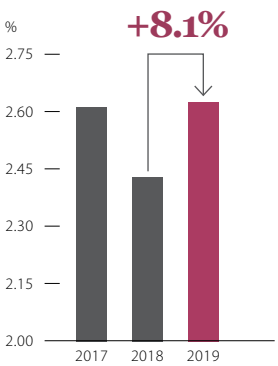
- We are a purpose-led business, underpinned by a unique corporate culture and progress towards being most reliable and sought after choice for savings
- As the only bank in the country offering 100% Government guarantee on all deposits and interest thereon, NSB is the safest Bank in the country
- National Savings Bank, the premier savings bank in the country, by its statute is required to invest 60% of its deposits in gilt-edged Government Securities
- We pride ourselves on serving 20.9 million accounts
- Firmly rooted in the national economy, NSB serves the nation by contributing to the General Treasury by way of taxes, levies, fees and dividend
- NSB participates in nation building by funding long-term development projects, and socio-economic projects of the Government
- Strong position as a bank that is committed to doing a business in a manner that positively builds society at large
- Good governance and experienced management teams
- Selective origination and good risk management have enabled us to maintain the Non-Performing Loan (NPL) ratio lower than the industry average

The value we impacted

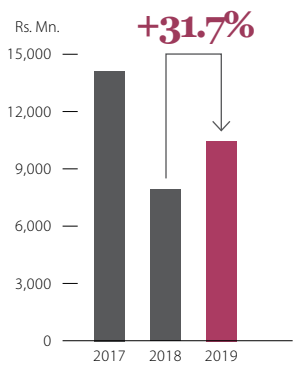
Net interest income



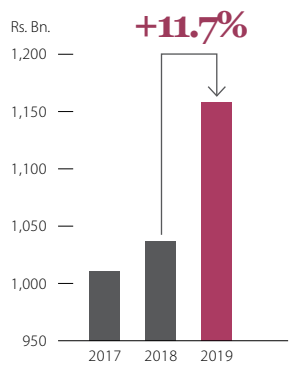
Net interest margin



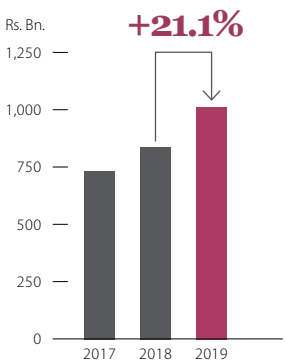
Profit before tax



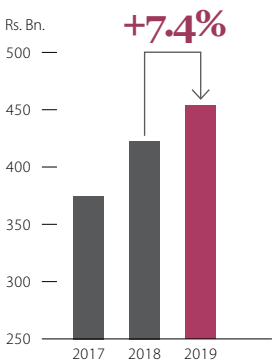
Total assets



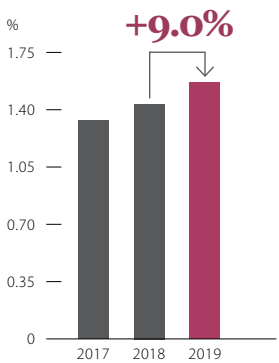
Customer deposits



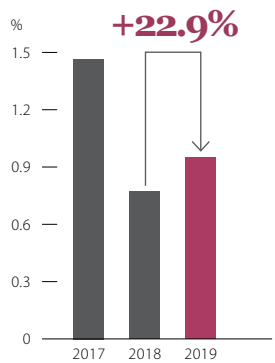
Loans and advances



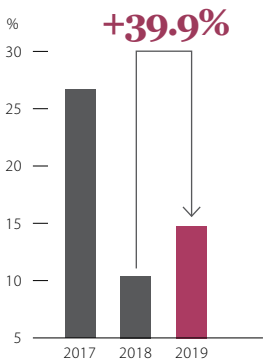
Gross non-performing loans ratio



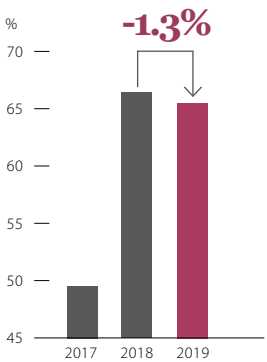
Return on assets



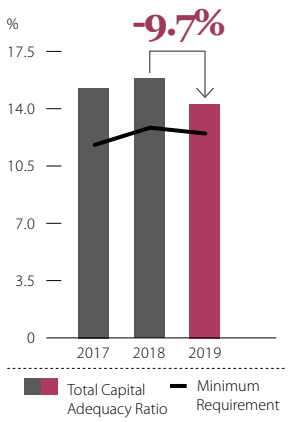
Return on equity



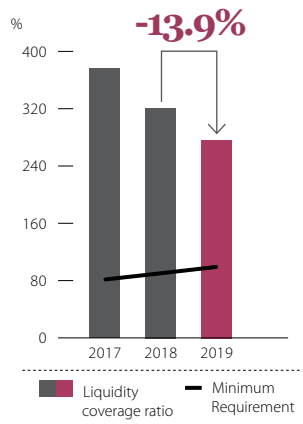
Cost to income ratio



Total capital adequacy ratio



Liquidity coverage ratio (All currency)



Our customers

20.9 million
Accounts
(2018: 20.4 million)

Interest paid to customers
Rs. 89,898 Mn.
(2018: Rs. 85,622 Mn.)

256
Branches
(2018: 255)

ATM/CRM/CDM
334
(2018: 310)

4,063
Post and Sub-post Offices (2018: 4,062)

Our employees

We paid **Rs. 10,158 Mn.** to our **4,715** employees (2018: Rs. 9,263 Mn. to our 4,512 employees)

Invested **Rs. 40.3 Mn.** on skills development
(2018: Rs. 38.7 Mn.)

54% of our total employees are women (2018: 54%)

98.1%
retention ratio
(2018: 97.9%)

Provided **296** new job opportunities
(2018: 145)



Rs. 2,207 Mn. spent on procurement for our **351** local suppliers (2018: Rs. 2,067 Mn. for 153 local suppliers)

55% of our permanent employees are women
(2018: 56%)

Rs. 193 Mn.
worth of **222** eco loans disbursed
(2018: Rs. 656.6 Mn. of 781 loans disbured)

We consumed **35,696** gigajoules of energy
(2018: 33,417 gigajoules)

We consumed **79,368** (M^3) of water [2018: 76,161 (M^3)]

Our society and environment

Rs. 2.0 Bn.
paid in dividends to shareholder
(2018: Rs. 500 Mn.)

Rs. 613 Bn.
investment in Government Securities
(2018: Rs. 523 Bn.)

We paid direct and indirect taxes of
Rs. 8.9 Bn.
(2018: Rs. 6.6 Bn.)

60.9%
of total deposits invested in Government Securities
(2018: 60.9%)

Government

Milestones

1972

A Parliamentary Act facilitated the amalgamation of the four traditional savings organisations in the country into one establishment called the National Savings Bank

1979

Introduction of Savings Certificate with a draw

1981

NSB implements Mobile Banking Unit to reach the rural population

1994

The first ATM machine was established

1995

The NSB ACT was amended to facilitate business diversification

1998

Launch of *Hapan Punchi Hapan* product

1999

NSB opened doors to its 100th branch at Nittambuwa

Launch of *Ithuru Mithuru* product

2000

NSB's subsidiary NSB FMC was established

2002

Launch of *Sthree* product

2003

NSB becomes the first Sri Lankan bank to obtain AAA(lka) rating from Fitch Ratings Lanka Ltd.

2004

International banking operations inaugurated

2008

24x7 NSB Call Centre was established

2011

NSB opened its doors to its 200th branch at Medawachchiya

2012

NSB celebrates its 40th Anniversary

2013

Issuance of the single largest Senior Note of USD 750 Mn. by a Sri Lankan bank

2014

Launch of *Buddhi* personal loan for higher education studies

Issuance of the USD 250 Mn. Senior Note

2016

Opened its 250th branch at Kopay

Global Finance rated NSB as "The Safest Bank in Sri Lanka"

Ventured into trade financing

Issuance of NSB's first unquoted subordinated debenture valued at Rs. 6 Bn.

2017

Became the first specialised bank to reach Rupees One Trillion asset base

2018

Successfully redeemed the USD 750 Mn. Senior Note

Secured the first foreign currency term loan

2019

First Sri Lankan State Bank to receive PCI-DSS Certification

Sri Lanka Savings Bank became a fully-owned subsidiary of NSB

Surpassed the Rs. 1 Tn. deposit base

Successfully redeemed the USD 250 Mn. Senior Note

Highlights GRI 102-7

	Bank			Group		
	2019	2018	Change %	**2019**	2018	Change %
Results for the year (Rs. Mn.)						
Gross income	**121,929**	111,902	8.96	**125,810**	112,760	11.57
Profit before taxes on financial services (VAT, NBT and DRL)	**15,659**	11,171	40.17	**18,487**	11,181	65.34
Profit before taxation (PBT)	**10,462**	7,941	31.74	**13,092**	7,944	64.79
Income tax expenses	**3,764**	3,441	9.36	**4,062**	3,444	17.93
Profit after taxation (PAT)	**6,698**	4,500	48.84	**9,030**	4,500	100.66
Position at the year end (Rs. Mn.)						
Shareholders' funds (total equity)	**44,377**	43,095	2.97	**47,834**	44,118	8.42
Due to other customers/deposits from customers	**1,016,574**	839,574	21.08	**1,015,635**	839,574	20.97
Financial assets at amortised cost – debt and other instruments (gross)	**615,649**	518,957	18.63	**619,754**	522,982	18.50
Gross loans and advances	**458,662**	426,741	7.48	**462,441**	426,766	8.36
Total assets	**1,157,967**	1,036,846	11.68	**1,175,575**	1,051,316	11.82
Information per ordinary share (Rs.)						
Earnings (basic)	**7.13**	6.72	6.09	**9.61**	6.72	43.02
Earnings (diluted)	**7.13**	6.72	6.09	**9.61**	6.72	43.02
Net assets value	**47.21**	45.85	2.97	**50.89**	46.93	8.42
Ratios (%)						
Net interest margin (NIM)	**2.63**	2.43	8.10	**2.65**	2.44	8.45
Return on average assets (ROA)	**0.95**	0.78	22.91	**1.18**	0.77	53.11
Return on average shareholders' funds (ROE)	**15.32**	10.95	39.86	**19.64**	10.68	83.87
Year on year growth in earnings	**48.84**	(53.68)	190.99	**100.66**	(50.85)	297.94
Regulatory liquidity ratio (%)						
Statutory liquid assets (SLAR) – minimum requirement (20%)	**60.20**	54.88	9.69	**N/A**	N/A	–
LCR – Rupee – minimum requirement (2019 – 100%, 2018 – 90%)	**278.12**	245.06	13.49	**N/A**	N/A	–
LCR – All currency – minimum requirement (2019 – 100%, 2018 – 90%)	**276.64**	321.29	(13.90)	**N/A**	N/A	–
Net stable funding ratio (NSFR) – minimum requirement (100%)	**175.18**	146.67	19.44	**N/A**	N/A	–
Regulatory capital requirements: Basel III (%)						
Tier 1 – minimum requirement (2019 – 8.5%, 2018 – 8.875%)	**12.02**	13.08	(8.07)	**13.90**	13.90	0.01
Total capital – minimum requirement (2019 – 12.5%, 2018 – 12.875%)	**14.35**	15.90	(9.74)	**16.27**	16.65	(2.27)
Leverage ratio – minimum requirement (3%)	**5.13**	4.76	7.77	**5.57**	4.91	13.44

Financial goals and achievements – Bank

	Goals	Achievement				
Financial indicator	**2019**	**2019**	2018	2017	2016	2015
Net interest margin (NIM) (%)	**2.45**	**2.63**	2.43	2.61	2.89	3.32
Return on average assets (ROA) (%)	**0.72**	**0.95**	0.78	1.47	1.51	1.60
Return on average shareholders' funds (ROE) (%)	**9.31**	**15.32**	10.95	27.24	29.37	31.15
Growth in income (%)	**7.65**	**8.96**	3.62	23.36	10.24	1.79
Growth in profit for the year (PAT) (%)	**(5.90)**	**48.84**	(53.68)	1.18	9.52	26.29
Growth in total assets (%)	**8.20**	**11.68**	2.56	11.01	7.50	8.80
Capital requirements: Basel III						
Tier 1 – minimum requirement (2019 – 8.5%, 2018 – 8.875%)	**Over 8.5%**	**12.02**	13.08	11.93	11.31	N/A
Total capital – minimum requirement (2019 – 12.5%, 2018 – 12.875%)	**Over 12.5%**	**14.35**	15.90	15.31	13.86	N/A

Chairperson's Message GRI 102-14



Only Sri Lankan Bank with 100% Government guarantee on deposits and interest thereon

Acquired Sri Lanka Savings Bank with an investment of

Rs. 3.1 Bn.

Our strong track record, business foundations, and brand reputation which we have meticulously built over the years, have stood us in good stead enabling us to weather the challenging year marked by subverting events that erupted across the macroeconomic environment in 2019.

Rs. 11.3 Bn.
contribution to the Government

Deposit market share increased to 10.75%

[SL] AAA (stable) (ICRA Lanka Limited)

The momentous transformational journey we have embarked and the creation of a new eco system will bring the benefits of digitalisation to the masses in Sri Lanka, offering a differentiated customer experience, and staying relevant, connected and engaged with our key stakeholders.

As the largest Licensed Specialised Bank in (LSB) Sri Lanka, we remain strongly committed to our unique mandate of fostering a savings culture in all Sri Lankans across the Nation. The 20.9 million accounts attest to our claim of being the Bank for all segments of society. Our strong track record, business foundations, and brand reputation which we have meticulously built over the years, have stood us in good stead enabling us to weather the challenging year marked by subverting events that erupted across the macroeconomic environment in 2019. We are confident that these will help us sustain our performance even in the midst of challenging times we are currently going through. Despite the challenging operating context during the year, we recorded the highest ever deposit growth and achieved a commendable growth in profit after tax whilst preserving the asset quality and safeguarding our net interest margin.

A challenging operating context

The world economy saw significant and broad-based deterioration over the past year amid prolonged trade disputes and wide-ranging policy uncertainties. World gross product growth slipped to 2.3% in 2019 which is the lowest rate since the global financial crisis of 2008-2009. The slowdown occurred alongside growing discontent with the social and environmental quality of economic growth, amid pervasive inequalities and the deepening climate crisis. Bilateral trade between the United States of America and China plummeted, with significant disruptions to international supply chains.

The Sri Lankan economy recorded a moderate GDP growth of 2.3% for the year 2019 due to subdued consumer confidence and investor sentiments following the Easter Sunday terrorist attacks. Almost every sector was impacted, especially tourism, agriculture and construction sectors. The Central Bank of Sri Lanka (CBSL) adopted an accommodative monetary policy stance to stimulate the economy in view of subdued economic growth, muted inflationary pressures and decelerating private sector credit growth amidst high nominal and real market interest rates. Further, the CBSL took steps to expedite the transmission of monetary policy measures to the economy through regulatory action aimed at reducing market interest rates.

The banking sector was characterised by subdued credit growth, and deterioration of asset quality as evidenced by the increased Non-Performing Loans (NPLs).

Delivering a resilient performance amid a challenging operating climate

In 2019, NSB recorded a strong financial performance with a 11.7% YoY growth in assets which reached Rs. 1.2 Tn. Surpassing Rs. 1 Tn. milestone, deposit base increased to Rs. 1.02 Tn. and the loan portfolio swelled to Rs. 454.4 Bn. reflecting an increase of 7.4% YoY. Profit after tax increased by 48.8% to Rs. 6.7 Bn. whilst preserving the asset quality and safeguarding the net interest margin. Reflecting improvements in operational efficiency, cost to income ratio improved to 49.35%. A dividend of Rs. 2.0 Bn. was paid for the financial year under review.

The many milestones we have achieved have etched lasting impressions exhibiting our resilience and agility in a challenging operating context. NSB remains the only Sri Lankan bank with a 100% Government guarantee for its depositors' money. Hence, we are Sri Lanka's largest and safest Licensed Specialised Bank catering to diverse customers.

Strengthening corporate governance

The sustainability of the Bank was strengthened by adopting stringent governance and risk management practices and also complying with applicable statutory and regulatory requirements. The Board remains fully committed to effective corporate governance and risk management oversight with a focus on internal controls, policies and procedures. Our open and transparent approach through direct and frequent engagement with regulators and key stakeholders continued to serve the shareholder well and led to significant enhancements to disclosures.

The appointment of new Board members will significantly strengthen the Board and further enhance the long-term sustainability of the Bank. Further, the review of major policies and establishing of new polices would steadily guide the Bank to a progressively healthy growth. Our strategy which is built on strong values, with a keen understanding of the operating context would navigate the Bank towards improving governance and risk management capabilities, while delivering sustainable outcomes for all our stakeholders. The Board provided oversight to the acquisition process

of Sri Lanka Savings Bank (SLSB) Ltd. which became a fully owned subsidiary of NSB with effect from 11 October 2019. SLSB will be positioned as the apex institution for development financing in Sri Lanka.

Embracing a digital future

The disruptive influence of technology is changing almost every facet of our lives. Customers are increasingly exploring ways to integrate internet enabled devices and artificial intelligence into their buying patterns and business ventures, causing a revolution in traditional business models. In keeping abreast of these developments, we strive to meet the changing priorities of customers in ways that reinforce our brand and resonate in the digital marketplace. The momentous transformational journey we have embarked and the creation of a new ecosystem will bring the benefits of digitalisation to the masses in Sri Lanka, offering a differentiated customer experience, and staying relevant, connected and engaged with our key stakeholders. The implementation of the core banking solution, treasury management solution and the human resource management system in the near future will enable us to achieve prudent growth with greater efficiency. Digital transformation of our operations enables us to efficiently streamline our treasury operations, enhance employee productivity and realise cost efficiencies.

Building our sustainability

Our success lies in earning the trust of our customers, ensuring that the actions we take to help them reach their goals are anchored on integrity and a shared set of values. Sustainability has been integrated into our strategy through employee engagement, social and environmental sustainability, financial stability, risk management and policy engagement and market development.

Our people are at the heart of this commitment and their determination is behind our ability to successfully manage financial, social and environmental factors. Customers and communities are benefiting from our dedication to environmental sustainability and ongoing efforts to improve the accessibility of our products. We have made excellent progress in building a more diverse and inclusive workforce and encouraging a healthy work-life balance. We continued to support national development and maintain the stability and the sustainability of the financial system of our Nation. In 2019, we contributed Rs. 11.3 Bn. to the Government through taxes, levies, and dividends, which was mobilised by the State to create value through economic and social projects.

We have pledged our support to the United Nations Sustainable Development Goals (UN SDGs), as we continue to address SDGs that directly relate to our business and our operations. Our commitment and ongoing efforts to the SDGs is outlined within this Annual Report.

Shaping a successful future

As the largest state-owned specialised bank in the Nation, with a rich financial heritage of over 187 years, we will continue to deliver increased value to our stakeholders and achieve a strong and prudent growth by focusing on sustainable value creation that is consistent, competitive, profitable and responsible. We will lead through example, setting the bar in terms of operational excellence, financial inclusion, customer service and business ethics and integrity. Governance and risk management will be key areas of focus as we maintain the highest standards in corporate governance and foster a culture of compliance and risk management.

We will explore the power of technology and data driven culture to transform the experience of customers to be more personalised and intuitive and also further streamline our operations. The team of dedicated employees is our strongest asset. Through ongoing investment we will continue to empowering our people and developing their capabilities and skills to guarantee that we have the best teams working within the right roles as they make a difference for our clients every day. We will also install state-of-the-art system security to pre-empt computer frauds and also create a culture of risk consciousness among our staff through a series of training programs. Through Sri Lanka Savings Bank Ltd. (SLSB), our fully owned subsidiary, we will diversify and expand our operations in the Sri Lankan banking sector by reaching untapped market segments with new portfolio of products and financial services. We continue to improve the lives of all Sri Lankans through our services and promoting innovation in all business processes, delivery channels and by capitalising on emerging opportunities.

At the time of writing this letter, COVID-19 outbreak has been declared a pandemic and it is likely to cause severe disruptions in global supply chains and international trade, declines in international tourism and business travel, lower consumption etc., posing significant challenges to the global economic development in 2020 and beyond. Sri Lanka will not be an exception. Whilst we have taken appropriate actions to protect the health and safety of both our employees and customers, we will

implement specific action plans to protect the sustainable performance of our Bank.

We remain inspired, purposeful and positive. We have a strong and sustainable organisation: a robust and diversified business mix: a strong balance sheet and capital position; an unwavering commitment to regulatory compliance: dedicated people at every level of the Bank, a strategy that is working and creating value, a commitment to diversity and inclusion, and a culture of integrity.

Expressing appreciation

I wish to thank my colleagues on the Board for their strong and consistent support and insightful guidance. I warmly welcome Ms Damitha Kumari Rathnayake, our new Acting General Manager/CEO of National Savings Bank. She brings a wealth of knowledge and experience that would be a great strength in steering NSB to reach greater heights in the years ahead. I wish to thank the former General Manager/CEO of NSB, Mr S D N Perera, for his invaluable contribution to the Bank.

My sincere appreciation is extended to our team of loyal and dedicated employees led by the General Manager and the Management Team. Their commitment and relentless focus on driving success, engaging with our customers, developing innovative solutions and strengthening our brand has made a difference for our success. My appreciation is extended to our customers for their valued patronage and loyalty and our shareholder for the steadfast support extended to us at all times. I am grateful to the continued support and assistance extended by the Hon. Minister of Finance Economic and Policy Development and the Hon. State Minister of Finance. My deep appreciation is extended to the Postmaster General, and the officials of the Postal Department, for the vital assistance provided to NSB across the island. I appreciate the support and guidance extended by the Secretary to the Treasury and the officials, the Governor and officials of the Central Bank of Sri Lanka. My appreciation is extended to the Attorney General and the Auditor General.



Ms Keasila Jayawardena
Chairperson

24 March 2020

General Manager/CEO's Review GRI 102-14



Navigating a challenging environment we have recorded a robust performance, through the resolve of our people and the pragmatic strategic direction pursued by our Bank.

48.8%
Robust YoY growth in Profit After Tax

Surpassed
Rs. 1.0 Tn.
customer deposits milestone

1.57%
Lower NPL Ratio in the industry

First State Bank to obtain PCI-DSS Certification

Safest and largest Specialised Bank in Sri Lanka

11.7% YoY growth in assets to Rs. 1.2 Tn.

We boost direct and indirect employment, and wealth creation in the Nation through increased savings which are channeled towards investment that takes the country forward.

Buoyed by the strength and reputation of 187 years of leadership, National Savings Bank stands as the safest and largest specialised bank in Sri Lanka committed to fostering a healthy, sustainable and secure savings protocol for everyone. Navigating a challenging environment, we have recorded a robust performance, through the resolve of our people and the pragmatic strategic direction pursued by our Bank.

The operating context during the year was characterised by a subdued economic growth, high market interest rates, policy uncertainty, and dented business confidence following the Easter Sunday attacks. The implications of these adverse effects were reflected in the banking industry through low credit demand and a tightened credit screening in an environment of deteriorating credit quality.

A noteworthy performance

Despite the challenging operating context, we recorded a 48.8% YoY growth in profit after tax to Rs. 6.7 Bn. in financial year 2019 due to prudent management and the efficient implementation of our ambitious growth plan. Net interest income swelled by 15.9% to Rs. 28.8 Bn. whilst net non-interest income recorded a substantial increase of 144.6% YoY to Rs. 3.1 Bn. Although operating expenses increased by 11.2%, cost to income ratio improved to 49.35% reflecting the productivity and efficiency improvements across the Bank. Taxes increased by 34.3% to Rs. 9.0 Bn. mainly due to the Debt Repayment Levy.

Asset base grew by 11.7%, to reach Rs. 1.2 Tn. in 2019. This was largely aided by the 21.1% growth in deposits which amounted to Rs. 1.02 Tn. as at end 2019. The Bank's deposit base recorded its highest mobilisation to-date in the year under review, which amounted to Rs. 171.4 Bn. This is a strong refection of the strong customer confidence in our Bank. We grew our lending base by 7.4% to Rs. 454.4 Bn. whilst preserving our asset quality as reflected by the Non-Performing Loans ratio which reached to 1.57% demonstrating the higher asset quality of the Bank. We settled USD 250 Mn. worth of USD denominated Senior Note upon maturity. However, Rs. 20.0 Bn. was raised through the issuance of senior debentures to finance the funding requirement of unwinding the USD/LKR swap agreement which was arranged against the above-mentioned USD denominated Senior Note.

We successfully implemented and complied with the new accounting standard on leases – SLFRS 16 which came into effect from 1 January 2019. The new Standard eliminates a lessee's classification of leases as either operating leases or finance leases and instead, almost all leases are "capitalised" by recognising a lease liability and right-of-use asset on the balance sheet.

During the year, we introduced the Near Field Communication (NFC) enabled debit cards and in-house printing of EMV debit cards. For the benefit of the migrant workers, "*Sihina Maliga*", a special housing loan was launched to enable them to build a house by borrowing up to Rs. 10 Mn. with a grace period of two years and a repaying period of 15 years.

We were the first State bank to achieve the "Payment Card Industry Data Security Standard" (PCI-DSS) certification, which is the cardholder data security standard accepted worldwide. We were also awarded the 5th most valuable brand in Sri Lanka by the Brand Finance Lanka Ltd.

We continued to offer attractive and affordable new products for a multitude of purposes. The establishment of Smart Zones for digital banking, launch of internet banking services and the products such as iSaver and NSB Reach have ensured excellent quality of service and a high level of customer engagement across all touchpoints.

Global Finance Magazine has affirmed NSB as the safest Bank in Sri Lanka for the 4th consecutive year in 2019. We were assigned [SL] AAA with Stable outlook by ICRA Lanka Limited, a group company of Moody's Investors Service in June 2019. The rating reflects our 100% Government ownership and explicit guarantee on deposits, high quality lending portfolio, presently adequate capital profile and low risk investment portfolio.

Steady progress on our strategic agenda

We made steady progress in 2019 on our strategic agenda of our triennial business plan which charted our course from 2017 to 2019. We have integrated sustainability into our corporate strategy and business model through the corporate sustainability policies.

Our technology investments are improving customers' experience and also helping to increase the efficiency and effectiveness of our employees at all levels. By seamlessly integrating human and digital interactions we have got even closer to our customers, delivering an enhanced customer experience.

By understanding customers' specific expectations and their need for secure, convenient, speedy and cost-effective solutions, we have provided a meaningful proposition to deliver a faster, smarter and novel tech-based services on par with any other commercial bank in the country.

We consider safety and security of people's savings as paramount to our Nation's progress. Having a strong culture of operating ethically, acting with integrity and effectively managing our risk, we have taken essential steps to strengthen risk management and governance across the Bank, with a special focus on mitigating credit risk, strengthening information security, and having a strong capital and liquidity base.

We firmly believe that one of the best investments we can make is in our people. Over the past several years, we have invested significantly in our leadership teams, meaningfully improving our Bank's strength and efficiency. At the same time we have made significant investments in training and development of our employees through internal, external and foreign training and coaching programmes bringing greater alignment of career planning with business needs and career aspirations. We have also enhanced our staff welfare facilities and improved their work-life balance nurturing a highly motivated, engaged and dedicated team of employees. In our efforts to improve diversity and inclusion we have successfully increased female representation in corporate management. As at end 2019, 43% members of the Corporate Management were female.

Our commitment to corporate social responsibility and sustainable business practices is intrinsic to our values and corporate culture. This commitment enables us to add long-term value to our stakeholders and we have integrated corporate social responsibility in all of our services and operational activities.

During the year, we obtained the Carbon Neutral Certificate presented by Sri Lanka Climate Fund for the assessed period of 2018 in our efforts to reduce our carbon footprint and contribute towards environmental sustainability.

As one of the biggest lenders to the government we serve the Nation by contributing to the General Treasury by way of taxes, levies, fees and dividend while being the second largest Government Security holder in Sri Lanka. We partner the State in the Nation Building by funding long-term development projects and other socio-economic projects of the country and support the Government to maintain stability and sustainability of the financial system. From a retail point of view, we are the biggest lender in the housing market in Sri Lanka, with the largest market share. We boost direct and indirect employment, and wealth creation in the Nation through increased savings which are channelled towards investment that takes the country forward.

Our shared vision for a sustainable bank

We have built a strong and stable bank. Even as the environment is changing fast, we will boost our digitalisation and innovation efforts and continue to offer optimum service to our clients. Our employees will continue to play a significant role in this process.

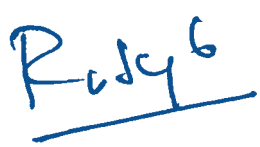
We remain committed to serving and supporting our stakeholders through the COVID-19 pandemic and the aftermath. The necessary safety protocols and operational measures have been implemented to protect our stakeholders and continue our business operations.

We are the only specialised savings bank in Sri Lanka with a 100% Government guarantee. Our Bank has been ably managed by a highly competent Management and a Board since its inception and has fulfilled the aspirations of the people of our Nation. We have an excellent brand and a reputation that is source of tremendous pride. Looking forward we will continue to build on our momentum, become even more relevant to our customers and build an even better Bank delivering increased value to all our stakeholders.

Appreciation

I thank our customers for their loyalty and patronage and the shareholder for unwavering support. I greatly value and appreciate the guidance and visionary leadership of the Chairperson and the Board. I extend my appreciation to Mr S D N Perera, the former General Manager/CEO of NSB, for his valuable contribution to the Bank.

I deeply appreciate the invaluable contribution and dedication of the management team and the staff members. To the Postmaster General, and all officials of the Postal Department, I would like to extend my deep appreciation for the assistance provided to NSB across the island. I express my appreciation to the Hon. Minister of Finance, Economic and Policy Development, the Hon. State Minister of Finance, Secretary to the Treasury and the Officials, the Governor and Officials of the Central Bank of Sri Lanka, the Attorney General, the Auditor General and his team, Heads of other regulatory bodies, and their teams for their continued support and guidance.



Ms Damitha Rathnayake
Acting General Manager/CEO

24 March 2020

Our Value Creation Model

A comprehensive discussion of the Bank's value creation process guided by NSB's Vision, Mission, Values, and the Strategy. This section includes NSB's Business Model that presents an overview of the value creation process. Further, it presents the operating environment and outlines the Bank's stakeholder engagement process, materiality identification process, and sustainability policy which contributes to the formulation of the Bank's strategy.

20 Our Sustainable Business Model

22 Operating Environment

49 Our Strategy

70 Stakeholders

78 Materiality Matters



Our Sustainable Business Model

Operating environment (refer pages 22 to 48)

Changes in political and economic spectrums (refer pages 36 to 38)

Stakeholders
refer pages 70 to 77

- Shareholder/ Investor
- Customers
- Employees
- Regulators and Government Institutions
- Business Partners
- Society and Environment

Inputs

Financial capital — pages 90 to 111

A solid capital base and a balanced funding mix to support operations and business activities of taking deposits and lending.

- Share capital and reserves
- Cash and cash equivalents
- Long and short-term borrowings
- Customer deposits

Manufactured capital — pages 112 to 119

Infrastructure including technology used in the production and delivery of products and services to our customers.

- Property, plant and equipment
- Digital infrastructure
- Customer touchpoints

Human capital — pages 130 to 143

A committed, engaged and a high-performing team of employees.

- 296 new recruits
- 32,138 hours of training
- 645 promotions
- Equal opportunity employer
- Healthy work-life balance

Social and relationship capital — pages 144 to 161

Collaborative relationships with a range of diverse stakeholders including customers, business partners, regulators, and communities where we operate.

- 351 registered business partners
- Extensive product portfolio
- 100% Government guarantee on deposits and interest thereon
- Diverse customer touchpoints
- 100% Procurement from local suppliers
- Enhanced relationships with business partners
- Rs. 30 Mn. investments in CSR projects

Intellectual capital — pages 120 to 129

Strong brand, customer loyalty, internal systems and processes, corporate values and specialised skills and competencies of employees.

- Corporate culture
- Institutionalised knowledge
- Culture of innovation
- Policies, frameworks and processes
- Responsible leadership

Natural capital — pages 162 to 169

Energy, water and waste management and environmental sustainability.

- NSB Sustainability Policy
- Rs. 1.3 Mn. investment in NSB agroforestry
- Green banking initiatives
- Digitalisation of operations
- Responsible lending
- Green loans

Regulatory changes (refer pages 46 to 47)

Demographics changes
(refer pages 44 to 46)

Operating in digital age with disruptive technologies
(refer pages 38 to 40)



refer pages 90 to 169

SUSTAINABLE DEVELOPMENT GOALS

Transformative society and environment
(refer pages 41 to 43)

Outputs

Products
(pages 426 to 429)

i. Deposits
(21% growth YoY)

Savings deposits
Time deposits

ii. Lending products
(7.5% growth YoY)

Retail lending
Personal loans
Housing loans
Pawning advances
Auto loans
Loans against deposits

Corporate lending
Direct lending to FIs
Loan syndication
Project lending

Services
Inward and outward remittances
Trade finance
Safety deposit lockers

Value added services
Card services
Utility bill payment

Carbon Footprint
GRI Content Index in accordance with Core Criteria
(refer pages 170 to 174)

Outcomes

Financial capital
Rs. 6.7 Bn. profit after tax
Rs. 2 Bn. dividend paid
Rs. 4.5 Bn. of retained earnings
Rs. 612.7 Bn. investment in Government Securities
7.4% growth in lending
Rs. 1.2 Tn. asset base

- A Funding Strategy based on strategic priorities
- Capital investment that generates best financial and social outcomes
- Continued financial stability and strength
- Sound and stable credit portfolio

Manufactured capital
256 branches
39 Smart Zones
16000+ iSaver points
17,847 new internet banking customers

- Value propositions through self-service channels
- Digital transformation across the value chain
- Business Continuity
- Physical and digital infrastructure reliability
- Operational efficiencies and improved productivity

Human capital
4,715 total workforce
98.1% retention ratio
1.9% turnover ratio
7 average number of training hours
99.7% returned after maternity leave
54% of female employees (total)
Rs. 25.9 Mn. of Gross Income per employee

- An employer of choice
- A skilled and trained workforce
- A safe working environment
- Inclusive and diverse workforce
- Equal opportunity employer

Social and relationship capital
20.9 million accounts
495,000 new customer accounts
100% local employment
Rs. 11.3 Bn. contributed to the Government
Enhanced English knowledge of 40,000+ schoolchildren

- Customer centric and reliable service delivery
- Retain social license to operate
- Fair and equitable tender process
- Proactive and collaborative supplier development
- Fair, transparent and ethical management

Intellectual capital
AAA Credit Rating by ICRA Lanka Ltd.
AA Brand rating
25% increase in brand value
Safest bank in Sri Lanka
1,225 employees with over 10 years of experience
Awards and accolades

- Distinctive products and services
- Strong governance structure and oversight
- Agile digital technologies and capabilities
- A knowledge-based organisation
- Integrated planning and resource allocation
- Culture of innovation
- Enhanced transparency through advanced, integrated digital platforms

Natural capital
222 Green loans disbursed
6,500 plants distributed
79,368 (M^3) of water consumption
42 branches converted to solar power
26 branches connected to the grid through net metering
Per employee energy consumption 7.6 GJ
Energy consumption per branch 139.4 GJ
Per employee water consumption 16.8 ltrs.

- Environmental stewardship
- Improvement in energy efficiency
- Cost savings from energy efficiency
- Identifying opportunities for green business

Value created for NSB

Managing our capitals effectively and efficiently enable us to ensure financial stability in the short, medium and long term in a turbulent economy

- Being agile in an ever-changing socio-economic environment
- Strengthen our credibility in terms of service delivery and customer-centric approach
- Enhance human capabilities and productive capacity of our people
- Promote ethical business practices as well as sound sustainability concerns within our operations
- A diverse and experienced talent to meet current and future needs
- Build partnerships for sustainable growth
- Comply with regulatory requirements to maintain the required compliance within our operations
- Build stable capital and liquidity to fund growth and attract funding from various sources

Value Shared with others

Through our activities, we deliver these outcomes for our shareholder, the economy and other stakeholders

Economic
- Enhance customer wealth through increased interest on their investments (Customer, Shareholder/Investor)*
- Strengthen the trust of the public in the banking sector (Customer, Shareholder/Investor)*
- Strengthen stability and confidence in the Sri Lankan economy (Customer, Society and Environment)*
- Improved access to the financial services leading to economic growth and financial inclusion (Customer and Society and Environment)*
- Enhanced standard of living through increased employee wealth (Employee, Society and Environment)*
- Create direct and indirect employment for Sri Lankans (Employees, Society and Environment)*
- Generate increased economic value (Shareholder/Investor, Regulators and Government Institutions)*

Social
- Improved access to financial products and services through convenient banking to customers' needs (Customers)*
- Full compliance with regulators and Government regulations (Regulators and Government Institutions, Employees, Business Partners)*
- Nurture a highly engaged and competent workforce (Employees, Society and Environment, Customers)*
- Enhance and improve human capabilities and productive capacity within the Sri Lankan job market (Employees, Society and Environment)*
- Improve economic, social, cultural and environmental well-being of the communities (Regulators and Government Institutions, Society and Environment)*
- Enhance knowledge of future generations through seminars and educational loans (Society and Environment)*
- Contribution to sustainable national development (Regulators and Government Institutions, Society and Environment)*
- Inculcate the savings habit in a wider community via the postal network and contribute to financial inclusion (Customer and Society and Environment)*
- Promote infrastructure development for funding projects (Regulators and Government Institutions, Society and Environment)*
- Improve physical and mental well-being of our employees and the communities where we operate (Employees, Society and Environment)*

Environmental
- Support a low carbon and environmentally friendly economic growth (Society and Environment, Regulators and Government Institutions)*
- Support the Government/Sri Lanka to achieve SDGs (Society and Environment)*
- Promote a green economy (Society and Environment)*
- Enhance capacity of the natural environment to meet the resource needs of future generations (Society and Environment)*

** Related stakeholders*

This outlines how the rest of the chapters are linked with business model in an integrated way.

1. **Operating environment**

   The environment in which we operate including global economic condition, local economy, geopolitical tensions, industry trends, operational challenges and increasing environmental and social concerns impacts our ability to create value. Refer to pages 22 to 35 for details on our external operating environment context.

2. **Risks and opportunities**

   Our strategy is impacted by risks and opportunities that could materially impact the delivery of value to our stakeholders. The main purpose of risk management is to adequately position the Bank to understand and respond to the potential risks that could materially impact the execution of our strategy and value creation. Refer to pages 248 to 274 for details on risk management.

3. **Stakeholders**

   Delivering value to stakeholders influences our reputation. Our success and sustainability depend on the support of our stakeholders and it is essential for us to understand and be responsive to their needs and interests. For details of our stakeholder engagement, refer to pages 70 to 77.

4. **Our strategy**

   Our strategy keeps us focused and sets a clear path to deliver sustainable value in the short, medium and long term. We have a strong foundation that will enable us to execute our strategy to grow in our business. We recognise our responsibility to contribute towards a sustainable society and while we continue to entrench sustainability in our day-to-day decision-making, we are also embedding it into our strategy. Refer to pages 49 to 69 for details on our strategy.

5. **Six capitals**

   When making decisions on how to manage and grow our business, we take into account the resources and relationships that are critical to our ability to create value. We refer to these as the six capitals. Inputs of each are needed for the effective production and delivery of our goods and services, generate output and outcome thereby generating value for all our stakeholders. For details on how we use the six capitals to create value and the trade-offs between these capitals, refer to pages 90 to 169.

6. **Material matters**

   Material matters are those matters with the potential to affect our value creation and the achievement of our strategy. We provide a more detailed discussion on the material matters (see pages 78 to 88) which could substantially affect our ability to create value in the short, medium or long term. These matters form the anchor of the content throughout this report.

7. **Supported by strong governance and ethics**

   We are a state-owned organisation, committed to high standards of business integrity and ethics. Being accountable and responsible to all stakeholders is a priority. For details on our governance overview refer to pages 196 to 247.

Operating Environment

Global economy in 2019

Global economy growth recorded its lowest growth of the decade in 2019, decelerating to 2.9% (source: World Economic Outlook by IMF) reflecting common influences across countries and country-specific factors. Weakening growth in the United States (US), China and the Euro area as well as trade disputes between the US and China negatively impacted the global growth considerably in 2019. In many parts of the world, the manufacturing sectors were either in recession or close to recession. In response, many central banks began to loosen monetary policy as had been expected a year ago – with some countries (notably China and the US) providing additional stimulus as well.

Further pressures came from country-specific weakness in Emerging Markets and Developing Countries (EMDEs including Brazil, India, Mexico, Russia, and Turkey). Worsening macroeconomic stability related to tighter financial conditions (Argentina), geopolitical situations (Iran, Saudi Arabia, South China Sea) and social unrest (Venezuela, Libya and Yemen) also contributed largely to the global economy slowdown.

Overview of global economy

US – China trade war

Rising trade disputes between the US and China and associated uncertainty weighed on international trade, business confidence and continuously weakened global trade and investment. Trade disputes prolonged for 18 months between the US and China for past two years disrupted the global trade and significantly impacted on global growth. However, the situation eased in December 2019, as the US and China agreed on Phase One agreement.

Economic slowdown in US, China and Euro area

The US, the Euro area, and China the world's largest economies suffered a marked deceleration of activity in 2019. A deepening slowdown in any of these economies would worsen economic prospects in countries around the world through direct trade linkages and commodity prices, as well as through financial and confidence channels. Spill over effects from a slowdown in China would have sizable effects on the country's trading partners and in commodity producers.

The US economy grew at 2.3% in 2019 amidst a slump in manufacturing activities and exports. US Federal Reserve lowered the interest rates thrice in 2019 along with massive tax cuts. In China, growth decelerated to 6.1% amid softening domestic demand and heightened trade tensions. The government also adopted an accommodative monetary policy, providing financial support including tax cuts and support to local governments for public investment spending.

Economic activity in the Euro area has deteriorated significantly. Several economies were on the verge of the recession, with particular weakness in the German industrial sector as it struggled with falling demand from Asia and disruptions to car production. Uncertainty concerning Brexit throughout the year also weighed on growth. The European Central Bank (ECB) has provided monetary stimulus by pushing its policy rate deeper into the negative territory, restarting quantitative easing and providing inexpensive credit to banks.



Relaxed fiscal and monetary policy around the globe

As growth has continued to decline, major central banks in many economies loosened monetary policies, with interest rates reaching unprecedented lows last year. The governments stepped up fiscal support, including tax cuts and support to local governments for public investment spending. In the US, after nine consecutive hikes between 2015 and 2018, the Federal Reserve lowered three times its target interest rate from 2.50% in December 2018 to 1.75% during 2019. The European Central Bank (ECB) cut its deposit rate to a historic low of -0.50% in September 2019. The Bank of Japan's deposit rate has remained at -0.10% since February 2016. Such low rates raise concerns about the soundness of banking systems.

Massive global debt

Irrespective of developed or developing countries, the global debt recorded a higher level reaching an all-time high of 230% of GDP in 2018 and have grown since, (World Bank: Special Report) making countries particularly vulnerable to any shocks.

Commodity market and prices

Oil prices averaged at USD 61/bbl in 2019, a 10% declined from 2018 largely driven by productions cut by the Organization of Petroleum Exporting Countries (OPEC) and its partners as well as production constraints in the Iran, Saudi Arabia and Venezuela due to geopolitical and domestic factors. Similarly, prices for most base metals weakened in the second half of 2019 reflecting weaker global growth and trade tensions.

The prices of most commodities fell in 2019, mainly reflecting the deterioration in the growth outlook-especially that of Emerging and Developing Economies (EMDEs), which tend to have a larger income elasticity of demand for commodities. Prices for most base metals weakened in the second half of 2019, primarily reflecting weaker global growth and trade tensions. Agricultural prices declined in the second half of 2019 due to improved weather conditions that ensured elevated stock levels for grains. (Source: Global Economic Prospects: January 2020 by World Bank)

Geopolitical climate

Geopolitical risks remain acute globally and in several regions. The profound political consequences damaged investor confidence and hampered political stability which are fundamental conditions for prosperity and economic growth. Instability within US political institutions, European fragmentation, shifting global alliances and regional power politics play on populist and nationalist movements were the drivers of political climate that prevailed during 2019.

The disruption in Saudi oil production in mid- September highlights the potential for renewed tensions in the Middle East. Amid geopolitical concerns, a sustained disruption in oil production may increase energy prices, to the detriment of affected suppliers and commodity importers. In addition, if conflicts in Eastern Europe and in South Asia escalate, there could be important consequences for growth in the associated regions.

Social upheaval

Social upheaval driven by inequality hinders growth and damages macroeconomic fundamentals and stability of the countries. Unrest has the potential to disrupt activity and damage infrastructure. It may also make fiscal consolidation efforts more challenging for governments trying to ease tensions.

Social unrest has been on the rise in a growing number of countries in various regions, due to discontent about inequality, slow growth, governance, and economic policy. There has been unrest in Brazil, Chile, France, Hong Kong, Lebanon, Spain and other countries for sustained periods during 2019 driven largely by inequality.

Climate change

Climate change, the driver of the increased frequency and intensity of weather-related disasters, already endangers health and economic outcomes, not only in the directly affected regions. Climate change is increasing the frequency of severe weather conditions and lowering agricultural productivity in some regions. Similarly, regions with large coastal populations are at risk, not only from extreme weather, but also from rising sea levels.

Weather-related disasters such as tropical storms, floods, heatwaves, droughts, and wildfires have imposed severe humanitarian costs and livelihood loss across multiple regions in recent years. It could pose challenges to other areas that may not yet feel the direct effects, through cross-border migration or financial stress. A continuation of the trends could inflict even bigger losses across more countries.

Outlook

Global growth is expected to recover to 2.5% in 2020, up slightly from the post-crisis low of 2.3% registered last year amid weakening trade and investment. (Source: Global Economic Prospects January 2020 by World Bank). However, as per IMF's estimations (Source: World Economic Outlook January 2020), Global growth which is estimated at 2.9% in 2019, is projected to increase to 3.3% in 2020 and inch up further to 3.4% in 2021.

The growth profile also relies on relatively healthy emerging market economies maintaining their robust performance even as advanced economies and China continue to slow gradually toward their potential growth rates. The effects of substantial monetary easing across advanced and emerging market economies in 2019 are expected to continue working their way through the global economy in 2020. The global recovery is projected to be accompanied by a pickup in trade growth, reflecting a recovery in domestic demand and investment in particular, as well as the fading of some temporary drags in the auto and tech sectors.

These outcomes depend to an important extent on avoiding further escalation in the US-China trade tensions, averting a no-deal Brexit, and the economic ramifications of social unrest and geopolitical tensions remaining contained.

Rising geopolitical tensions, notably between the US and Iran, could disrupt global oil supply, hurt sentiment, and weaken already tentative business investment. Moreover, intensifying social unrest across many countries could disrupt activity, complicate reform efforts and weaken sentiment, dragging growth lower than projected.

Implications for the Sri Lankan Economy:

- A global economy downturn could affect Sri Lanka's trade, tourism and workers' remittances
- A downturn in trading partners of Sri Lanka would have significant effects on the economy to the extent it is deeply connected to other countries. It may impact exports, imports and investments
- Global primary commodity prices always impacted inflation in Sri Lanka whilst inflation and repo rate followed a similar pattern
- This would significantly increase Sri Lanka's energy imports and exert serious pressure on the country's already strained balance of payments position and foreign exchange reserves
- Changes in macroeconomic fundamentals of the country may prompt the Sri Lankan rupee to depreciate/appreciate
- Strengthening or weakening economic conditions of the country could trigger financial sentiments, portfolio reallocation towards safe assets and affect the investments in financial markets (interest rates differentials determines the foreign inflows to Sri Lanka)
- Financial markets and exchange rate volatility affect the terms of foreign borrowing, external debt repayments and the capacity to import
- Disruptions caused by climate change in the trading economy could affect the volume and value of agricultural imports and subsequently price levels in the country
- Higher tariff barriers between the United States and its trading partners impact business sentiments and compounded cyclical and structural slowdowns in many economies eventually impact global supply chains
- Political developments within the nation could influence the foreign policy of Sri Lanka

[The impact of the global economic developments on Sri Lankan Economy and its' performance during 2019 is explained in next chapter "Sri Lankan Economy". Refer pages from 25 to 35]

Sri Lankan Economy

January 2019 – New set of formats of financial statements to replace the existing formats in line with the new Sri Lanka Accounting Standards was issued on Publication of Annual and Quarterly Financial Statements and Other Disclosures by licensed banks

March 2019 – Establishment of a National Quick Response Code Standard for Local Payments

– Issued International Sovereign Bonds worth of USD 2.4 Bn.

April 2019 – Removal of restrictions on opening of Letters of Credit (LCs) for importing motor vehicles

April 2019 – Easter Sunday terrorist attack

April 2019 – Regulatory requirements to identify Small and Medium Enterprises for the purpose of capital and liquidity requirements under Basel III Framework

April 2019 –Imposed interest rate caps on Sri Lanka Rupee Deposits

May 2019 – Granted a moratorium to individuals and entities in the tourism sector in respect of outstanding performing credit facilities till 31 March 2020

June 2019 – Amended the Banking Act Direction No. 01 of 2018 on Loan to Value (LTV) ratios for credit facilities granted in respect of motor vehicles



June 2019 – Issuance of International Sovereign Bond Worth of USD 2Bn.

December 2019 – Introducing a new framework for dealing with Domestic Systemically Improvement Banks (D-SIB), in line with international best practices and determining four licensed banks as D-SIBs in terms of the new framework

November 2019 – Presidential election

November 2019 – Interest rates caps were imposed for certain credit products (Credit cards, Temporary Overdrafts)

October 2019 – Reduced interest rates of rupee denominated loans and advances by target date

September 2019 – Maximum interest rates on Sri Lanka rupee deposits was rescinded

September 2019 – The proposed Microfinance and Credit Regulatory Authority Act has approved by the Monetary Board to regulate and supervise money lending and microfinance businesses

August 2019 – Banking Act Directions were issued on market conduct and Treasury operations of licensed banks

August 2019 – SDFR and SLFR were reduced by 50 basis points to 7.00% and 8.00%, respectively

July 2019 – Sri Lanka was promoted as the upper middle income earning country as a result of an increased GNI with GDP per capita of USD 4,102

Political developments

Presidential elections in November 2019 and upcoming Parliamentary Elections, scheduled to be held in 2020, would improve Government processes and legislative efficiency, and resolve to a large degree, political uncertainty in the country associated with deep-rooted factionalism within the government. Persistent political infighting has hindered responsiveness and predictability in policymaking in recent years, and weighed particularly on business confidence, investment plans, and overall growth prospects. Perceived widening divisions in civil society in recent years, particularly along ethnic and religious lines also increase the risk to political stability.

GDP growth

Sri Lanka's economic growth has been on a downward trajectory since 2015, and recorded a subdued growth of 2.3% in 2019 compared to 3.3% in 2018, the lowest since 2001. This is mainly attributable to the sluggish economic activities coupled with Easter attacks and subdued performance of the agriculture sector due to adverse weather conditions.

Sri Lanka's GDP recovered in 1Q 2019 following the period of political crisis which occurred in the 4Q 2018. However, the Easter attacks in April 2019 had a devastating impact on the services sector and slowed down the momentum gained in the earlier quarter. During 3Q of 2019, the services and industrial sectors commenced recovery and economic activities improved following the elections in November 2019 supported by positive sentiments. During the year, Sri Lanka was lifted to the upper middle income status in terms of per capita Gross National Income (GNI) as a result of increase in GDP per capital of USD 4,102.

Implications for the Banking Industry:

- The lower than expected economic growth reduces the consumption, investment and purchasing power of the people which results in lower credit and deposit growth
- Reaching upper middle income status makes Sri Lanka to borrow in more commercial terms with increased costs and risks
- Loan exposure to particular sectors (construction, tourism, and agriculture) affects the repayment capacity and rising NPLs of the banking and financial sector

  (For further reading see "Credit growth" of this chapter and "Loans and advances" sections under banking sector overview)
- The asset base continued to grow at a slower pace compared to preceding years
- Need for policy stimulus to improve business conditions

  (For further reference refer, interest rates, liquidity and money market and Government securities section)

Inflation

Inflation measured by both the Colombo Consumer Price Index (CCPI) and the National Consumer Price Index (NCPI) accelerated to 4.8% and 6.2% respectively in 2019 despite remaining at a mid-single digit level. This was mainly due to the volatility in food prices stemming from adverse weather conditions along with tariff revisions and one-off effect of increased house rentals. The impact of the one-off adjustment is expected to continue along with subdued demand, it is likely to remain in the desired range of 4% – 6% during the 2020. Nevertheless, over the medium term, inflation is expected to be maintained within the desired range underpinned by timely monetary policies. Reflecting subdued economic activity, the unemployment rate increased to 4.8% in 2019 against 4.4% in 2018.

Implications for the Banking Industry:

- Inflation affects the purchasing power of the general public and wages and salaries of the banking sector
- Changes in oil prices may have an impact on the transportation costs
- Increase in Gold prices expanded the pawning portfolio and increased the revenue generated from the pawning business
- Prevailing rate of inflation largely determines the monetary policy decisions taken by the Central Bank of Sri Lanka (CBSL)

Interest rates

The Central Bank moved to an accommodative monetary policy stance in 2018. This was in line with the increasingly accommodative global monetary policy stance while local conditions such as subdued economic growth, decelerated private sector credit and muted inflation expectations followed by Easter Sunday attacks prompted the Central Bank for the need for monetary stimulus. Considering the high real interest rates on deposit and lending products which prevailed in the economy, temporary caps on deposit rates of financial institutions were imposed with effect from April 2019 to reduce the cost of funds of financial institutions and expedite monetary policy transmission.

However, market lending rates did not adjust downwards compared to the decline observed in deposit

interest rates. To address these unduly persistent lags in the transmission of policy measures to lending rates, the Central Bank imposed temporary caps on lending rates on all rupee denominated loans and advances in September 2019 to enhance the efficiency of the transmission, while removing deposit rate caps on licensed banks. Consequent to these monetary and regulatory measures, a sizable reduction in lending rates was expected, which would gradually enhance the demand for credit, thereby contributing to economic activity. As a result of these measures as well as eased monetary conditions, market interest rates, particularly, market deposit rates and yields on Government securities started to adjust downwards.

Implications for the Banking Industry:

- Caps on maximum interest rates for Sri Lankan rupee deposits (withdrawn in later 2019) and lending makes the banks to reprice its deposit products and lending products
- Eliminate the rivalry among the players in the industry based on the interest rates offered to customers
- Facilitate lower costs of funds and profitability of the banking sector

(Read this in conjunction with "Loans and Advances" and "Profitability" sections under overview of the banking sector)

Liquidity and money market rates

Liquidity in the market was volatile and recorded a mixed liquidity position during the period under review. Liquidity shortage prevailed in the latter part of 2018 as well as early 2019. In order to release liquidity into the market, CBSL reduced the Statutory Reserve Ratio (SRR) by 100 basis points at end March 2019 and lowered the policy corridor by overall 100 points in May and August 2019 respectively. Weaker credit demand following the Easter attacks also helped the recovery of liquidity. Further, the reverse repo auctions conducted by CBSL, successful issuance of International Sovereign Bonds (ISB) of USD 2.4 Bn. and USD 2.0 Bn. in March and June 2019, and the proceeds of Extended Fund Facility (EFF) amounted to USD 32.7 Mn. by the International Monetary Fund (IMF) also helped to maintain the liquidity. By end December 2019 CBSL had injected around Rs. 47.7 Bn. to domestic money market by way of purchasing Treasury Bonds at the outright action. These measures resulted in a liquidity surplus of Rs. 37.8 Bn. by end of 2019.

Average Weighted Call Money Rate (AWCMR) and Average Weighted Repo Rate (AWRR) reflecting the money market interest rates were gradually declining on the back of the CBSL liquidity injections and other policy measures taken by CBSL. Declining interest rates in the money market was reflected in the declining Treasury bill yield. By end 2019, AWCMR and AWRR stood at 7.45% and 7.53% respectively.

Government Securities

The Government Securities market expanded during the year (face value basis), strongly on the back of strong demand witnessed from domestic investors in the primary market despite the decline in foreign holding in the secondary market.

The primary and secondary yields on Government Securities witnessed a notable decline and were seen falling for most part of the year supported by strong buying interest. Especially, excess demand from the banks was observed in the primary market, since they diverted excess funds to invest in risk-free Government Securities following the declining demand for the loans and advances. However, the changes in global market conditions and deteriorating investor confidence compelled the foreign investors to pull out their investments from the secondary market of Government Securities.

Net outflow from the Government Securities amounted to USD 333.7 Mn. during 2019. The outstanding foreign holdings of Treasury Bonds and Treasury Bills amounted to Rs. 103.9 Bn. at end of 2019, declined by 34.5% from Rs. 158.6 Bn. in 2018.

Treasury Bond market

Treasury Bond market recorded a YoY growth of 13.5% from Rs. 4,007 Bn. in September 2018 to Rs. 4,550 Bn. (face value basis) in end September 2019 compared to 6.2% growth during the corresponding period of the previous year. The excess demand from domestic investors, particularly by the banking sector, was observed in the primary market for treasury bonds during the period under review which contributed to the expansion of treasury bond market.

Yield on Treasury Bonds in the primary as well as secondary market declined substantially during 209. However, The government issued foreign currency denominated debt securities (SLDBs and ISBs) during the year eased the pressure on yields. Domestic market liquidity influenced the secondary bond market yield rates. The five-year yield of the secondary market for Treasury Bonds which exhibits the long-term movement of interest rates continued to decline during the year in a comparison to the yield at the end of 2018. This reflected the lower appetite for longer-term maturities among investors.

The secondary market yields on 2 year, 5 year and 10 year treasury bond decreased by 256 bps, 191 bps

and 182 bps to 8.6%, 9.67% and 10.05% respectively by end of 2019.

Treasury Bill market

A strong demand was observed from the domestic investors in the primary market for Treasury Bills following the monetary policy measures to reduce the interest rate movement.

In line with the primary market developments, the yields for the secondary market for Treasury Bills decreased from beginning of 2019 substantially as the yield rates applicable for 91-day, 182-day and 364-day Treasury Bills declined by 215 bps, 208 bps and 255 bps respectively to 7.25%, 7.88% and 8.36% by end of 2019. Accordingly during 2019 primary market yields on 91-day, 182-day and 364-day treasury bills decreased by 250, 197 and 275 basis points to 7.51%, 8.02% and 8.45% respectively.

Foreign investments in Treasury Bills have been continuously declining from 2015 to October 2019 due to changes in global market conditions along with country specific developments.

Implications for the Banking Industry:

- Liquidity and interest rates prevailing in the market for Government Securities influences resource allocation/ investments in the fixed income securities
- Capital gains/losses and mark to market gains/losses emanates from the prices and yield of the instruments
- The nature of the financial instruments (T-Bills, T-Bonds, debentures, trust certificates and SLDBs) and the extent to which the investment made in those securities determines the risk weighted assets, capital adequacy and stable funding status of the sector
- Holding of money market instruments strengthens the liquidity position

(Read this section in conjunction with "Liquidity", "Funding sources", "Capital adequacy", "Asset and Liability mis-maturity" sections under Overview of the banking sector)

External sector

On the external front, trade deficit contracted during the 2019 as a result of increased garment exports and contraction of motor vehicle and gold imports. This was due to margin deposit requirements for letters of credit opened for import of personal motor vehicles and import of non-essential consumer goods, temporary suspension to opening of LCs for vehicles imported under concessionary vehicle permits, imposition of customs duty on gold imports and upward adjustment of duties for motor vehicle imports. The trade deficit declined to USD 7,997 Mn. during 2019 compared to USD 10,343 Mn. recorded in the previous year. Trade deficit as a percentage of GDP stood at 9.5% in 2019 from 11.7% in 2018.

Despite the significant decline in earnings from tourism and remittances, the deficit of current account narrowed to of USD 1,808 Mn. in 2019 compared to USD 2,709 Mn. in the last year. The current account deficit as a percentage of GDP improved to 2.2% in 2019 against 3.2% in 2018.

In relation to the financial account, the government repaid two previously issued International Sovereign Bonds during the first half of 2019 amounting to USD 1.5 Bn. Lower than expected foreign investments in financial markets as well as foreign direct investments also weakened the financial account. However, inflow through the issuance of International Sovereign Bonds (ISB) amounting to USD 4.4 Bn. and receiving two tranches of the IMF – EFF in 2019 strengthened the financial account as well as market confidence.

The prices of all fuel products remained relatively low during 2019. The average price of crude oil imported by the Ceylon Petroleum Corporation (CPC) declined to USD 68.8 per barrel during 2019 from USD 76.25 per barrel in 2018. Expenditure on diamonds, precious stones and metal imports also decreased during the 2019. This is attributed to lower import of gold following the imposition of a 15% customs duty in April 2018 to prevent the possible illicit arbitrage resulting from the tariff differential between India and Sri Lanka.

Foreign exchange

Following the significant depreciation in 2018, Sri Lankan rupee marginally appreciated against the US dollar by 0.61% to Rs. 181.63 at the end of 2019 compared to Rs. 182.75 (depreciated by 16.4%) recorded at end December 2018. Though Easter Sunday attacks and decline in foreign inflows had an adverse impact on the currency, notable contraction in the trade deficit and an increase in financial flow strengthen the rupee.

Liquidity deficit in the market caused by maturing of SWAPS and Treasury bills held by CBSL and scheduled foreign loan repayments coupled with withdrawal of foreign investments from the Government Securities market and gradual increase in import demand for vehicles and oil bills increased the pressure on the currency. The release of tranches of Extended Fund Facility (EFF) by IMF and proceeds from the ISB issuance helped the rupee to uphold the value against dollar.

The interest rate cuts by both the Reserve Bank of India and Reserve Bank of Australia as well as political uncertainties which prevailed in the Euro Zone allowed the Sri Lankan rupee to appreciate against the respective currencies. Meanwhile, expectations on Brexit with general elections held in UK in December 2019 caused the rupee to depreciate against the Sterling Pound. The Central Bank was a net buyer in the domestic foreign exchange market and purchased US dollars of 387.0 Mn. from the domestic foreign exchange market on a net basis during the 2019.

Gross official reserves

Notwithstanding the historically high debt repayments, the official reserves increased to USD 7.6 Bn. by end 2019 from USD 6.9 Bn. at end 2018 owing to issuance of USD 4.4 Bn. in sovereign bond purchases, the receipt of the sixth and seventh tranche from IMF EFF and the purchase of foreign exchange by CBSL from the domestic market. While reserve cover to finance imports reached 4.6 months as at end 2019, external vulnerability remained high with relatively high short-term liabilities. Central Bank has also announced the raising of USD 500 Mn. via a Samurai Bond in order to support next year's foreign repayments.

Implications for the Banking Industry:

- Restrictions placed on imports of motor vehicles and impact on exports and imports businesses caused by rupee appreciation or depreciation affects the trade finance activities of the sector
- Foreign currency exchange gain/losses and performance of derivative products of banks affect the deposits held in foreign currency
- Foreign currency borrowings impacts the repayments, interests and profitability of the Banks
- Holding of foreign currency denominated financial products (assets and liabilities) determines the net open position of banks as well as adequacy of regulatory capital

(Read this section in conjunction with "Funding sources", "Asset and liability mis-maturity" and "Profitability" sections under Overview of the banking sector)

Fiscal performance

During the year, the government initiated two fiscal stimulus programmes. The 1st round of easing measures were carried out in response to the impact of Easter Sunday Attacks, while second round of easing measure commenced after the presidential elections with the view of surging economic activities. Such measures includes amendment to the Inland Revenue Act No. 24 of 2017, a broad based reduction of VAT and removal of NBT and WHT.

The Government's fiscal position has weakened over the past year as the Easter Sunday attacks stymied economic activity and reduced tourism earnings. As a result, revenue growth was significantly below initial expectations even though a sizeable increase was expected due to the implementation of the Inland Revenue Act (IRA). At the same time, government expenditure also increased due to higher security-related expenses and election spending.

Tax revenues fell short of expectations due to weak collection of excise taxes from motor vehicles, petroleum products and import taxes while expenditure hiked due to relief packages post Easter attacks and the implementation of budget proposals that increased recurrent expenditures in an election year. As a result, budget deficit increased to 6.8% of GDP during the 2019 compared to 5.3% in the 2018.

Government debt rose by 8.3% to Rs. 13,031.5 Bn. as at end 2019 against Rs. 12,030.5 Bn. recorded at end 2018. Sri Lanka's debt to GDP ratio was 86.8% in 2019 compared to 83.7% in 2018 which remains the highest among middle income countries. Furthermore, over 49.1% of the debt portfolio was denominated in foreign currency as of December 2019.

Funding fiscal deficits lead to the build-up of both foreign and domestic debt which increases the vulnerability of the economy and the financial system. The budget deficit was financed largely through domestic sources during 2019 and net domestic financing during this period amounted to Rs. 702.4 Bn. compared to Rs. 437.2 Bn. recorded in 2018. Despite higher deficit financing from domestic sources, the yield rates declined as discussed above in the Government Securities section. Net foreign financing comprised net borrowings of ISBs, foreign investments in T-bills, net repayments of Foreign Currency Term Financing Facility (FCTFF), foreign project loans and foreign investments in Treasury Bonds declined during 2019 to Rs. 314.1 Bn. compared to the Rs. 323.5 Bn. recorded in the 2018.

The Government of Sri Lanka (GOSL) maintained its unblemished track record of servicing the public debt obligations during the period under review. However, debt service payments during the 2019 amounted to Rs. 2,022.5 Bn. declining 3.2% from Rs. 2,088.6 Bn. reported in 2018. While oncoming maturities raise concerns regarding the ability to meet the debt obligations, it must be noted that total interest payments as a percentage of GDP increased to 6.0% in 2019 (5.9% in 2018), while

ratio of foreign debt service payments to exports of goods and services improved to 23.7% in 2019. (16.0% in 2018).

Implications for the Banking Industry:

- The Government's decision on the extent to which the budget deficit was financed through issuance of Government Securities have an impact on the investment and profitability of banks (especially the state banks)
- Introduction of new taxes or amendment of existing taxes affect the profitability of the Bank
- Initiatives or programmes commenced by the Government as a part of fiscal policy could have an impact on the business operations of the banking sector

(Read this section in conjunction with "Liquidity and Money Market" and "Government Securities" sections in this chapter and "Funding sources", "Asset and Liability mis-maturity" and "Profitability" sections under Overview of the banking sector)

Credit rating

Sri Lanka's sovereign credit rating was affirmed by major international rating agencies in 2019, despite the downward revision to the outlook for Sri Lanka, reflecting the possible weakening of fiscal position of the economy. Fitch ratings and S&P Global ratings affirmed Sri Lanka's rating at "B" in December 2019 while Moody's Investors Service (Moody's) maintained its ratings at "B2" in 2019.

Credit growth

The private sector credit to GDP ratio fell below the long-term trend reflecting the loss of business confidence due to lower economic performance. Accordingly, credit growth to the private sector decelerated to 4.3% by end reaching Rs. 6,009.4 Bn. compared to the 15.9% growth recorded at end 2018 mainly due to subdued market activity and high market lending rates. Meanwhile credit to the public sector expanded during the period under review albeit at a slower pace compared to the corresponding period of 2018, which eased the overall deceleration in credit growth.

The stagnation of economic activity was associated with a decline in the financial intermediation function. Financial institutions were more cautious in lending and the demand for credit deteriorated with the prevailing high market lending rates and subdued business opportunities in a sluggish economy.

The low credit growth, consumption and investment together with further stagnation of economic activity resulted in higher NPLs of the financial system. The stagnation in economic activity resulted in lower household incomes, higher NPLs and more loans taken for consumption purposes by households.

The asset quality of the financial system declined as the NPLs of both sectors grew. Vulnerabilities of the corporate sector prompted the financial system to exercise caution in lending to corporates in a the backdrop of rising NPLs. Small and Medium Enterprises (SMEs) were hard hit and suffered from poor access to credit. NPLs increased notably in the SME and retail categories during the second quarter of 2019, while a higher increase in NPLs was observed from the corporate sector during the third quarter (Source: Financial System Stability and Review 2019).

Implications for the Banking Industry:

- Growth of the private sector credit directly affects the loans and advances granted and the profitability of the banking sector
- Loans and advances accelerated money circulation in the economy and increased the repayment capacity of the loans

(Read in conjunction with "GDP Growth" and " Interest Rates" sections of this chapter and "Liquidity and Money Market" and "Government Securities" sections in this chapter and "Loans and Advances", "Asset and Liability mis-maturity" and "Profitability" sections under Overview of the banking sector)

Economy outlook and challenges

Sri Lanka's growth is projected to advance to 3.3% in 2020 and accelerate thereafter supported by recovering investment and exports, assuming security challenges and political uncertainty of 2019 would dissipate. Growth is expected to stabilise around 3.7 % over the period 2020-2022, in line with the potential growth. (Source: World Bank's January 2020 Global Economic Prospects). As per the Government's National policy framework – 'Vistas of prosperity and splendor,' Sri Lanka is expected to achieve an economic growth at 6.5% or higher and a per capita income exceeding USD 6500 by year 2025.

According to CBSL, Sri Lanka's economic growth will exceed 4.0% in 2020 on account of the notable improvement in business confidence due to political stability and targeted measures taken by authorities

to boost demand. Economic growth is likely to improve from its current cyclical weak patch, driven by recovering tourist arrival as well as stronger consumption and investment spending.

The fiscal stimulus implemented by the interim Cabinet—including steep cuts in the value-added tax (VAT) rate and the elimination of several tax items—is expected to boost private consumption and investment activity. However, the lack of progress in reforms to improve tax collection could result in more acute revenue shortfalls. The main components of the tax cuts which includes lowering of the VAT rate from 15% to 8% for most sectors, increasing the turnover threshold for VAT by four-fold, and removing the 2% National Building Tax will likely reduce revenue earnings significantly. This will be temporarily cushioned by the Government's intention to curtail expenditure, such as the purchase of vehicles, as well as sizeable reduction in the capital expenditure.

Real per capita income is estimated to reach approximately USD 4,200 in 2020 and real GDP growth to average 3.8% in 2019-2022. This translates to a real GDP per capita growth of 3.0% on a 10-year weighted average basis. Although the growth rate is in line with peer nations of a similar income levels, it is substantially below Sri Lanka's growth potential. Reaching the upper middle income status propels Sri Lanka to borrow in more commercial terms with increased costs and risks.

Sri Lanka's fiscal position deteriorated following the Easter Sunday attacks. Although a recovery is expected, widening of the fiscal deficit is expected following the implementation of wide-ranging tax cuts. This would likely worsen the Government's heavy debt burden and increase the challenge of debt repayment. The external profile remains weak given the high share of dollar-denominated debt exposures and the Government's sudden shift in its risk sentiments.

The Government's external financing conditions remain challenging, due to the large share of external debt and sensitivity to external shocks, such as rising oil prices. With more than 40% of total public debt denominated in foreign currency, the external position is vulnerable to adverse exchange rate movements and shifts in global credit conditions, which could result in a sharp deterioration in the Government's access to external financing. However, it is assumed that the Government has sufficient funds to cover its near-term external debt obligations, partly due to the issuance of two international sovereign bonds amounting to USD 4.4 Bn. in 2019.

Impending government external debt maturities pose a systemic risk to financial system stability. Financing the repayments of upcoming external debt maturities will require continuous issuance of debt securities in the international capital market or the need for partial financing by non-debt creating inflows over the period 2020 to 2025. If such financing is achieved through ISB issuances, it would expose the economy to sovereign risk in addition to exchange rate risk. Accumulation of ISB maturities have raised concerns regarding risks to debt refinancing, rollover and sustainability. However, debt overhang results in a higher risk premium when raising funds in the international market for both the government and private sectors. Further, rising external debt exposes the financial markets to external sentiment and volatility of capital flows.

A rising risk premium indicates a greater exposure to sovereign risk and vulnerability to systemic imbalances. The sovereign risk was further amplified by the downgrade of Sri Lanka's sovereign rating by both Fitch Ratings and Standard and Poor (S&P Global Ratings) from 'B+' (Stable) to 'B' (Stable). This was due to the constitutional crisis faced at end 2018 despite an array of measures taken to minimise the potential impact on the economy including the Active Liability Management initiative and creation of a buffer fund for repayment of ISB maturities.

Inadequacy of market infrastructure in the Government Securities market such as the lack of a proper mechanism to extract information of real time prices of Government Securities, absence of centralised clearing and settlement arrangements and inadequate liquid Treasury Bonds in the secondary market remain constraints for the development of the secondary market for Treasury Bonds. It is envisaged that the introduction of a state-of-the-art Electronic Trading Platform (ETP), Central Counterparty Clearing and Settlement System (CCP) and Central Securities Depository (CSD) System would enhance the liquidity in the secondary market of government securities.

However, the financial system is expected to remain resilient as higher capital requirements and proactive stringent loan loss provisioning policy enforced on the financial sector has resulted in the build-up of adequate cushions within the financial system despite deterioration of asset quality.

The Banking sector

The Banking industry encompassed 26 Licensed Commercial Banks (LCBs) and 6 Licensed Specialised Banks (LSB) by the end of 2019. The total asset base of the banking sector increased to Rs.12.5 Tn. as at the end of 2019, recording a growth of 6.2% compared to Rs. 11.8 Tn. reported at end of December 2018. The increase in assets was mainly driven by an expansion in investments while the moderation in loans and advances hindered the growth of the assets base of the sector. Lower demand for

credit directed funds for investments whilst investments of the banking sector grew by 12.2% to Rs. 3.0 Tn. at the end of 2019 from Rs. 2.7 Bn. recorded in December 2018.

Performance of the banking sector moderated due to subdued economic activities, political uncertainty and deterioration of investor confidence caused by Easter Sunday attacks in April 2019. Consequently, the credit growth of the banking sector decelerated and non-performing advances increased. The asset base continued to grow at a slower pace compared to preceding years. The profitability of the banking sector deteriorated consequent to increased loan loss provision, higher operating expenses and taxes.

Loans and advances

Gross loans and advances of the banking sector grew by 5.6% during 2019 compared to the 19.6% for the corresponding period of 2018.
The credit to total deposits ratio, which indicates the stable sourcing of lending activities, declined to 88.7 as at end of 2019 compared to the 90.6 as at December 2018.
Banks shifted much of their excess funds towards investments in Treasury Bills and Treasury Bonds during the period under review adopting caution in lending whilst the demand for credit declined in the lacklustre economic climate.

The gross NPL ratio increased from 3.4% in December 2018 to 4.7% in 2019, recording the highest increase since October 2014. During the year 2019, NPLs increased by 46.9% as opposed to a credit growth of 5%.

The Government requested the banking sector to grant a debt moratorium to individuals and entities in the tourism industry following the Easter attacks in April 2019. The current NPL ratio and corresponding provision charge may not be adequate given the higher probability of default that availed the concession. The construction sector, which has the second largest exposure to the banking sector, contributed to 6.9% of GDP. The total loan exposure to the construction sector remained at 15.6% as at end of 2019. However, the NPLs of the construction sector increased to 5.8% compared to the 3.8% recorded as at end 2018.

A large share of NPLs are in special mention, substandard categories which require either no provisioning or lower provisioning. Specific provision coverage ratio and total provision coverage ratio decreased to 42.4% and 52.3% respectively at the end of 2019. The lower increase in provisions was due to new NPLs being classified under categories which require lower provisions and availability of underlying collaterals.

Liquidity

The banking sector continued with healthy liquidity levels during 2019 and exhibited a higher resilience against liquidity risk. Investment in Government Securities encompassing Treasury Bills, Treasury Bonds and Sri Lanka Development Bonds (SLDBs) represented majority of total liquid assets. Statutory Liquid Asset Ratio (SLAR) of the Domestic Banking Units (DBU) of the banking sector which measures the adequacy of liquid assets against deposits and borrowings, remained well above the regulatory minimum. Liquidity Coverage Ratios (LCR), which measure the availability of High Quality Liquid Assets (HQLA) in a 30-calendar day stress scenario improved significantly by end 2019. LCR ratio for rupee currency operations increased from 176.5 in 2018 to 212.8 in 2019 whilst the LCR ratio for all currency operations increased from 152.1 in 2018 to 178.2 in 2019.

Funding sources

Total deposits of the banking sector which accounted for 73.2% of the total assets recorded a modest growth of 7.9% during the 2019 to reach Rs. 9.2 Tn. compared to Rs. 8.5 Tn. recorded in December 2018. Deposits continued to be the major source of funding for the banking sector despite moderation in growth rates. Nevertheless, the deceleration in deposit growth is in line with the moderation in assets and credit growth of the banking sector.

Following the deposits, subordinated debentures which are eligible for capital adequacy purposes and repo borrowings continued to be major non-deposit domestic funding sources of the banking sector. Basel III capital phase-in arrangement which concluded in January 2019 and the minimum capital augmentation requirement prompted banks to source funds via subordinated debentures. With deceleration in credit growth and reduction of Statutory Reserve Requirement (SRR) in April 2019, reliance on repo borrowings declined during 2019. Consequently, share of borrowings in total funding decreased to 13.4% in 2019 against 15.0% in 2018.

Total borrowings of the Banking sector decreased to Rs. 1,679.4 Bn. by 4.8% against Rs. 1,763.4 Bn. amounted in 2018. This decrease was mainly caused by decrease in Sri Lankan rupee borrowings which declined by 6.3% in 2019. Foreign currency borrowings representing 7.8% of total assets of the banking sector and accounted for more than 55% of total borrowings in 2019. Higher reliance on foreign currency

borrowings may adversely affect the profitability of the sector if the rupee depreciates. Besides, external borrowings have been the largest source of foreign currency borrowings of the banking sector and is less stable in nature and refinancing could be challenging in an environment of heightened sovereign risk.

Stable funding

Net Stable Funding Ratio (NSFR) which measures the available amount of stable funding over a time horizon of one-year relative to the amount of required stable funding, remained well above the minimum requirement clocked in 130.1 as at end of 2019.

Capital adequacy

Despite the challenging macro environment, the banking sector remained resilient supported by healthy Capital Adequacy Ratios (CAR) which were well above the regulatory minimum requirement. The banking sector successfully completed its Basel III capital phase-in arrangement on 1 January 2019 which required incumbents to increase the minimum CAR on a staggered basis. The CBSL introduced a new framework for dealing with Domestic Systemically Important Bank (D-SIBs) effective from December 2019, which is inline with international standards. Accordingly, Domestic Systemically Important Banks (D-SIBs) and non- D-SIBs are required to maintain a minimum CAR of 14.0% and 12.5% respectively.

The CAR and Tier I capital ratio encompassing the capital conservation buffer of the banking sector stood at 16.5% and 13.0% respectively. Aggregate CAR of D-SIBs and non-D-SIBs remained well above the stipulated regulatory minimum. Growth in Risk Weighted Assets (RWA) moderated during 2019 reflecting the deceleration in credit growth. This moderation in credit growth and increased investments in risk free treasury securities have positively contributed to improving the CAR of the banking sector.

Leverage ratio

Leverage ratio, a non-risk based capital measurement that assesses adequacy of Tier 1 capital to on-balance sheet and off-balance sheet exposures, reached 6.8% as of December 2019, which is well above the regulatory minimum. The leverage ratio was mandated for banks operating in Sri Lanka effective from 1 January 2019.

Profitability

Banking sector profits have declined since 2017 due to increase in loan loss provisions resulting from the deterioration in credit quality and increased corporate and value added taxes. Net profit for 2019 declined by 11.7% to Rs. 111.1 Bn. from Rs. 125.8 Bn. in the 2018.

Net Interest Income (NII) grew by 8.1%, to Rs. 429.8 Bn. for the 2019 against Rs. 397.6 Bn. compared to the last year. Despite the increase in NII, the growth rates moderated during 2019 compared to previous years. The slower growth in NII is attributed to the moderation in credit and consequent reallocation of resources to low yielding fixed income securities. However, the NIM of the sector remained unchanged at 3.6% of the average assets.

Non-interest income declined by 10.6% to Rs. 132.1 Bn. during 2019 compared to Rs.147.7 Bn. recorded in the corresponding period in 2018. This was largely due to decrease in foreign currency revaluation gains achieved during the 2018 resulting from the strengthening of the US dollar following the policy rate hikes in the United States.

NII eroded due to weakening assets quality that triggered higher loan loss provisions. The increase in NII was inadequate to compensate the decrease in non-interest income and increase in expenses which encompassed non-interest expenses, taxes and provisions. Cost to income ratio and efficiency ratios deteriorated in 2019 to 77.8% and 52.7% respectively reflecting the increase in operating expenses and contraction in non-interest income.

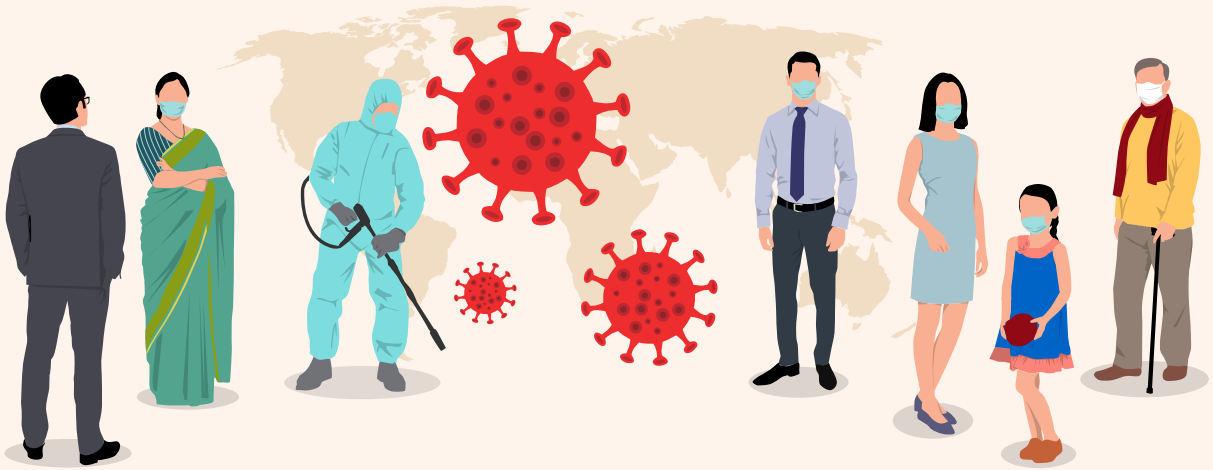
Return on Assets (ROA) of the banking sector declined to 1.4% 2019 from 1.8% in 2018 whilst Return on Equity (ROE) declined from 14.1% in 2018 to 10.3% in 2019.

The factors affecting the Banking industry and its outlook is outlined in "Risk and opportunities" section which can be referred on page from 36 to 47.

The performance of the Bank against/compared to the industry is details analysed in "Financial Performance" section under "Financial Capital" see more on page from 93 to 107.

Impact of COVID-19 pandemic

CORONAVIRUS



Impact of COVID-19 pandemic

The 2019 novel coronavirus disease "COVID-19" was first identified in December 2019 in Wuhan, the capital of Hubei Province in China. Since then the outbreak has significantly spread across borders, leading the World Health Organization (WHO) to declare COVID-19 a pandemic on 11 March 2020.

As the outbreak continues to spread, governments across the world have resorted to varying levels of public health measures, including movement restrictions, nationwide curfews, travel bans and border closures to tackle the pandemic. These measures are having a significant impact on individuals, families, businesses, communities and countries whilst having tremendous consequences on global trade.

Key areas including the operating context, material matters and strategic focus areas discussed in this Report are focused on year 2019. However, from March 2020 we witnessed the impact of the COVID-19 pandemic on individuals, families, businesses, societies and countries as infection rates escalated across the globe and in Sri Lanka. Further, the future outlook was also based on the assessment for the year end 2020. Since the impact of COVID-19 has an impact on our strategic actions over the ensuing years, we have briefly discussed the context although the short and medium-term impact is uncertain as of now.

Global context

Financial markets across the globe declined sharply and market movements have become more volatile than at the time of the global financial crisis of 2008-09. Investors lowered their risk appetite levels and grappled with forecasting the economic impacts of the pandemic which is expected to be more severe than the Great Depression. The global oil market and other commodities have also declined sharply.

Such events are referred to as "black swan" events as they are rare with extreme consequences and are very difficult to predict. The long-term impact on economic growth will emerge over time – and it would entail a substantial shrinkage of global growth in 2020, followed by a partial recovery in 2021.

Response of the Government of Sri Lanka

Nation-wide lockdown was imposed from 21 March 2020, resulting in non-essential services being closed for a period of more than 50 days. The Government of Sri Lanka (GOSL) initiated several measures to curb the spread of COVID-19 and strengthen the public health preparedness. These measures include social distancing, travel bans to affected countries, closing of ports and airports, imposing island-wide curfews, forging public-private partnerships to aid Sri Lankan households obtain emergency supplies and establishing emergency health and economic measures. Several economic relief measures were granted to poorest segments of society and the most vulnerable sectors of business. Government spending on healthcare and public safety measures including setting up of a Coronavirus Task Force, to effectively co-ordinate the health and containment, quarantine and contact tracing efforts have been successful.

Measures taken by the Central Bank of Sri Lanka until April 2020 to spur the economic activities:

- Monetary Board slashed;
  - Standing Deposit Facility Rate –(SDFR) by 50 bps to 6.00%
  - Standing Lending Facility Rate (SDFR) by 50bps to 7.00%
  - The Statutory Reserve Ratio (SRR) on all rupee deposit liabilities of Licensed Commercial Banks (LCBs) by 1% to 4%
- Suspended importation of all types of motor vehicles and non-essential goods for next three months from March 2020
- Suspended the purchase of Sri Lanka International sovereign Bonds by licensed banks in Sri Lanka during the next three months from March 2020
- Permitting authorised dealers of foreign exchange to issue foreign currency notes as travel allowance only up to a maximum of USD 5,000
- Allocate Rs. 50 Bn. refinancing facility to the economy to save the affected businesses including self-employment and individuals such as moratorium on personal loans, leasing rentals, debt moratorium for affected industries, waive-off interest payment for selected sectors, imposing maximum interest rates on local credit card transactions, extended validity period of cheques, etc..

Measures taken by CBSL to ease pressure on Banks:

- Relaxed capital conservation buffers
- Extended the deadline to increase the minimum capital requirement for banks by two years to end-2022
- Banks are permitted to grant an extension of 60 days to borrowers who are not entitled to any other concessions
- Allowed banks to recover loans in Rupees, as a last resort, in circumstances where recovery of loans in foreign currency is remote
- Extended the deadline for submission of statutory returns to the Bank Supervision Department

Impact on the banking and financial services sector

Significant economic downturn will directly affect the banks. Due to difficult operating conditions, the performance of the banking sector will be more challenging, affecting asset quality, profitability and recoveries. The greatest initial impact is likely to be for funds granted to industries mostly affected by the pandemic. In particular, banks with higher exposure to the SME sector and individuals employed in these sectors are likely to record the largest increase in loan delinquencies. The six-month debt moratorium and other measures imposed by the Government of Sri Lanka (GOSL) is expected to soften the impact to individuals and businesses but will increase non-performing loans in 2020.

According to Fitch Ratings, the outlook for Sri Lanka's banking sector is negative for 2020. Financial sector liquidity will be impacted by the debt moratoriums although offset to some extent by the reduction in liquidity requirements for financial institutions.



Impact on NSB

Banks have been declared an essential service during the lockdown period and as a result NSB remained open to offer an uninterrupted service to our customers. The safety of our customers and employees were assured by adopting the necessary safety protocols. We made every effort to honour our commitments to our stakeholders whilst coping with challenges of COVID-19.

The COVID-19 pandemic is likely to result in more challenging economic context with an increased focus on credit risk, liquidity management and capital preservation. The consequent financial impact of the pandemic is still emerging and is not fully quantifiable. Key risks include slow advances growth, particularly muted retail lending and corporates curtailing investments, lower interest rates, slower transactional volumes that impact revenue growth and higher bad debts driven by loss of employment and corporate defaults. Flexible work practices, health and safety and employee well-being have become increasingly important as organisations respond to COVID-19 through alternative work practices and implementing business continuity plans.

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Risks and opportunities

As a financial service provider we are highly connected to and interdependent on the macroeconomic environment. We operate in a constantly changing environment where complex and inter-related spectrum of existing and emerging risks and opportunities influence our business activities and shape our sustainability.

The following is a detailed outline of the key drivers driving Bank's risks and opportunities, their impact on our value creation, our response to them and their potential to disrupt or add value in the way forward.

Changes in political and economic spectrums

Key drivers and aspects

Global context

- Concerns regarding global economy and its impact on emerging markets
- Weakening globalisation and geopolitical tensions
- Economic fragmentation with strengthening of regional powers shifting towards Asia
- Increasing cost, scarcity of capital and funding and liquidity concerns across global markets

Local context

- Subdued economic growth, increased inequality and low investor and consumer confidence
- Volatility in domestic consumption
- Increase in consumerist culture
- Government initiatives on financial inclusion, digitalisation and changes in Government's focus areas
- Deterioration in government finances with increasing debt burdens
- Increasing cost and scarcity of capital, funding and liquidity
- Sovereign downgrade due to macroeconomic instability
- Lower interest rate regime with economy stimulus (monetary and fiscal)
- Political risk arising from elections and policy uncertainty
- Aftermath of Easter Sunday terrorist attack

Impacts on our value

The macroeconomic environment affects our ability to sustain our business and achieve our market commitments whilst the political environment impact the operating environment. Increasing affluence, urbanisation, consumption and infrastructure investments and generally favourable demographics present opportunities for banks.

Risks and opportunities

Opportunities	Impact: Short to medium term	Impact: Long term	Risks	Impact: Short to medium term	Impact: Long term
Lower interest regime will ease the cost pressures	▲	−	Decline in retail banking margins	▲	▼
Innovative financial solutions focused on addressing social and economic developments	▲	▲	Bank balance sheet is exposed to the risk of a sharp increase in non-performing loans due to lower repayment capacity of borrowers	▲	▲
Broad island coverage through different networks of the Bank	▲	▲	Increased financial burden and impact on savings and lending	▲	▲
			Significant market volatility	▲	−
			Lower credit growth due to adverse business environment	▲	−
			Decline in the attractiveness of savings products	▲	▲
			Decline in retail banking margins due to caps on deposit and lending rates	▲	−
			Downgrading of the sovereign rating affects the Bank's rating and exposure to foreign currency borrowings	▲	−

▲ Opportunity increased since 2018 ▲ Risk increased since 2018 − Risk/opportunity broadly stayed same since 2018

▼ Opportunity decreased since 2018 ▼ Risk decreased since 2018

Our approach and performance

- While reducing policy rates eased the cost pressure, imposition of caps on deposit rates and lending rates reduced the deviation in interest margins among the banks. We were able to improve our interest margin through mobilising deposits by differentiating NSB as a 100% government guaranteed state bank.
- Multiple business lines with a strong balance sheet enable us to continue mitigating the risks and capture opportunities.
- Leveraging our stable funding base and balance sheet quality.
- We continued to raise awareness about our savings, its benefits and encouraged customers to save in our long-term savings accounts.
- We monitor the leading indicators to ensure economic risks are effectively managed.
- Proactively manage credit portfolio risks and hedge interest rate risk and foreign exchange risk as appropriate.
- We monitor and manage risk strategy and appetite based on the ongoing evaluation of global, regional and local developments. This helps to identify and mitigate risks as they arise, while pursuing opportunities.
- Manage liquidity risk by matching assets and liabilities by asset type and duration.
- Analyse scenarios to assess the impact of a potential sovereign downgrade.

Material matters



Outlook

The global economy in 2020 is forecasted to experience its worst recession since the Great Depression, dwarfing the Global Financial Crisis in 2007/08. The period of "the Great Lockdown" resulting from the COVID-19 pandemic is expected to shrink global economic growth in 2020, followed by a partial recovery in 2021.

Sri Lankan economy commenced the year 2020 with improved business confidence, is expected to have recorded a pickup in activity in the first two months, until the spread of the COVID-19 pandemic severely affected businesses and individuals alike. The direct and indirect tax relief measures introduced by the Government in late 2019 and early 2020 are expected to increase the purchasing power of individuals, and encourage domestic investment. Inflation is expected to be maintained within the range of 4-6% over the medium term.

The growth of credit to the private sector is expected to remain low in the near term due to significant disruptions to economic activity following the pandemic. However, the growth of credit to the private sector is projected to accelerate as the country recovers from the COVID-19 outbreak. This will be supported by low market lending rates, the expected expansion in economic activity buttressed by fiscal and monetary stimulus, the debt moratorium and special credit support schemes offered for businesses, especially small and medium enterprises (SMEs). The financial sector is expected to remain resilient in the medium term, in spite of the near term challenges due to the unfavourable developments amidst the outbreak of the COVID-19 pandemic.

Operating in a digital age with disruptive technologies

Key drivers and aspects

- Digitalisation has changed consumer behaviour with customers expecting convenient, efficient and speedy banking from, anywhere, anytime from any device.
- Heightened consumer requirement for personalised services, user friendly system and sound advice and assistance on complex financial issues.
- Steady roll-out of new technologies such as mobile technology, fintech partnerships, block chain technology, artificial intelligence, robotics that challenge the traditional banking models.
- Increased penetration of the internet and growth in e-commerce industry.
- Entry of non-traditional market players with innovative technology and business models offering a wide range of financial products and services. These include fintech companies, payment facilitators, Google, Amazon, Facebook and Apple, etc.
- The need for fraud detection and prevention of cyberattacks, breaches and disruptions.
- Concerns on security of personal data, cybersecurity, risk of fraud and financial crime.

Impacts on our value

Digital technology has the potential to overcome traditional barriers to banking such as limited customer touchpoints, limited access to services and payment options. Exponential advancement of technology coupled with intense competition impacts our ability to remain relevant to our customers and our competitiveness in the industry whilst increasing operational risk levels.

Risks and opportunities

Opportunities	Impact		Risks	Impact	
	Short to medium term	Long term		Short to medium term	Long term
Adopt new technologies to support customer relationships and develop smarter, more personalised and more efficient services.	▲	▲	Technology is removing the barriers to entry making financial services industry more competitive.	▲	▲
Diverse range of expertise and services offered to customers.	▲	▲	Eroding profitability and market share due to heightened competition and increasing costs.	▲	▲
Position as a truly multichannel bank with an extensive island-wide reach.	▲	▲	Slow adaptation of technology to internal processes, distribution and services.	▲	▲
Focus on enhancing customer experience by accelerating innovation and increasing the agility of the Bank.	▲	▲	Delayed or slow adoption to fintech companies and difficulty in forging partnerships.	−	▲
Implement a scalable cross-border banking platform to make online interaction more personal, instant, seamless and relevant.	▲	▲	In the advent of a cyber-attack, there could be significant disruptions to Bank's operations temporarily.	▲	▲
Digital delivery of financial advice and support to improve customer decision-making.	▲	▲	Requirement for high investments for innovation, IT and enhancing staff capabilities whilst the risk of cyberattacks continuing to increase.	▲	▲
Robust information systems that enhance cybersecurity and ensure privacy of customer data.	▲	▲	Increasing demand for specialised and scarce skills such as programming, data analytics and risk management.	▲	▲
Partnerships with fintech organisations and start-ups.	▲	▲	Potential exposure to reputational risk in the event of loss of customer data, breech of privacy, fraud and financial risk	▲	▲
Inculcate a data-driven culture.	▲	▲	Employees having to adapt organisational changes.	▲	▲
Generate fee based income.	▲	▲	Developing customised products for niche segments may increase operating and credit costs for banks and erode shareholder value.	−	−
Improve operational efficiency through the automation of simple transactions and increase focus on complex and value adding transactions which reduce costs in the long-term.	▲	▲			
Upgrading of infrastructure and technology enables us to remain relevant and face competition from new entrants.	▲	▲			

▲ Opportunity increased since 2018 ▲ Risk increased since 2018 − Risk/opportunity broadly stayed same since 2018

▼ Opportunity decreased since 2018 ▼ Risk decreased since 2018

Our approach and performance

- We are geared to reach potential customers in a timely manner through our extensive multichannel distribution network that offer a digital friendly experience.
- We use digital marketing and data analytics to increase penetration and capture market share. This has led to an increase in internet banking users whist the number of ATM transactions has also increased in 2019.
- Value additions are effected to our product portfolio each year to effectively meet customer requirements.
- We engage with customers through multiple channels to create awareness about the stability, safety and growth of funds through savings.
- Continuous investment in technology platforms, enhancement of processes and controls, collaborating with fintechs and engaging in stringent monitoring.
- Ongoing employee education on prevention of cyber risks and adapting to organisational change.
- Establish appropriate checks and balances including close monitoring to prevent and manage cyber risks.
- Invest in strengthening cyber resilience and adhering to the Bank's cybersecurity policy.
- Execute the cybersecurity strategy to strengthen customer confidence and differentiate our Bank.

Material matters



Outlook

The Central Bank of Sri Lanka (CBSL) has declared year 2020 as the year of digital transactions in Sri Lanka. The main objective of this initiative is to popularise digital payment schemes and promote a less-cash society. Promoting the use of digital payment applications is expected to create a positive impact on innovations, help raise competitiveness and thereby encourage the growth in financial services leading to a higher level of digital payment activities as well as economic activities. The CBSL has launched several projects such as the LankaQR Code and the Fintech Regulatory Sandbox and the Blockchain based Shared Know-Your Customer (KYC) solution, and Open Banking project, which are in progress.

Transformative society and environment

Key drivers and aspects

- Adverse weather conditions resulting in extreme environmental disasters.
- Global commitment to combat climate change and preserve biodiversity.
- Emerging regulation and reporting requirements focused on a broader range of social, environmental and governance-related matters.
- Increased stakeholder focus on sustainability concerns of organisations in investment decisions.
- Increasing activism and widening inequalities of society.
- Complexity of available data to accurately forecast the implications of climate change.
- Requirement for banks to deal honestly, transparently and fairly with customers which are set out in governance standards.
- The increasing demand for banks to be responsible financiers.
- Need for increased transparency in corporate disclosure.

Impacts on our value

Growing concerns for social, governance and environmental concerns impact the banks, customers and the operating environment. Climate change is causing serious challenges to sustainability of communities resulting in significant credit risk implications. Banks are required to be socially and environmentally responsible in their product offering, investment decisions and in using scarce resources. There is a greater need for banks to align with the UN SDGs by adopting sustainable business practices and adhering to regulations set by the government. Failure of compliance results in erosion of stakeholder trust in the Bank and exposure to reputational risk.

Finding solutions to social and environmental concerns including climate change, scarcity of resources, conservation of ecosystems, inequality, human rights has become a business necessity. Therefore, we integrate social and environmental concerns to our value creation model and we seek innovative solutions and forge meaningful partnerships to generate sustained value to our stakeholders. We also play an imperative role in transitioning into a low carbon economy.

Risks and opportunities

Opportunities	Impact		Risks	Impact	
	Short to medium term	Long term		Short to medium term	Long term
Increased demand for sustainable finance, shift in financing towards a low-carbon economy and societal challenges.	▲	▲	Banks need to consider the environmental and social risks in their business decisions.	▲	▲
Increased transparency leading to stronger trust and heightened reputation in the Bank.	▲	▲	Corruption and non-transparency leads to reputational risks.	▲	▲

Opportunities	Impact		Risks	Impact	
	Short to medium term	Long term		Short to medium term	Long term
Financial innovation to adapt new business models.	▲	▲	Incurring of high costs and economic losses due to consequences of climate change, both directly through Bank's assets and business and indirectly through customer activities.	▲	▲
Development of investment and financial solutions that support institutional customers, businesses and professionals to adopt a low-carbon economy.	▲	▲	Loss of market share if products and services are not environmentally friendly.	–	▲
Development of products and services that enable consumers to adapt green solutions.	▲	▲	Uncertainty of nature and transitioning into a low-carbon economy.	–	▲
Focus on building resilience along the supply chain by adopting green practices in sourcing.	▲	▲	Requirement for impactful investments in the economy.	▲	▲
Call for transparency to promote good governance and decision-making.	▲	▲	Impacts of climate change affect cash flows of borrowers especially small and medium enterprises and related businesses.	▲	▲
			Vulnerabilities in environment makes certain industries more susceptible resulting in job losses, in a context of economic and political instability.	▲	▲
			Natural calamities may affect Bank's customers increasing Bank's credit exposure.	▲	▲
Increased transparency leading to stronger trust and heightened reputation in the Bank.	▲	▲	Transition to a low carbon economy may entail extensive policy, legal, technology and market challenges, which can give rise to credit, operational and reputational risk	▲	▲
			Failure to comply with public demand on responsible financing may result in credit and reputational risks.	–	▲

▲ Opportunity increased since 2018 ▲ Risk increased since 2018 – Risk/opportunity broadly stayed same since 2018

▼ Opportunity decreased since 2018 ▼ Risk decreased since 2018

Our approach and performance

- Engaging with communities and supporting community initiatives as part of our commitment to play an active role in society.
- Participating in industry advocacy groups to contribute to new and innovative solutions to social challenges.
- Continuously assessing the suitability and strategic alignment of our products and customer value propositions against changing environmental factors and its impact on our risk profile.
- Adopting a zero-tolerance policy to bribery and corruption.
- Educating our staff on non-financial risks, including money laundering, terrorist financing, sanction, compliance, conflicts of interests and corruption.
- The Bank's sustainability policy underpins our sustainability strategy which is aligned to our long-term strategic objectives.
- Engaging with stakeholders through sustainability programmes, and assessing the impacts and opportunities.
- Strengthening Environmental, Social and Governance (ESG) risks in our lending practices by adopting a stringent screening process of our borrowers and their investment decisions.

Material matters



Outlook

Understanding the importance of incorporating climate change and climate resilience into the core policy implementation frameworks to efficiently and successfully safeguard financial system sustainability, the CBSL launched "The Roadmap for Sustainable Finance". This encourages the financial system to promote financing for climate resilience projects to combat climate change in Sri Lanka. This Roadmap provides a broad direction to financial regulators and financial institutions to effectively manage their environmental, social and governance (ESG) risks associated with projects financed by them. It also promotes assistance to businesses that are greener, climate-friendly and socially inclusive. The Roadmap attempts to scale up the contribution of the financial sector to help build a more resilient, sustainable green economy.

Demographical changes

Key drivers and aspects

- Increased labour force participation and enrolment for higher education.
- Increasing number of Millennials and Generation Z comprising the labour force.
- Growing urbanisation and more job opportunities concentrated in urban areas.
- Aging populations and increased independency (propensity towards individuality).
- Diversification of employment categories and different career paths.
- Increased mobility.
- Scarcity of critical skills and challenges in finding competent people.
- Customer embracing technological developments.
- Demand for smart working methods that reduce time and increase productivity.
- Demand for advanced systems requiring less effort.

Impacts on our value

Demography of the society has an impact on savings, investments and credit and creates long-lasting implications on service delivery. Changes in demographic structure and behaviour influence the nature of products and services, delivery channels and value propositions offered to customers. We recruit talent from the localities and hence demography influences our value creation and business growth. Trends in society determines the social relevance of our Bank and any failure to attract and retain talent impedes our succession planning and expansion plans.

Risks and opportunities

Opportunities	Impact		Risks	Impact	
	Short to medium term	Long term		Short to medium term	Long term
Ability to be agile in responding to changes in operating environment.	▲	▲	Highly skilled employees with new and emerging skills are becoming increasingly expensive to recruit and difficult to retain amid the acceleration of skills and academic migration.	▲	▲
Investment in retaining and developing skills enable to build the NSB brand and develop the nation.	▲	▲	Shortage and competition for critical skills.	▲	▲
Opportunity to develop innovation in products and services and processes.	▲	▲	Adapting to evolving customer preferences.	▲	▲

Opportunities	Impact		Risks	Impact	
	Short to medium term	Long term		Short to medium term	Long term
Opportunity to transform our workforce to be innovative, digitally-savvy and data-driven.	⊖	▲	Macro environment challenges such as increasing inequality, political instability and rising cost of living increases the pressure on employees and impacts the execution of our business strategy and work-life balance of employees.	▲	⊖
Increasing proportion of youth in the workforce and growing per capita income creates an opportunity for wealth development and wealth creation.	⊖	▲	Employees face the risk of obsolescence if they do not update themselves with the skills required to maintain performance in the digital age.	▲	▲
			Failure to attract and retain talent impedes succession planning and business expansion.	▲	▲

▲ Opportunity increased since 2018 ▲ Risk increased since 2018 ⊖ Risk/opportunity broadly stayed same since 2018

▼ Opportunity decreased since 2018 ▼ Risk decreased since 2018

Our approach and performance

- Catering to different customer segments and fulfilling their needs at every stage of their lives through our extensive distribution channels and products with continuous value additions.
- Continue to raise customer awareness and develop innovative products to capture a sizeable market share of the younger population. This includes products such as Prarthana+,I'M and Buddhi loans.
- Growing young working population provides an adequate opportunity for developing wealth planning products and retirement plans.
- Implementing programmes that promote employee wellbeing.
- Continuous investment in skills development and leadership programmes to reskill and upskill our employees and nurture a future-fit workforce.

Material matters





Outlook

Sri Lanka has reached an advanced stage of the demographic transition with an increasing aging population. This is expected to have long-lasting implications for service delivery, pensions, employment, and public finances. Sri Lanka's share of working-age population is expected to gradually decline over time having peaked in 2005. This is expected to slow down growth in the medium-term. The dependency ratio which is the ratio of youth and elderly to the working-age population was 51% in 2015. About one-fourth of the population were under 15 years old and under one-tenth were 65 years or older. By 2050, it is projected that the proportion of elderly would be 23% surpassing the youth which is estimated to be 17%.

Sri Lanka's Labour Force Participation Rate was an average 53.4% in December 2019. It is important to reduce the gap in the labour force participation rates between men and women as this would buffer the impact from the reduction in number of workers and could mitigate the impact of demographics on growth. It is also important to have policies that foster women's entry to labour markets. Increases in education attainment can elevate productivity and participation rates of younger cohorts and reallocating labour towards more productive sectors could lead to productivity gains.

Regulatory changes

Key drivers and aspects

- Increasing pace and evolving complexity of regulatory and statutory requirements and tighter prudential rules.
- Stronger protection for customers and investors through regulations.
- Fight against money laundering and financing of terrorism.
- Integration of climate risks and ESG criteria and demand for transparency in CSR initiatives.
- Call for financial inclusion.
- Promotion of competition in the industry.
- Proactive regulators, stringent monitoring and strong governance practices.
- Strengthening resilience and financial stability

Impacts on our value

The evolving regulatory and reporting landscape including Basel reforms, overhaul of accounting standards, changes in the monetary and fiscal policies, regulations on financial crime, emerging privacy, cybersecurity and legislation on conduct may affect our business model and give rise to compliance risk. Changes in regulation could have an impact on the interest rates as well as taxes and ultimately affect the Bank's bottom line. Integration of regulatory and socio-economic factors influenced by changes in Government policies can have an impact on the business model.

Risks and opportunities

Opportunities	Impact		Risks	Impact	
	Short to medium term	Long term		Short to medium term	Long term
Continuously improve the processes and ethical framework of the Bank.	⊖	▲	Higher capital requirements and stricter liquidity management.	▲	▲
Enhanced role as a financier to the economy.	▲	▲	Increase in compliance related expenses and operating costs.	▲	▲

Opportunities	Impact		Risks	Impact	
	Short to medium term	Long term		Short to medium term	Long term
Progress in identifying and managing new risks (climate change and ESG).	▲	▲	Distorted competition with the entry of less-regulated players.	▲	▲
Increased innovation with attractive product offers.	▲	▲	Policy changes in interest rates will impact benchmark rates.	▲	−
With capital well above regulatory requirements, we are in a strong position to serve existing and new customers and have greater flexibility in capital and liquidity planning.	▲	▲	Risk of depositors moving towards equity and mutual funds when deposit rates are reduced before lowering the benchmark rates.	▼	−
As a leading bank in Sri Lanka, we are well placed to provide appropriate responses to regulators and policy makers on regulatory requirements.	▲	▲	Failure to comply with standards gives rise to compliance and reputational risks and erodes stakeholder trust in the Bank.	▲	▲
A good reputation helps to attract and retain customers and investors.	▲	▲			

▲ Opportunity increased since 2018 ▲ Risk increased since 2018 − Risk/opportunity broadly stayed same since 2018

▼ Opportunity decreased since 2018 ▼ Risk decreased since 2018

Our approach and performance

- Maintaining a coordinated, comprehensive and forward-looking approach to evaluate, respond and monitor regulatory changes. This is done through ongoing investment in people, processes and systems across the Bank.
- Participating in local and international regulatory and statutory advocacy groups.
- Assess such risks and take appropriate actions to mitigate those risks.
- Benchmark changes are done after conducting multiple assessments, trend observations and deliberations by the respective committees.

Material matters



Outlook

A new Banking Act will be enacted in 2021, which will contain provisions to extend regulations for banks. The CBSL will also introduce many other provisions to strengthen crisis preparedness and resilience of banks. Changes will be introduced in the regulatory and supervisory framework with respect to information technology and security of banks, in line with international standards and best practices. The proposed regulations will prompt banks to upgrade and strengthen their information systems and related technological platforms, enabling improved risk management.

Industry attractiveness and competitiveness

To maintain our market position as a major competitor in Sri Lanka's banking industry we conducted the Five Forces Analysis developed by Michael Porter. This helps to understand the external factors significant to our industry environment, identify Bank's material issues and formulate our strategic priorities. Our ability to strategically address these concerns influences the Bank's resilience. The intensities of the five forces in the banking industry environment are as follows:

01

Threat from new entrants

- High capital requirement is a challenge in obtaining licence for incorporating a bank
- Need for high investments to comply with Basel III requirements
- Requirement for high capital investments in people, IT and delivery channels
- Increasing requirements in regulatory and compliance aspects

02

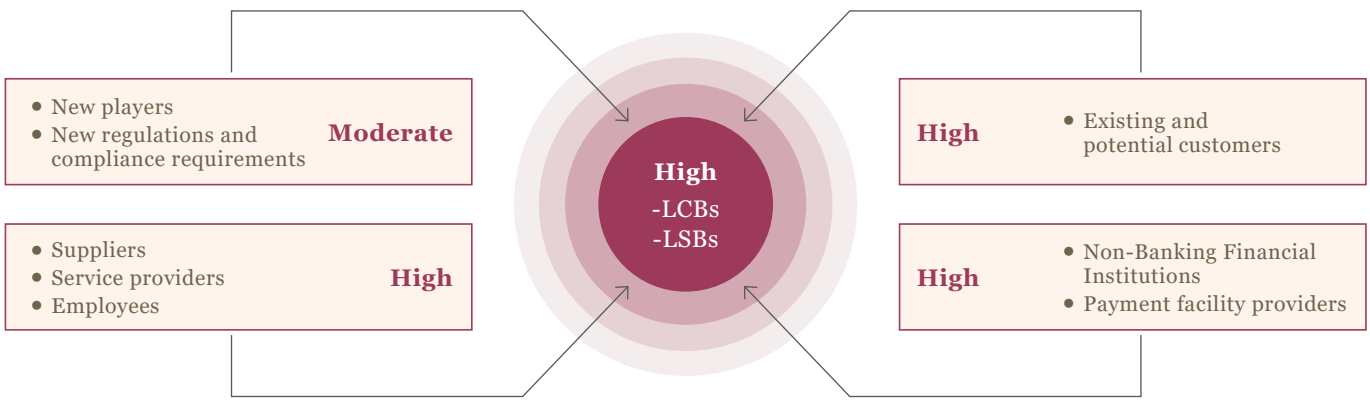
Bargaining power of customers

- Increasing demand from customers for personalised and high standards of service
- Availability of similar products and services in the market
- Customers are able to switch to competitors and substitutes without incurring high costs
- The new generation of customers lack customer loyalty
- High net worth customers have the ability to negotiate lower rates

03

Bargaining power of suppliers

- Demand from depositors for higher returns and lower risks
- Higher dependency on suppliers of digital services
- Higher bargaining power of employees through trade unions
- Lower dependency on other suppliers such as stationery suppliers, outsourcing and contractual employees.



04

Competitive rivalry

- High number of players in the industry (26 Licensed Commercial Banks [LCBs] and 6 Licensed Specialised Banks [LSBs])
- Intense competition among players due to lower switching cost of customers and offering of similar products and services

05

Threat of substitutes

- Increasing threat from telecommunication companies and other payment providers offering efficient payment solutions (FinTech companies)
- Availability of similar products of low-cost with no differentiation in pricing, quality, or features
- Depositors and lenders being highly sensitivity to change of prices

Strategy and Resource Allocation

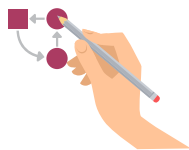
Our strategy, built on strong values, reflects our keen understanding of the operating context and is geared towards improving governance and risk management capabilities, while delivering sustainable outcomes for all our stakeholders.

Strategic planning process with integrated thinking

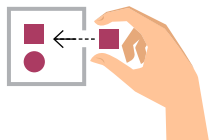


Our strategy is derived through integrated thinking considering who we are, our capabilities, current and future needs, our stakeholders' needs and expectations and our operating environment. An important aspect of our integrated strategic planning process is connectivity, interdependencies and trade-offs between the six capitals that affect our Bank's ability to create value over short, medium and long term and influence the process of decision making. Our integrated strategic planning process drives strategy development and deployment in the short, medium and long-term.

Three elements of our integrated strategic planning process:



Strategy development



Strategy deployment and resource allocation



Monitoring phase

Strategy development

Our strategies are clearly linked to our vision, mission and values. The development process takes cognisance of the external and internal business environment, opportunities, challenges and past learnings.

As part of our strategy planning process, we scan the external environment for trends and understand how these trends influence the banking sector. Assessment of our business model and operating environment along with proactive stakeholder engagement shapes our material issues and aspects that add or distract value. The resultant risks and opportunities from material matters provides inputs to segregate our strategic priorities for the short, medium and the long term.

Strategy deployment and resource allocation

Our integrated planning process ensures our strategy and key resource considerations are integrated into our financial and execution plans. Potential opportunities are assessed within our risk appetite framework to ensure a balanced approach between future growth and responsible risk management.

Our long-term strategic priorities which are evaluated and approved by the relevant management committees are included in the long-term planning process for execution. The short and medium term strategies and targets which are aligned to the long-term strategic objectives are implemented across the Bank. These strategies and plans are cascaded to individual divisions with clearly defined responsibilities and key performance indicators for each division.

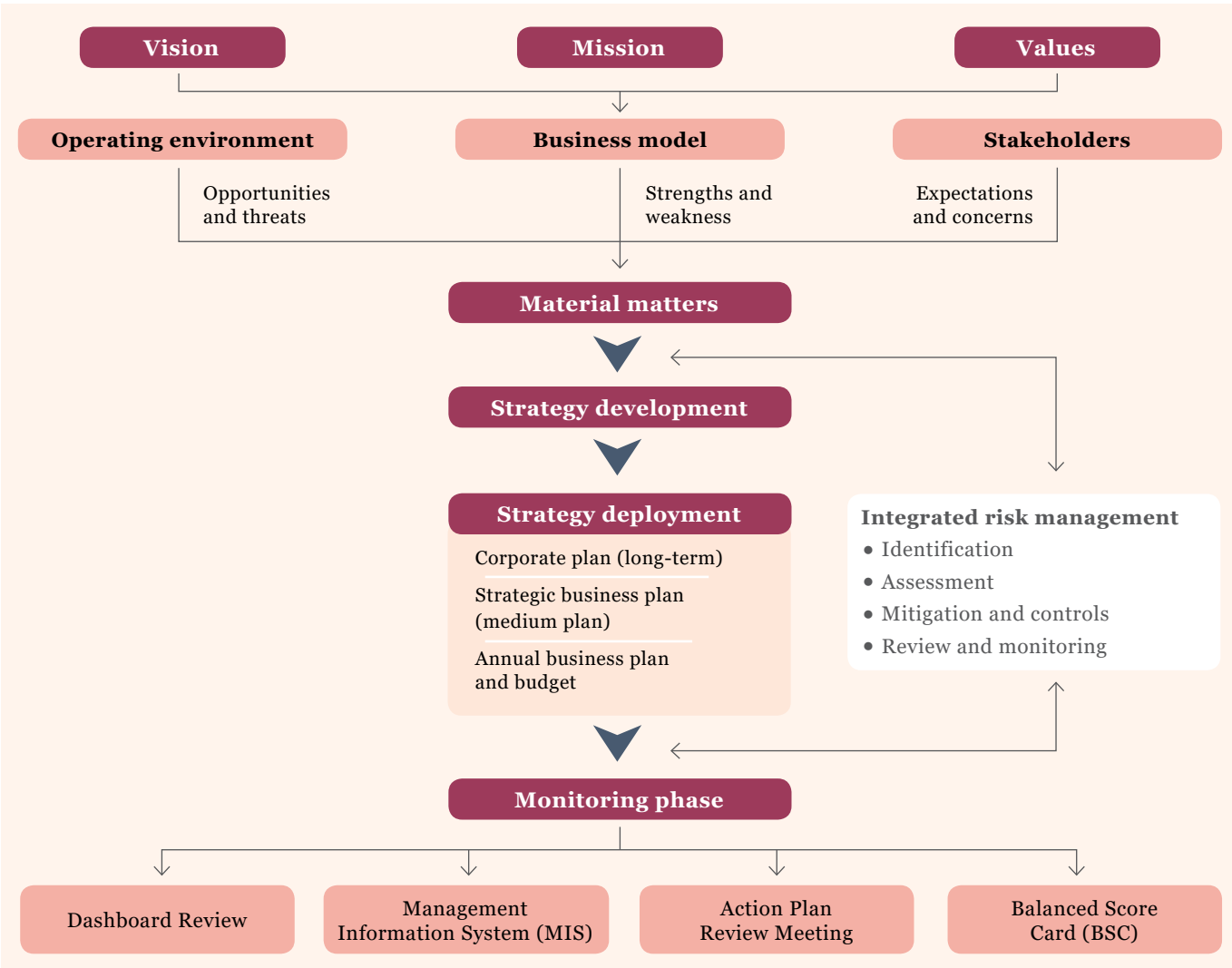
Our Strategic business planning framework enables us to identify the required resources (IT, HR, Finance) to achieve the stated strategic objectives. Our functional teams ensure the availability of resources which are allocated through our short to medium term action plan which outlines the required capabilities and the focused initiatives undertaken to achieve our ambitions. Based on resource availability and current and anticipated requirements, certain trade-offs are made which re-prioritise change initiatives and new projects.

Monitoring phase

To enable the Bank to respond with agility to changes in the environment, the progress of the strategies and plans is tracked periodically by the management committees and the Board through various reports and reviewed at defined intervals. This process enables us to identify and test the robustness of our strategic initiatives against the progress achieved and to test the possible scenarios in the future.

Our performance is assessed against the budget and historical performance on a monthly basis through MIS/dashboards. Through a quarterly analysis, we monitor our strategic performance against the targets, status of key projects and make revisions if necessary based on the strategic outlook through the Action Plan review.

We have defined our Key Performance Indicators (KPI) based on the balanced ScoreCard to review our performance. They encompass both financial and non-financial indicators as well as quantitative and qualitative factors. Continuous monitoring enables us to identify areas of operational issues, review market trends, assess customer needs and expectations, analyse business results and top priorities and refine our strategy and business model to remain relevant and competitive.



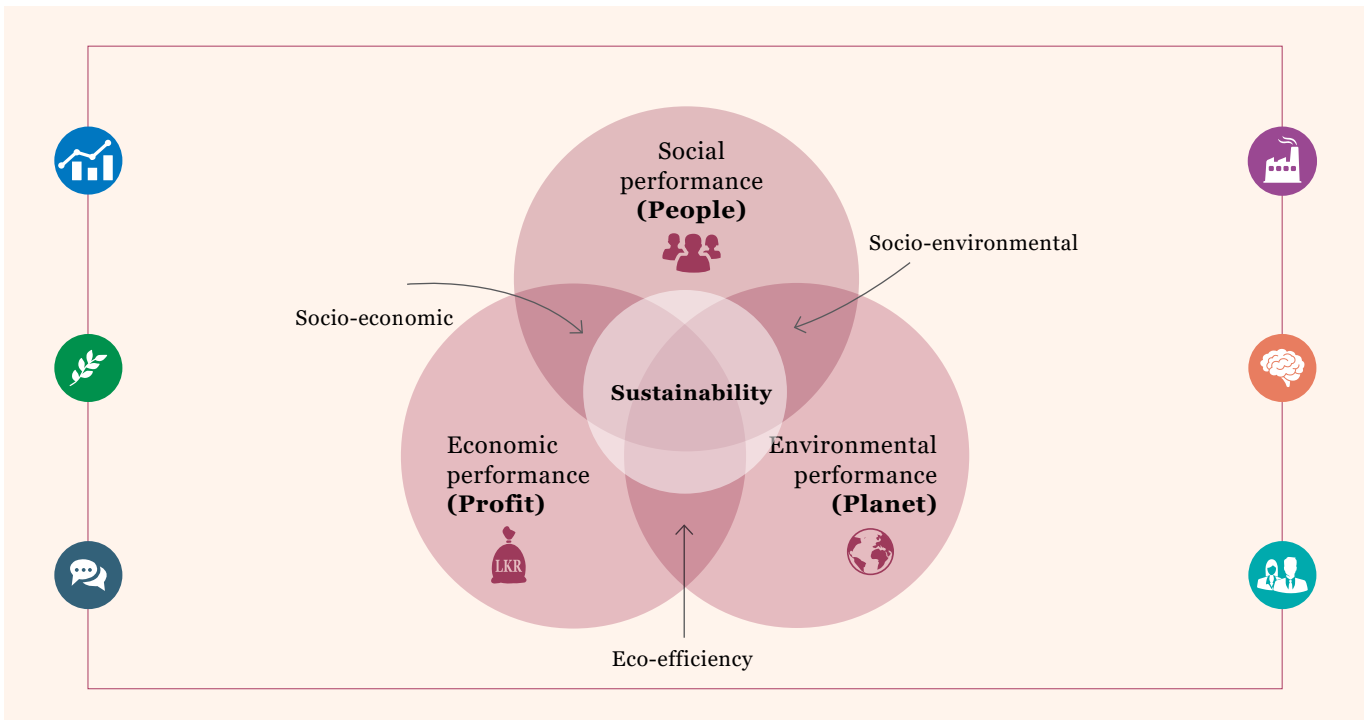
Building a more sustainable bank

We have aspired to enable a better, more prosperous future for our customers and the communities in which we live and work. We achieve this by creating economic, social and environmental value for our customers, employees, communities and our planet, whilst delivering returns for our shareholder. As a leading State-owned financial institution, we play a central role in Sri Lankan economy to create a positive social and environmental impact. Our reach and influence gives us an opportunity to be a leader in building a sustainable business and we have the right values, policies and procedures to deliver this ambition. We are deeply committed to making banking more sustainable and contributing to a better world.

Our sustainable business model

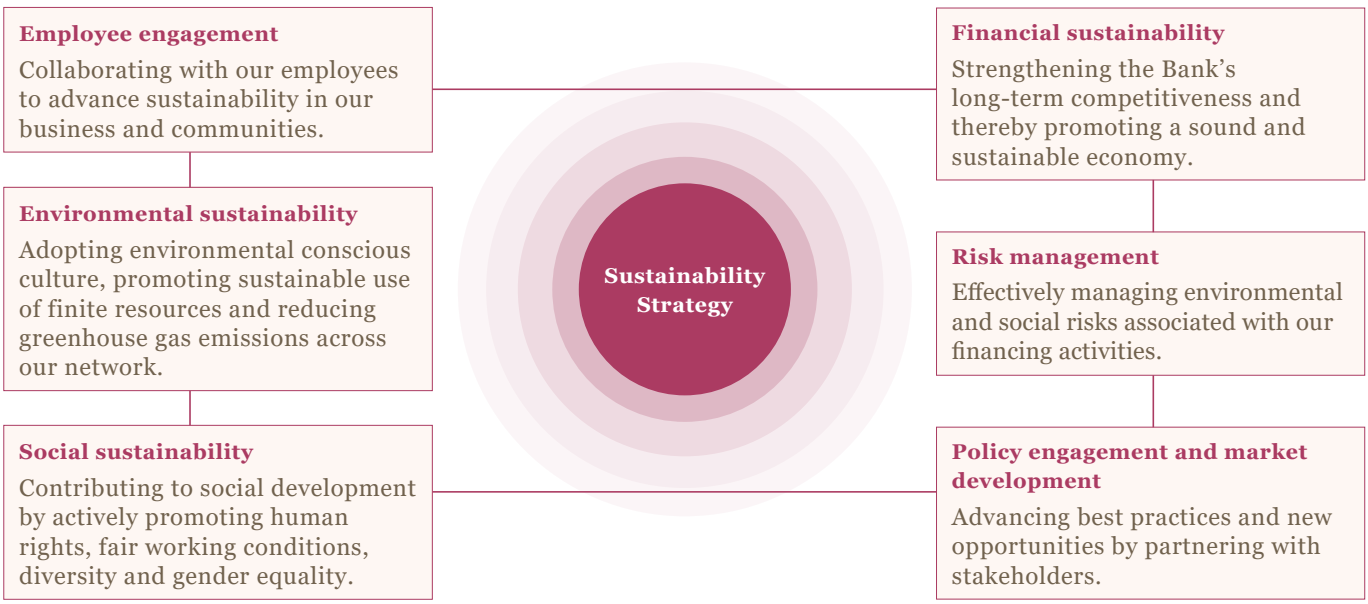
Our Business Model provides an overview of the Bank's value creation process guided by our Vision, Mission, Values, and supported by strong governance and ethics. All socio-economic and environmental concerns are integrated into our business model and core business processes. Our ultimate goal is to create both sustainable social value and corporate value. We do this by leveraging our core strengths, expertise, and resources to add value to every activity and create value to the Bank, stakeholders and to the community as a whole. We have retained our position as the savings giant in Sri Lanka, by anticipating challenges and capitalising the opportunities available in a dynamic environment. By engaging in dialogue with our stakeholders we understand their needs and concerns are committed to meeting these requirements in an effective and a meaningful manner. A materiality assessment is conducted to prioritise issues that are imperative in internal engagement and sustainability strategy development.

Refer pages 20-21 for the value creation model of NSB.



Sustainable strategy as a part of business strategy

We have incorporated sustainability principles into corporate strategy, funding decisions and product/service definition processes. Sustainability is integrated into our strategy through the following aspects:



Sustainability strategy

NSB will continue to be a profitable, well-capitalised bank with a moderate risk profile. Strong capital and liquidity buffers are essential to maintain financial stability. Hence, we will maintain a solid capital and liquidity position and a clean and strong financial position which enables us to create long-term value for our stakeholders. Sustainability has been seamlessly integrated into our business model through the sustainability policies. Our sustainability framework has been augmented by the environmental policy, human rights policy, Corporate Social Responsibility (CSR) policy, and Environment, Social and Risk Management (ESRM) policy. Awareness programmes and capacity development programmes were conducted for all staff members including the Corporate Management. Several initiatives have been implemented in our business lines to align our activities with the SDGs, thus enhancing our focus on social and environmental aspects further. For the details on initiation we have taken regarding SDGs, refer pages 90 to 169.

Sustainability governance

Positioning the Bank for success requires us to carefully balance the interests of our diverse stakeholders in order to drive long-term value for the Bank. Governance and oversight of the Bank's Economic, Social and Environmental (ESE) impacts and risks are shared Board responsibility. ESE issues are embedded in the decision-making process at the Bank where matters that are material to value creation are integrated into the balanced scorecard which is cascaded down to performance measurement of our employees. The Board has delegated the execution of the Bank's strategy to the General Manager/ CEO who heads the Corporate Management Team and who is responsible for managing day-to-day operations of our Bank. The Corporate Social Responsibility and Sustainability Committee (CSRSC) monitors the execution of strategies and maintain the dialogue with the Board and other stakeholders.

Our commitment to sustainability

Infrastructure development

Our sustainable business approach includes supporting infrastructure development projects in our Nation. These projects facilitate economic development, empower local communities and uplift the living standards of the people of Sri Lanka. Collaborating with Government institutions, we invest in diverse sectors including transportation, water, telecommunication, and education.

See more on page 159.



Uplifting education, learning, and development

We continuously strive for higher levels of engagement and invest in knowledge and skills for the ongoing transition to the digital economy. Through these efforts, we seek to enable all employees to build their future. Opportunities have been created for school leavers and graduates to build their career with us. We have prioritised CSR programmes that support education and provide recognition to achievers in competitive exams. Our support is extended to children with special needs to nurture their aesthetic skills as well.

See more on pages 136 to 137 and 160 to 161



Supporting inclusive, sustainable growth

We promote financial inclusion to facilitate social and economic progress in the Nation. By advocating government initiated loan programmes, we directly promote a sustainable and inclusive economy through financing small and medium enterprises. We also finance private institutions that lend to small and medium entrepreneurs.

See more on pages 109 and 159.



Combating financial crime

The banking system plays a critical role in collecting and moving funds and effectively controlling systems that protect the integrity of the financial system. We have implemented an anti-money laundering system and we continue to detect and report suspicious financial transactions. This is key to preventing fraud, corruption, and curtailing funding to illegal operations and organisations. Our robust controls protect system integrity and the safety of our customers' funds.

See more on pages 119, 127, 152 and 158



Contributing to a low carbon economy

We are aligned with Government's strategy of enhancing the share of renewable energy that facilitates diversification of Sri Lanka's electricity supply. We are committed to lending and financing projects that generate renewable energy and small and medium enterprises engaged in producing green products and services. Our main focus is supporting solar energy projects by closely collaborating with Ceylon Electricity Board (CEB). We have installed solar energy in the building owned by us.

See more on pages 166 to 169.



Building healthy communities

Communities are a critical part of the economic and social fabric. By investing in communities, we help to build a more vibrant, prosperous future. Whilst creating a healthy and safe working environment for our employees, we sponsor mobile medical camps for medically vulnerable elderly persons in Sri Lanka. To build a healthy and prosperous Nation, we promote home gardening and organic crop production by distributing seeds and crops.

See more on page 161



Promoting transparency

Going beyond mere compliance, we maintain an open dialogue with all our stakeholders to maintain transparency of our operations. This enables us to be more responsive to emerging expectations of our stakeholders.

See more on pages 70 to 77.



In a dynamic operating context, it is essential to have a sound strategy to create sustainable value for our stakeholders in the short, medium, and long term. Our strategy in anchored on a strong foundations that reflects the operating environment. We follow a bank-wide inclusive approach to analyse factors that are material to the Bank by taking into account input from employees at every level of our Organisation.

SWOT analysis

A SWOT analysis was conducted as an initial step of our strategy formulation and execution of strategic priorities. This provides insights into our internal strengths and weaknesses as well as opportunities and threats in the external environment.



Strengths

- Deposits and interest payments are fully guaranteed by the Government
- A banking legacy of 187 years
- 100% State-owned bank
- Safest bank in Sri Lanka for the fourth consecutive year
- Strong brand reputation-recognised as the 5th most valuable brand in Sri Lanka
- Extensive customer reach across the island exceeding 4,000 service points
- Strong employee loyalty with higher retention rate
- AAA credit rating by ICRA Lanka Ltd.
- Specialised in financing infrastructure projects and clean energy financing
- A low NPL ratio compared to the industry average

Maximise opportunities by leveraging strengths

- Use NSB's expertise to develop Sri Lanka's infrastructure
- Enhance customer service experience by developing and motivating employees
- Increase revenue and profitability from diverse lending opportunities
- Extending products in relation to green economy and using our expertise to promote clean energy financing

Weaknesses

- Limitations imposed on business expansion through the NSB Act (Microfinance, lending for SME sector)
- Mandatory requirement to invest 60% of deposits in Government Securities
- Bureaucratic processes and procedures
- Absence of a fully integrated system curtails flexibility
- Stringent procedures slows the adoption of new technologies
- Primary source of funding are term deposits
- Limitations to generating fee and commission based income
- Conservative risk culture and business policy

SWOT analysis

Leveraging strengths to maximise opportunities

- Use the infrastructure needs of the country using specialised knowledge
- Improve service excellence through motivation and nurturing talent
- Increase revenue and profitability derived from lending opportunities by increasing contribution from a wide range of access points
- Providing the lending products in relation to green economy and utilising specialised skills in clean energy financing

Threats

- Subdued economic growth and political instability
- Intense competition from commercial banks and non-banking competitors
- Tightening regulatory and supervisory framework on banking and financial services industry
- Disruptive technologies challenging traditional business models
- Dynamic changes in customer preferences and expectations
- Downgrading of credit rating
- Minimise threats by leveraging strengths
- Capitalise on our 100% Government guarantee, brand, and unique status to differentiate our products
- Expand our customer touchpoints and grow our customer base using our digital infrastructure
- Offering an exceptional customer experience through our wide access channels

Countering weaknesses and threats

- Making our systems and processes more agile to enhance customer experience using our technological advancements
- Acquire new talent with the required skills for future banking such as IT and data analytics
- Focus on growing low-cost deposits, long-term deposits, and longer tenure borrowings

Counter weaknesses by capitalising opportunities

- Augment lending to small and medium entrepreneurs and grow our customer base and increase revenue generation
- Adopt technology to increase efficiency, productivity and minimise errors
- Adopt the risk conscious culture to maintain a lower NPL ratio while growing the lending portfolio
- Automate processes to boost savings deposits
- Penetrate the remittance market and grow fee-based income

Opportunities

- NSB's role in executing Government's commitment towards improving Sri Lanka's infrastructure
- Government's commitment towards UN SDGs
- Growing focus on climate change and moving towards a green economy
- Increasing consumerism and credit culture
- Increasing small and medium enterprise sector and its importance in economic development
- Dynamic technological advancements in banking
- Growing market for foreign currency remittances

Strategy map

Long-term strategies

Customer driven

At NSB the customers are our "North Star," and their outcomes guide everything we do. In our efforts of becoming the Bank of choice, we remain committed to providing a superior customer experience in all our customer interactions. Whilst aligning our resource allocation strategy with customer needs, we will always be a customer driven bank that values our customer, our relationships with them, and our commitment to them.

Excellence in governance

Maintain the highest standards in corporate governance and foster a culture of compliance and risk management. Leverage governance as a strategic and competitive differentiator by ensuring that business processes and governance checks across the Bank are efficient, agile, robust and in line with international best practice.

Strength and sustainability

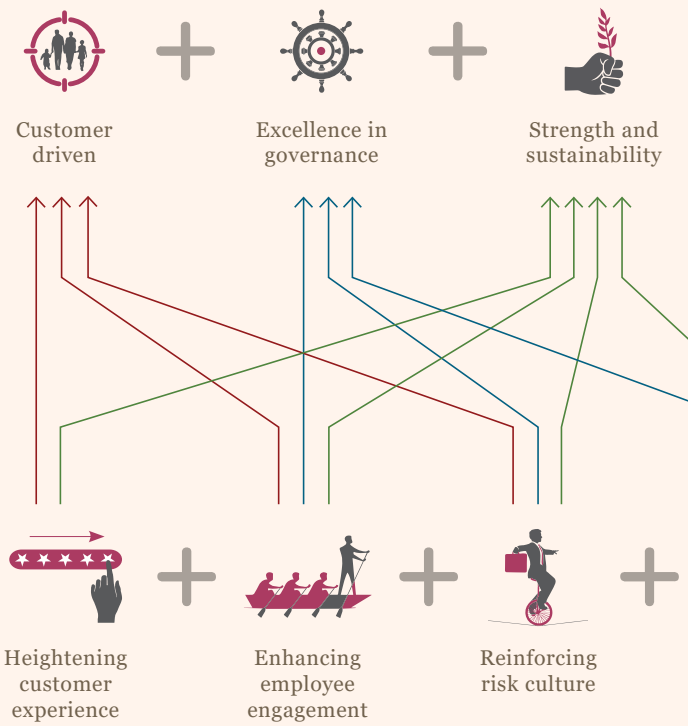
Achieve strong, sustainable, and balanced growth by focusing on value that is consistent, competitive, profitable and responsible. In this regard, we place emphasis on maximising long-term value by strengthening financial solvency, capital position, augmenting revenue channels, innovation and sustainability.

Transformation leader

As premier state-owned specialised bank in the Nation, we have always lead through example, setting the bar in terms of operational excellence, financial inclusion, customer service and business ethics and integrity. We continue to improve the lives of all Sri Lankans through our services and promoting innovation in all business processes, delivery channels and by capitalising on emerging opportunities.

Strategies

Long-term strategies



Short to Medium term strategic priorities

Short to medium term strategic priorities are comprehensively discussed from pages 58 to 69.

Transformation leader

Promoting organic growth

Leading by example

Short to medium-term strategies

- Enhancing the remote and digital customer service model
- Harnessing the potential of big data for the whole Bank
- Transforming branches into financial consultancy centres
- Segmentation and analysis of customer journey
- Simplifying processes and structures
- Customer data protection

- Increasing teams using the agile work methodology
- Rewarding and promoting innovation
- Developing professional capabilities
- Strengthening the culture of meritocracy and the diversity
- Promoting the management model based on the empowerment
- Diversity, equal opportunities and work-life balance

- Strong focus on employee conduct and values
- Improving capabilities to mitigate financial crime and cyber risks
- Zero tolerance to non-compliance
- Promoting a culture of transparency

- Increasing the market share
- Customer acquisition and retention
- Sustainable growth in core areas
- Increasing profitability to exceed the cost of capital
- Improving the quality of the balance sheet reducing asset-liability mismatch

- Commitment to financial inclusion
- Promoting responsible and sustainable financing
- Promoting “Green” business
- Minimising the environmental effect (Reduce the carbon footprint through environmental friendly initiatives)
- Meaningful community engagement

Strategic enablers

Technology

Risk management

Leadership and governance

People and culture

Innovation

Process

Outcomes of strategies 2019

- 20.9 Mn. Accounts
- Integrated IT systems
- Healthy balance sheet revenue/ profit growth
- Improved margin and capital growth
- Lower level of NPAs
- Higher employee retention
- 2nd largest investor in Government Securities

Heightening customer service and experience

Improving customer experience is one of our top priorities. We take a multi-channel approach to meet multiple customer needs to enhance the overall customer experience. We are committed to delivering an unmatched customer experience at every point a customer engages with our brand. Our investments in technology, people, processes, products, and service propositions underpin our efforts to deliver an integrated and differentiated customer experience. While developing our digital infrastructure we facilitate our customers seamless transition between channels, as we sustain and improve our physical touchpoints.

Why it matters most

Customer service is a strategic differentiator that provides a competitive edge enabling us to deliver a strong and sustainable financial performance. We believe that the future of our business depends on providing a compelling and consistent customer service and experience and empowering people to be self-reliant.

Resource allocation

We allocate our financial and human capital to increase investment in IT capabilities, IT security and capacity building that would generate intellectual capital as well as create manufactured capital including physical and digital assets.



Related material matters

For more information on how we manage our material matters, refer pages 78 to 88.



Contributing to long-term objectives and SDGs

Elevating customer experience requires us to be innovative, invest in digital infrastructure, develop our people and collaborate with business partners which strengthens our long-term sustainability.



Trade-offs

- Increasing digitisation to improve customer experience and operational efficiencies require additional IT development and an increase in maintenance cost to ensure a stable and secure IT infrastructure and increased depreciation and amortisation of our IT assets.
- Developing innovative, accessible and affordable digitally enabled solutions should be done securing customers' personal information and privacy, while mitigating the cybersecurity risk.

Actions to achieve strategic priorities

Priorities in 2019	Continuously enhance the digital experience of our customers by improving our digital infrastructure	Simplifying and increasing process efficiency and automation of payments to reduce delays and errors	Migrating to standardised technology platforms	Conducting data analytics to deliver a more connected, focused customer experience	Providing our customers the ability to seamlessly shift between NSB digital platforms and physical NSB touchpoints
Progress	We have procured the core banking solution during the year to enhance and deliver seamless banking experience to customers	Procurement of cash management system, Implementation of LankaPay initiatives such as JustPay/ LPOPP/USD online transactions	Upgrading of Production Data Centre to "Tier 3" standards	We conducted data analytics through MIS to assess where the Bank can improve more to give a better customer experience	Opened a new branch in Makola and launched Instagram and continued offer facilities through Website, Facebook, Twitter, LinkedIn, YouTube

Achieved

Our performance against strategy

KPI	How does it link to value creation	YoY change	2019	2018	Outlook/Target
Branch opening	Increase accessibility and convenience	1 ▲	**256**	255	Focusing on opening and moving into strategic locations
Branch relocation		(5) ▼	**7**	12	
New ATMs/CRMs installed	Enabling self-service channels and reducing customers' waiting time	24 ▲	**334**	310	Enabling customers to control their finances at their convenience
Number of internet banking users		6,261 ▲	**18,928**	12,667	
Number of internet banking transactions		194,738 ▲	**495,426**	300,688	
Number of customer complaints	Customer service quality and satisfaction	1,034 ▲	**3,678**	2,644	Reducing customer complaints
Brand value ranking in Sri Lanka (by Brand Finance)	Customers' preferred brand	–	**5**	5	Improving the brand ranking
Investment in IT projects (Rs. Mn.)	Digitally enabled solutions and operational efficiency	(82) ▼	**691**	773	Continue to increase digital ennoblement and experience
Outlets with modern designed converted as Model branches	Accessibility and convenience	34 ▲	**39**	5	Improving customer experience in branches

Looking forward

- Continuously improve our products, services and channels in line with customer expectations and changing needs
- Enhancing the remote and digital customer service model
- Developing innovative, accessible and affordable digitally enabled solutions without infringing customers' personal information, privacy, and mitigating cybersecurity risk
- Expanding postal network to strengthen our footprint



Enhancing employee engagement

We depend on our people to deliver better customer outcomes and experiences. Creating a team of engaged and motivated employees with the right skills is essential to operate our business effectively and create value for our stakeholders. Therefore, we are committed to attracting and retaining the right people by creating a safe and rewarding environment, and nurturing a team of engaged employees who are highly-skilled, motivated, leads by example, possess good communication skills, receptive, and responsible.

Why it matters most

Recruiting and developing individuals who have the qualifications, know- how and people skills necessary to support our customer centric business is an ongoing challenge for us. Inspiring our people to go above and beyond the call of duty supports our vision of being the most reliable and sought-after choice for savings in our nation.

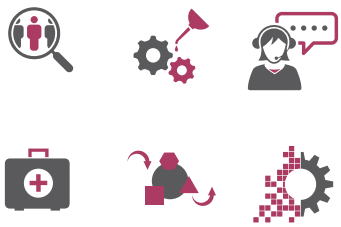
Resource allocation

We make a significant investment of time and money in developing our employees and improving their well-being that results in improved employee productivity, contribution and engagement as well as elevation of our brand and reputation.



Related material matters

For more information on how we manage our material matters, please refer pages 78 to 88.



Contributing to long-term objectives and SDGs

Gaining valuable skills, training and experience through our skills development programmes strengthens the sustainability of the Bank in the long-term.



Trade-offs

- Significant investments need to be made on training and development and improving employee well-being, to attract the right talent and to develop and retain scarce or emerging key skills which are necessary to achieve our strategic objectives.
- Digitalisation which is key to our future competitiveness will change the way we do business. Shifts in our future capability requirements needs to be managed in a responsible manner by balancing both commercial and social considerations.

Actions to achieve strategic priorities

Priorities in 2019	Identifying and attracting talent to NSB and continuing employee retention efforts	Providing first-job work experience for school-leavers and graduates	Optimising training and development programmes to meet employee training needs and expectations	Improving all digital platforms and internal digital systems and processes to support employees to better meet customer expectations
Progress	Improved the retention ratio to 98.1%, an increase by 0.2%. Welcomed 296 employees to the NSB family	Provided 317 employment and internship opportunities	Provided 7 training hours per employee	Implementation of online USD payment facilities, Direct debit facilities and JustPay facilities

Achieved

Our Performance against strategy

KPI	How does it link to value creation	YoY change	2019	2018	Outlook / Target
Staff costs (Rs. Bn.)	Remuneration, incentives and other benefits	895 ▲	**10,158**	9,263	Maintain a competitive remuneration structure
Unionised salary increases (%)	Salary increases upon bargaining	–	**22**	22	Being a competitive salary paying employer
Employee turnover (%)	Ability to retain skills	0.2 ▼	**1.9**	2.1	Maintain and improve the retention ratio
Gender Ratio (male: female) at all level	Diverse and equal opportunity workplace	1:0 ▲	**5:5**	6:5	Continue to drive transformation
Percentage of women in executive level and above		1 ▲	**25**	24	
Percentage of employees below 35 years of age	Recruiting and retaining future generation skills	1 ▼	**67**	68	Continue to be a local employment opportunity provider
Employee grievances as a percentage of total employees	Employee satisfaction and enabling employees to raise their concerns and grievances	0.16 ▼	**0.69%**	0.85%	Reducing the grievances by creating a positive working environment
Investment in training and development (Rs. Mn.)	Capacity building and nurturing a highly skilled and engaged workforce	0.8 ▲	**39.4**	38.6	Continuous investment in training and development
Number of training hours		26,452 ▼	**32,138**	58,590	
Number of learning programmes		181 ▼	**131**	312	Increase the number of training programmes on future requirement of skills
Number of distance learning activities and participants (Webinars)	Affordable, convenient and productive training methods	6 ▲	**9**	3	Increasing e-training methods

Looking forward

- Enhancing employee happiness and loyalty at work with work-life balance
- Creating a positive culture with special focus on employee development and engagement
- Creating an e-learning culture
- Change management towards digital transformation
- Training for high quality customer service and staff development
- Performance based pay directly related to delivery of targets by team
- Promoting professional development and merit-based criteria in selection and internal promotions



Reinforcing a risk culture

Establish a healthy risk culture to effectively anticipate and manage numerous risks that arise in a constantly evolving landscape. We continue to explore all available opportunities to improve and align our strategies and operations with our robust business model to prudently manage risks. We remain committed to operating ethically and reinforcing a healthy risk culture by being fully compliant with all applicable regulations, standards and best practices and embracing new technologies to strengthen our risk capabilities.

Why it matters most

Banks play an integral role in ensuring the stability and security of the financial system. As a custodian of public wealth, we need to be accountable, upholding the highest standards of ethics and integrity by reinforcing a risk culture. Non-compliance with rules and regulations results in significant fines, penalties, sanctions or removal of license.

Resource allocation

We invest financial capital in systems and people to establish robust protocols and processes to prevent and identify all forms of irregularities and financial crimes.

Related material matters

For more information on how we manage our material matters, refer pages 78 to 88.

Contributing to long-term objectives and SDGs

Continuous assessment and adjustment of our policies and process to ensure compliance and best practices, propels us to be a stable, secure and a strong institution in the financial ecosystem.

Trade-offs

- We are required to tighten our risk appetite when managing our lending exposures by taking into consideration social and economic aspects which hinders customer growth and our revenue generation capacity.
- Continually evolving regulatory and supervisory requirements slows down our ability to meet customers' needs and expectations in a speedy and convenient manner.
- Complying with new regulatory requirements requires us to incur costs for compliance, establish technology based risk solutions, extensively train our employees and adopt business systems to secure our reputation as a trusted organisation.

Actions to achieve strategic priorities

Priorities in 2019	Regularly review and amend the risk appetite in response to evolving context	Align our strategy, risk, compliance and processes to better respond to changes in the operating environment	Manage risk prudently	Continue to inculcate a culture of ethical behaviour	Invest in IT capabilities to combat financial crime and cyber risks
Progress	Reviewed the risk appetite framework during the year considering the Bank's strategy and the operating environment	Bank's triennial strategic business plan incorporates Bank's strategy, risk, compliance and how the Bank better responds to the changes in operating environment	Bank operates within the Board approved risk appetite level and always follows a proactive risk management approach	The Code of Conduct of the Bank is circulated amongst all the employees and continuous awareness is made on the ethical behaviour	The Payment Card Industry Data Security Standard (PCI DSS) was implemented making the Bank the first state bank to implement

Achieved

Our performance against strategy

KPI	How does it link to value creation	YoY change	2019	2018	Outlook/Target
CAR – Tier 1 Ratio – Basel III Compliance	Strength of capital position	1.06 ▼	**12.02**	13.08	Achieving a ratio above regulatory minimum Tier 1 of 8.5% and total of 12.5%
CAR – Total Capital Ratio – Basel III Compliance		1.55 ▼	**14.35**	15.90	
LCR – Basel III Compliance (%)	Strength of liquidity position	44.65 ▼	**276.64**	321.29	Achieving a ratio above regulatory minimum of 100%
NSFR – Basel III Compliance (%)	Strength of stable funding	28.51 ▲	**175.18**	146.67	
Leverage - Basel III Compliance	Strength of borrowing position	0.37 ▲	**5.13**	4.76	Achieving a ratio above regulatory minimum of 3.0%
NPL ratio	Strength of asset quality	0.13 ▲	**1.57**	1.44	Maintaining below the industry average
Regulatory fines or penalties	Extent of adherence to regulatory requirements	–	**0**	0	Zero, although risk of fines has increased
Number of disclosures received under whistle-blower policy	Raise concerns over any misconduct or malpractices	–	**0**	0	Zero
Reduction of technology incidents	Resilience of IT systems and process	–	**0**	0	Zero

Looking forward

- Sustaining strong capital adequacy levels to facilitate business growth in a prudent and disciplined manner
- Implementing and integrating Environmental, Social and Governance policies into business operations
- Employing digital capabilities in preventing and identifying irregularities
- Maintaining the robustness of systems, processes and controls to combat cybersecurity



Promoting organic growth

Since our inception, we have directed our systems, operations, and strategic priorities to achieve our mandate of fostering a savings culture in Sri Lanka. In our 46 years of operations, we have become an entity that is trusted by all Sri Lankans.

We leverage our systems and processes to achieve financial stability and organic growth. Through bank-wide, multichannel efforts, we focus on improving customer experience, employee engagement, and prudent risk management to grow and create sustainable returns to our stakeholders.

Why it matters most

We need to demonstrate our ability to compete with our peers in the industry and withstand financial stress arising from the economic turmoil. At the same time, we need to generate sufficient returns to satisfy the requirements of all our stakeholders.

Resource allocation

We leverage on investing in profitable avenues to optimise return within our risk appetite levels and use robust internal controls and risk management procedures in the way forward to minimise expected losses and safeguard the Bank from unexpected losses.

Related material matters

For more information on how we manage our material matters, refer pages 78 to 88.



Contributing to long-term objectives and SDGs

Our long-term success depends on our ability to generate value for the society by providing products, services, and facilities that are useful to people and the communities in which we operate.



Trade-offs

- We need to provide an appropriate rate of return to our shareholder and providers of debt, including depositors to attract the capital we need to fund the asset growth. This requires us to increase our revenue generation by continuously and sustainably meeting our clients' needs and strengthening

Actions to achieve strategic priorities

Priorities in 2019	Continue to diversify NSB's offerings to generate revenue and reduce earnings volatility	Streamlining internal systems and processes to drive organic growth	Improving shareholder returns by raising medium-term ROE target range from 10%-15%	Increasing deposits and lending growth in line with the industry growth	Arresting the declining market share
Progress	Re-visit the fee structure of loan products, introducing ATM cards for PFCA customers, enter into new business relationships with Emirates NBD and Gmoney Trans to expand international operations	Changing the delegation of authority limits, improving information security in systems, procuring advanced IT solutions	Achieved a ROE of 15.32%	**Lending growth** Bank – 7.4% Industry – 5.6% **Deposit growth** Bank – 21.1% Industry – 7.9%	

Market Share	2019 (%)	2018 (%)
Total assets	**9.26**	8.81
Deposits	**10.75**	9.58
Loans and advances	**5.72**	5.60
Remittances	**3.29**	3.07

Achieved

our competitive position, while incurring costs. In this regard, we are required to invest in the following purposes:

- **IT systems and capabilities:** Need for digitising our products, services and solutions and providing affordable and convenient channels to customers requires us to modernise our digital platforms which needs a significant investment
- **Enabled and engaged employees:** We invest to attract and retain the right people and build their capacity through training and other engagement programmes empowering them to be agile and provide exceptional client experiences.
- **Socio-economic development:** We invest in community engagement activities which stimulates the socio-economic and environmental sustainability. We also invest in our people, systems, and processes to mitigate our environmental footprint and operate in a responsible manner.

Our performance against strategy

KPI	How does it link to value creation	YoY change	2019	2018	Outlook / Target
Dividend per share	Dividend for shareholder	1.38 ▲	**2.13**	0.75	Improve the capacity to pay more dividends
Profit after tax (Rs. Mn.)	Increasing value for shareholder	2,198 ▲	**6,698**	4,500	Driving continuous growth
Shareholders' funds (Rs. Mn.)	Retaining for future growth	1,282 ▲	**44,377**	43,095	
Fee based income (Rs. Mn.)	Reducing earnings volatility and dependency on interest income	256 ▲	**1,261**	1,005	Enhance fee-based income through card, international and credit operations
Cost to income ratio	Managing costs effectively	4.83 ▼	**49.35**	54.18	Maintaining a ratio below the industry average
Brand value ranking in Sri Lanka	Enhancing customer awareness, association and loyalty	–	**5**	5	Improving brand ranking
Market share – Deposits (%)	An attractive source of funding for maintaining customer loyalty	1.17 ▲	**10.75**	9.58	Maintaining the current market share in the short term and increasing to 11% in the medium to long term
Market share – Retail credit (%)	Driver of revenue growth	0.12 ▲	**5.72**	5.60	>15% by 2020
Net Interest Margin (%)	Extent to which interest income covers interest expenses	0.20 ▲	**2.63**	2.43	>2.6% in the medium to long term
Return on Equity (ROE) (%)	Returns that shareholder receive on capital	4.37 ▲	**15.32**	10.95	>10% by 2020

Looking forward

- Improving operational efficiency through various digitisation initiatives
- Exploring new avenues to enhance fee based income
- Sustaining a strong asset quality through disciplined credit risk management
- Improving the balance sheet quality and reducing non-strategic assets
- Focusing on improving the cost of funds
- Improving market share
- Increasing profitability to exceed the cost of capital
- Improving efficiency of back-office processes



Leading by example

We aim to amplify the positive impact of the Bank by contributing to solutions that address socio-economic and environmental challenges. We integrate sustainability in every area of business operations and we are committed to achieving the UN SDGs. We are aware of our impact on society and environment and remain committed to create social value by engaging in responsible, and sustainable business practices. As a government organisation with deep social roots, NSB has a responsibility of being an exemplary corporate citizen and leading by example.

Why it matters most

Our success is interlinked with the well-being of the society and the environment in which we operate. Due to strong interconnection between the Bank and the financial system, any disruption in the banking system or financial system creates a strong impact across the Bank.

Resource allocation

We allocate significant amount of money, people and time in systems and processes to pursue projects and initiatives which will have an impact on all our six capitals.



Related material matters

For more information on how we manage our material matters, refer pages 78 to 88.



Contributing to long-term objectives and SDGs

The Bank directly affects the environment, society and communities through its footprint /consumption of resources and indirectly influences through its role of financial intermediation (lending and investment practices). The health and stability of the country affects our ability to achieve sustainable growth in the long run. Supporting initiatives to achieve SDGs also have a positive impact on the country.



Trade-offs

- Implementing systems and processes with significant investments and developing capacity to operate responsibly and maintain sustainability.
- Supporting small and medium businesses in vulnerable sectors through lending while managing default risk.
- Restructuring debts in sectors affected by climate change affects the viability of customer's business.

Actions to achieve strategic priorities

Priorities in 2019	Reducing our environmental footprint in all our business operations	Uplifting local communities and supporting community building initiatives	Managing social and environmental concerns in relation to lending operations	Continuing our efforts towards achieving the UN SDGs and alignment of SDGs with our strategy and business operations
Progress	Obtained the Carbon Neutral Certificate with 1,460tCO_2 presented by Sri Lanka Climate Fund in 2019 for the assessed period of 2018	Spent Rs. 30 Mn. for community development projects	Implemented the Environmental Social and Risk Management (ESRM) Policy that takes into consideration environmental and social aspects in the lending operations	For more details refer pages 90 to 169

Achieved

Our performance against strategy

KPI	How does it link to value creation	YoY change	2019	2018	Outlook/Target
Social					
Total investment in community engagement programmes (Rs. Mn.)	Contribution to society	13 ▲	**30**	17	Achieving the budgetary targets and making a positive impact to the society
Number of lending schemes for low-income earners	Financial inclusivity	–	**3**	3	To be in line with budgetary target
Number of scholarships offered to children with special needs	Supporting education	5 ▲	**25**	20	Aligning impact with strategy
Number of students participated in seminars held during the year					
Number of entrepreneurs supported	Accessible finance for small and medium business customers	562 ▼	**963**	1,525	In line with lending targets
Female participation in executive level and above (%)	Women empowerment and diversity	1 ▲	**25**	24	Continue to drive diversity
Number of suppliers, and service providers	Contributing to local community development	198 ▲	**351**	153	Continue to support local suppliers
Proportion of spending on local suppliers (%)		–	**100**	100	
Economic					
Infrastructure financing (Rs. Mn.)	Contribution to the economy development	2,458 ▲	**7,520**	5,062	Continue to support economy infrastructure development
Direct and indirect taxes paid (Rs. Mn.)	Contribution to the General Treasury	2,290 ▲	**8,961**	6,671	Continue to contribute directly to the national economy
Environment					
Number of eco-loans granted	Supporting low carbon economy	559 ▼	**222**	781	Achieving the target and continue to increase/Continue investing in sustainable initiatives
Number of solar panel installed branches connected to net metering		13 ▲	**26**	13	
Number of plants distributed through NSB agroforestry		69,400 ▼	**6,600**	76,000	

Looking forward

- Addressing social challenges such as access to financial services, education, employment opportunities and economic growth
- Funding for strategic partnerships in community development
- Managing environmental and social impacts of our lending practices
- Managing our environmental footprint
- Supporting the education and health sectors

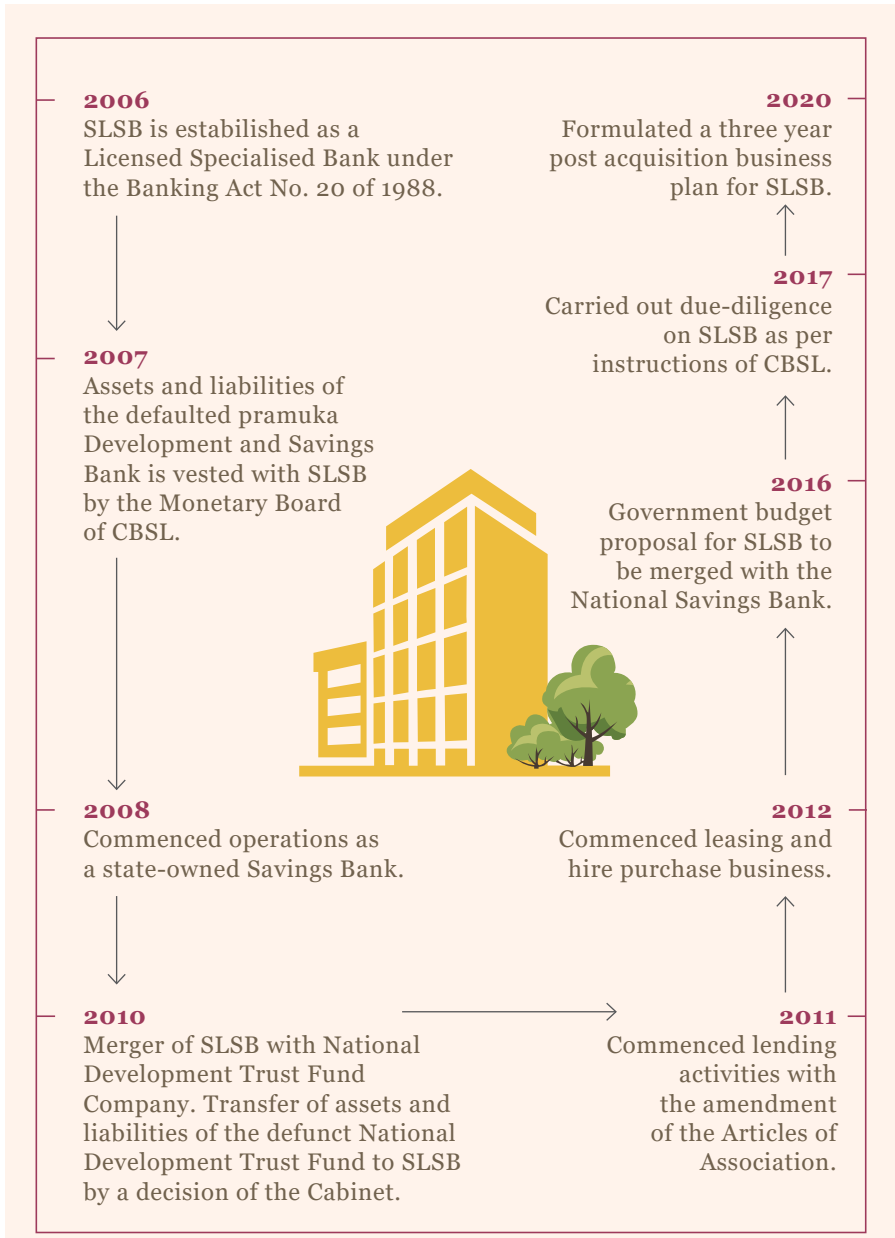


Acquisition of Sri Lanka Savings Bank GRI 102-10

Sri Lanka Savings Bank Ltd (SLSB) was acquired by National Savings Bank as a fully-owned subsidiary with effect from 11 October 2019. In addition to mobilisation of deposits, the SLSB offers a wide array of credit facilities such as Leasing/Hire Purchase facilities, Small and Medium Enterprise (SME) Loans, Business Loans, Micro Finance Loans and pawning.

Since its establishment to administer the relief package for the defaulted Pramuka Savings and Development Bank (PSDB), SLSB has transformed into a fully-fledged LSB serving a multitude of customer groups.

The primary reason for the establishment of Sri Lanka Savings Bank was to provide relief to the depositors of the defaulted Pramuka Savings and Development Bank. SLSB has converted a part of its deposit liability to debentures which were to be settled by end 2017. However, a balance amount of Rs. 264 Mn. pending settlements remained as of 31 December 2019. SLSB was able to meet the deficiency in capital funds with the merger of National Development Trust Fund Company (NDTFC) and transferring of assets and liabilities of the defunct National Development Trust Fund (NDTF). The merger with NDTF and NDTFC along with the amalgamation of the article of association enabled SLSB to be a fully-fledged Licensed Specialised Bank and carry out business activities.



Strategic outlook/ focus areas

To be the apex institution for development financing in SL

SLSB will position itself as the apex institution for Development Banking Market (SME, Microfinancing) while also offering selected retail products to complement its parent's business portfolio. Product focus is to be mainly driven along wholesale SME (Lending to Financial institutions/ Partner Organisation's), Microfinance lending, Direct SME lending, Retail lending, Leasing (to complement parent portfolio) and savings mobilisation (specialised savings such as minor accounts, women's savings accounts). Further, it will provide value added services such as capacity building, advisory services and project based financing solutions to eventually transform into a full service SME bank.

Capacity growth

SLSB would increase lending capacity (while maintaining manageable levels of non-performance loans) to address the funding gaps in the Micro-entrepreneurship and SME (MSME) segment and fill the void in the local banking market by being the apex institution for foreign funding lines, government funding lines and other funding facilities for SME and development projects which are currently facilitated through CBSL and Ministry of Finance. SLSB is striving to achieve a high top line growth and high utilisation of capital funds by tapping into NSB for necessary funding for capital requirements and lending purposes.

Hybrid mandate

SLSB has limited drive for growth in savings deposits, particularly via minor savings accounts. Combined with its parent (NSB), SLSB will cover a wider gamut of financial products and services. Synergizing NSB brand and SLSB track record in MSME lending will attract international and public sector funding for disbursement among the MSME sector. The ability of the bank to offer key products such as leasing and credit cards will be a strategic win for both NSB and SLSB.

Low cost operating model

At present, SLSB is operating in a low cost operating model as it has a limited geographical reach with four branches namely Colombo, Anuradhapura, Matara, and Mannar in operation. SLSB intends to operate in limited geographical presence through traditional own branch approach whilst extending coverage footprint via NSB branch network and Partner Organisation's market reach. Core activities and skills will be centralised at Head Office and regional (provincial) main branches.

SLSB envisage to utilise the NSB branch network to increase footprint by converting existing branches and new branches into "Regional Development Centres" (RDC) which are to be established in selected areas; tapping into wider NSB network and Post Offices and Sub-post Offices by operating as a hub. RDC will extend current branch services including SME lending, SME advisory services and Microfinance support services. Sales and service oriented market approach is to be promoted through skills development.

Cost optimisation

Continue with the low cost to income ratio by maintaining a light operating model and utilising NSB network for expansion.

Employee productivity

Enhance employee productivity – and ensure capability development to drive next phase of growth.

Customer satisfaction

Increase service quality to customers and expand touchpoints to increase reach to customers while keep up to date with infrastructure and systems to enhance customer experience and convenience.

KPIs	Unit	2019	2020-2022
Loan Portfolio	Rs. Mn.	2,222	Increase by two folds in 2020 and double digit growth in next two years
Total Assets	Rs. Mn.	8,717	Average growth of 20.0% by next three years
Deposit Base	Rs. Mn.	1,076	Average growth of more than 20.0% by next three years
Total Liabilities	Rs. Mn.	3,786	Average increase of 31.2% over next three years
Total Operating Income	Rs. Mn.	1,062	Single digit growth in 2020 and double digit growth by next two years
Cost-to-Income	%	23.5%	Average ratio it remain at 50%
Operating Profit	Rs. Mn.	634	To be maintained at the same level
Net Profit	Rs. Mn.	448	To be maintained at the same level
Branches	Numbers	4	Double the number of branches in 2020 and increase by two each year

For financial details on acquisition refer Note 24 on Notes to the Financial Statements on Book 02 Compendium, page 357.

Integrated Stakeholder Engagement

We engage with diverse stakeholders who are spread around our operations. They challenge and inspire us in numerous ways. We strive to continually address, respect and honour their varying needs by maintaining proactive approaches in all our business activities.

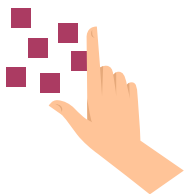
Our robust stakeholder engagement process is integrated into every step of our value creation process. Through meaningful dialogue with our key stakeholders, we are able to better understand and address their needs and concerns while balancing the distribution of value created. We do this by having a deep understanding on aspects that matter most to them and which are relevant to our business. We are taking into consideration their expectations and concerns gathered through stakeholder feedback ascertained via dialogue, collaboration and cooperation and assessing of environmental, social and governance risks and opportunities across our business. This form of effective stakeholder engagement compels us to be future ready, as we continue to improve our business model and strategic planning processes based on the feedback received from our stakeholders.

This approach allowed us to identify topics that have a direct or indirect impact on our Bank's ability to create, preserve or erode economic, environmental and social value – not only for ourselves, but also for our stakeholders. Feedback from our stakeholders helps us to build on our strategy which clearly outlines our commitment to deliver sustainable value to our stakeholders, expand our offering, and initiate programmes and services to better serve our stakeholders.

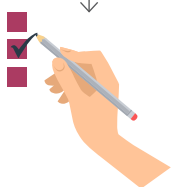
GRI 102-40, 42, 43 & 44

Our integrated stakeholder engagement process

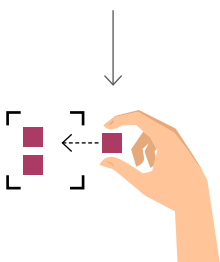
Our stakeholder engagement process encompass the following stages:



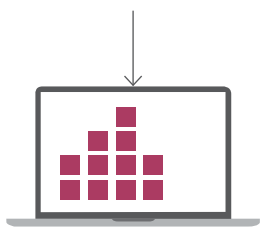
Identification of stakeholders



Prioritising and identifying key stakeholders



Defining the method of engagement and identifying their needs and expectations



Establishing a tool for monitoring and evaluating relationship

Identification of stakeholders

We define stakeholders as those individuals or a group that is significantly impacted by our actions, products and services. In turn their perceptions and actions can have a strong effect on our ability to conduct our activities and meet our strategic goals.

We have identified the following stakeholder groups who influence our operations either directly or indirectly. We strive to continuously build and maintain cordial relationships.

- Shareholder/Investor
- Customers
- Employees
- Regulators and government institutions
- Business partners
- Society and environment

Prioritising and identifying key stakeholders

We have identified and prioritised our key stakeholders for targeted engagement based on how our activities impact them and the relevance of our strategy in addressing their concerns. Given the significant impact stakeholders have on our organisation and vice versa, it is essential to identify them and communicate effectively. Connecting with our key stakeholders helps us to understand and address their concerns while balancing the distribution of value created.

We use the following criteria to prioritise individuals and organisations that have a stake in our organisation.

- Those who are essential to the survival of the Bank
- Those associated with relevant threats and opportunities
- Those who have moral or legal capacity to influence the behaviour of the Bank
- Those who can influence others to take decisions that wouldn't have been taken on their own
- Those whose relationship is key for the Bank

Our key stakeholders are identified by mapping the stakeholders on the following matrix using a simple rating scale based on their level of interest in the Bank and their power to influence our operations.

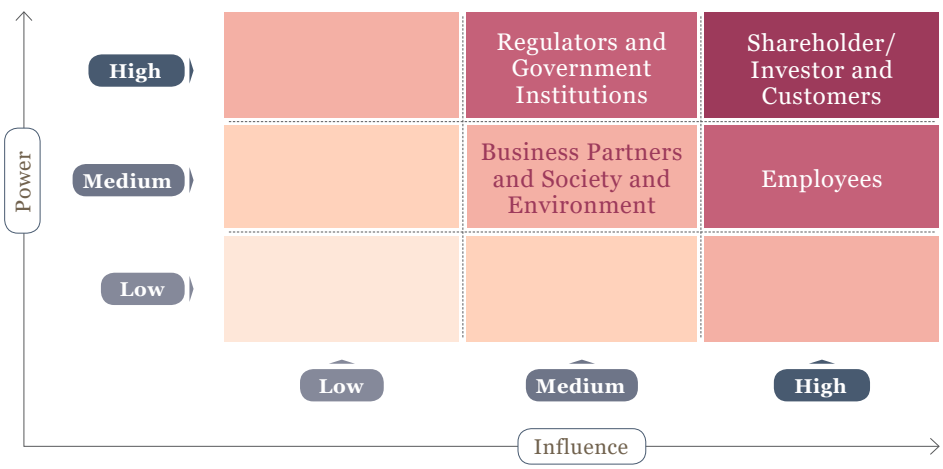
Defining the method of engagement and identifying their needs and expectations

We maintain a number of formal mechanisms to remain linked to our stakeholder groups. Continuous and systematic dialogue with our internal and external stakeholders is an important aspect in ascertaining key issues. We strive to engage in constructive, continuous and detailed stakeholder dialogue to build and nurture long-lasting, mutually beneficial relationships with our stakeholders. There are various modes of communication to conduct dialogues with our key stakeholders. These include, face-to-face conversations, conferences and social media platforms. The feedback helps us understand their expectations and concerns and develop effective strategies for value creation.

Establishing a tool for monitoring and evaluating relationship

The following tables outline the stakeholder groups who have a substantive impact on our ability to create value, their contribution to value creation, our mode of engagement with them, and their key interests, concerns and expectations based on our interactions. This process enables to ascertain the material matters to ensure that we reach our common goals in a sustainable manner.

The following is an assessment of the quality of the relationships, with our key stakeholder groups. This scale represents our internal assessment on the quality of our relationships.



★	No existing relationship
★★	Relationship established, but much work to be done to improve quality of relationship
★★★	Relationship established, value generating connection, but with room for improvement
★★★★	Good-quality, mutually beneficial relationship, with some room for improvement
★★★★★	Strong relationship of mutual benefit

Shareholder/Investor

The Government of Sri Lanka

Why they are important to us

As the sole shareholder, the Government of Sri Lanka expects us to be a key contributor to the financial stability and resilience of the economy.

How we engage	Frequency of engagement
Annual report	Annually
Financial statements	Quarterly
Corporate website	Continuous
One to one meetings	regularly
Investor presentations and roadshows	Periodic
Press conferences and releases	As required

Priorities	Material matters	Our response	Relevance to capitals and contribution to SDGs	Impact on capitals
Sustainable financial return and growth Attractive dividend stream Sound balance sheet to protect against downside risk		• Generating sustainable financial returns (while complying with environmental sustainability), through growth in revenue, management of risk within an acceptable risk appetite limit, prudent management of expenses and optimising the cost base	 *Financial performance pages 93 to 107.*	
Strong and experienced management Sound governance and transparent disclosure The group's resilience to challenging economic conditions Consistent delivery of the strategy Communicating in a clear, consistent and transparent manner		• Maintaining a strong balance sheet, that contributes to a safe and stable banking system, instilling confidence and protecting against downside risk		

Quality of relationship indicator ★★★★

Customers

Individuals, institutions, corporates and entrepreneurs

Why they are important to us

- Customers are at the centre of our business and delivering an unparalleled customer experience is essential to achieve profitable and sustainable growth.
- Customers provide funds that allow us to fund lending activities.

How we engage	Frequency of engagement
Multiple channels including branches, postal network, ATM/CRM, call centres and internet banking	Continuously
Customer awareness programmes/promotional campaigns	frequently
Print and electronic media	Regular
Social media channels	Continuously
Surveys on customer satisfaction	Periodically
Corporate events	As required
Corporate website	Continuously
CSR activities	Continuously

Priorities	Material matters	Our response	Relevance to capitals and contribution to SDGs	Impact on capitals
Cheaper and more convenient banking services Increased products and access points		• Safeguarding deposits and investments while increasing returns • Launching efficient channels and providing cost-effective, convenient banking options • Offering personalised and comprehensive financial solutions by understanding the needs of our customers • Equipping and empowering our people to deliver an exceptional customer experience every time • Increasing digitisation and innovation with a focus of safety • Proactively responding to cybersecurity threats and ensuring customer privacy and security • Maintaining the stability, security and speed of our IT systems • Contributing to financial inclusion through our products, delivery channels and markets • Increasing process efficiency and automation • Strengthening multichannel delivery • Simplifying processes	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 7 AFFORDABLE AND CLEAN ENERGY *Augmenting our reach page 116.* *Expanding our digital footprint page 117.* *Robust systems and processes page 126.* *Building a loyal customer base page 148.*	
Value for money banking Excellence in customer service Improving banking experience and reliability of service Reducing delays, errors and complexity in processes				
Safety for their money and investments				
Responsible banking services and solutions				
Protection against fraud and safety of personal data				
Information on new products, services and events				

Quality of relationship indicator ★★★

Employees

Permanent employees, employees on contract basis, outsourced personnel and trade unions

Why they are important to us

- Our employees facilitate the achievement of the Bank's strategy by driving the daily operations of our business
- The level of motivation of our employees is directly linked with customer satisfaction levels.

How we engage	Frequency of engagement
Formal meetings	Frequently
Informal/Ad hoc meetings	As required
Performance review	Annually
Internal newsletter	Periodically
Line management engagement	Ongoing
Operational circulars and guidelines	Frequently
Training and development programmes	Regularly
Intranet	Continuous
Welfare events and activities	Periodically
Recognised trade union participations	Periodically
Grievance handling mechanism	Continuous

Priorities	Material matters	Our response	Relevance to capitals and contribution to SDGs	Impact on capitals
Recognition and career advancement opportunities Training and development to enhance current skills and develop new skills in a changing operating environment Competitive remuneration and effective performance management Retirement benefits		• Offering attractive remunerations and rewards for their contribution to value creation and addition • Developing an agile workforce to be relevant in rapidly changing environment • Creating an inspiring and engaging work environment • Contributing to creating a diverse and inclusive workplace by employing individuals from the community in which we operate • Job security and freedom for collective bargaining • Launching learning and development programmes • Complying with all applicable employment laws • Recognise and respect the right to collective bargaining and protect collective bargaining interest	3 GOOD HEALTH AND WELL-BEING 2 ZERO HUNGER 5 GENDER EQUALITY 4 QUALITY EDUCATION 1 NO POVERTY 8 DECENT WORK AND ECONOMIC GROWTH *Nurturing and developing a winning team page 136.* *Attracting the best suited talent page 135.* *Managing our talent page 138.* *Retaining employees page 142.* *Communicating effectively page 142.*	
Safe, positive and inspiring work environment Employee health and well-being activities in changing socio-economic environment				
Ability to raise voices and grievances individually and collectively Equal opportunity in remuneration and promotions Providing employment opportunities with emphasis on diversity and inclusivity Negotiations on collective agreements				

Quality of relationship indicator ★★★★

Regulators and Government Institutions

Central Bank of Sri Lanka (CBSL), Ministry of Finance, Auditor General's Department, other Government and professional organisations

Why they are important to us

They provide the license to operate and facilitate a sound and efficient banking system

How we engage	Frequency of engagement
Directives and circulars	When required
Financial statements	Periodically
Statutory examination	Frequently/Periodically
Regulatory reporting	Frequently/Periodically
Interviews and meetings with representatives of regulators	Continuously
Industry forums and meetings	Regularly
Onsite surveillance	Frequently

Priorities	Material matters	Our response	Relevance to capitals and contribution to SDGs	Impact on capitals
Compliance with all legal and regulatory requirements		• Complying with rules and regulation to mitigate systemic risk • Embracing sustainable banking practices and regulatory compliance that enable a safe and stable banking system and a thriving society • Ensuring customer confidence in the Bank and reducing potential for reputational risk • Providing timely and detailed regulatory updates and disclosures • Contributing meaningfully to government budgets through our taxes, and dividends • Creating jobs • Active participation in Government Securities investments • Contribution to government development plans and national priorities • Managing operations in an environmentally and socially responsible manner	16 PEACE, JUSTICE AND STRONG INSTITUTIONS 17 PARTNERSHIPS FOR THE GOALS 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE *Strengthening regulatory compliance page 157.* *Our capital remains strong page 101.* *Managing funding and liquidity risk page 106.* *Building an organisation of repute page 124.* *Values and ethics page 124.* *Robust systems and processes page 126.*	
Embedding risk conscious and compliance culture				
Being a responsible player in the sector				
Supporting national agenda and policies				
Enhancing trust and maintaining stability in the banking sector				
Promoting sustainable development and innovation				
Financial crime, cybersecurity, data governance and data privacy, fair dealing and conduct, credit risk management				

Quality of relationship indicator ★★★

Business partners

Suppliers, utility service providers, other service providers, exchange houses and correspondent banks

Why they are important to us

- They provide the equipment and expertise support services needed to develop and maintain our operations.
- Impact on our ability to provide products and services cost effectively.

How we engage	Frequency of engagement
Procurement plan	Periodically
Procurement process	When required
Meetings with suppliers and service providers	Frequently/Periodically
Site inspections	When required
Tender notices	When required
Publication of information/notices	When required
Product demonstrations	When required

Priorities	Material matters	Our Response	Relevance to capitals and contribution to SDGs	Impact on capitals
Fulfilling contractual obligation with prompt payment Transparency in procurement practices Long-term business relationships		• Maintaining healthy, mutually beneficial relationships with suppliers and service providers • Having regular direct communication with major suppliers • Awarding the contract within the minimum time period possible and timely payments • Procurement from local suppliers	17 PARTNERSHIPS FOR THE GOALS *Building strong relation with business partners page 154.*	

Quality of relationship indicator ★★★

Society and environment

Society at large, pressure groups, community organisations, Non-Governmental organisations and Media

Why they are important to us

- Social relevance is fundamental to our survival and success, and underpins our purpose and vision.
- Ensures continued long-term viability of the business.
- We aim to contribute positively to the communities and environment in which we operate.

How we engage	Frequency of engagement
Delivery channels	Continuously
Corporate website	Continuously
Press releases, conferences and media campaigns	Regularly
CSR activities and sponsorships	Regularly
Funding government infrastructure projects	Continuously
CSR projects	Continuously

Priorities	Material matters	Our response	Relevance to capitals and contribution to SDGs	Impact on capitals
Playing a major role in society with social, economic, and environmental concerns		• Accelerating inclusive economic growth and facilitating transactions that are core to economic value exchange • Creating stable and permanent jobs that contribute to the development of society and improvement in the standard of living • Transforming economy and society positively through supporting Sustainable Development Goals (SDGs) • Making a difference through our community engagement projects • Investing in Sri Lanka's infrastructure particularly in transport, health, and agriculture sectors • Contributing to improving the quality of peoples' lives through infrastructure development and provision of employment opportunities • Managing operations in a responsible way and minimising environmental impact	 *Sustainable financing page 168.* *Building thriving communities page 158.* *Contributing to a sustainable world page 165.* *Responsible consumption page 166.*	
Contributing to initiatives that address societal, economic and environmental challenges of the nation				
Reducing the environmental footprint using resources efficiently				
Accessibility to everyday banking facilities at affordable prices				
Employment generation				

Quality of relationship indicator ★★★

Materiality Matters

Process of managing our material matters

The materiality assessment process is a vital element in our integrated thinking, and ensures the long-term sustainability of our business and value creation for our stakeholders.

The material issues we identify form the basis of our internal and external reporting and reflect the issues that could have the greatest impact on our ability to create value as well as stakeholder needs and perceptions and emerging opportunities and risks in the operating environment.

NSB has continuously expanded its processes over the last few years for identifying material topics and integrating them simultaneously with the development of the Bank's strategy. These matters inform our strategy to manage the risks and maximise the opportunities that present themselves.

1. Identify

We determine our material aspects based on a systematic continuous internal process applying integrated thinking. Comprehensive research is conducted to analyse our business context, by taking into consideration the operating environment, our resources, internal reports and input from all divisions as well as feedback from our stakeholders (both internal and external). Significant matters which are either financial, reputational, operational, environmental, social, strategic or legislative are identified through this process.

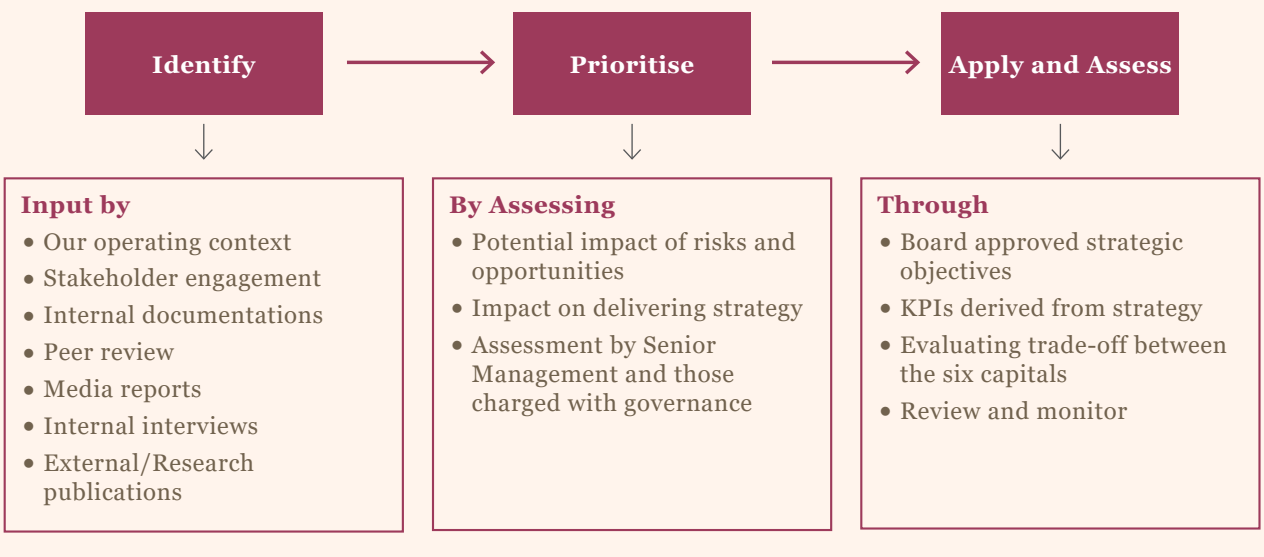
We clustered our material aspects on the grounds of Social, Economic and Environmental concerns notwithstanding only to the local conditions in Sri Lanka, while we refer international guidelines of International Integrated Reporting Council (IIRC), UN'S Sustainability Development Goals as well as in accordance with the GRI standards for sustainability reporting issued by the Global Reporting Initiative (GRI).

Last year's material matters, which were developed in the context of the shifts in our operating environment and our strategy, were the starting point for this year's process. The material matters identified for 2019 are not different to those reported last year.

2. Prioritise

Using the outcomes of this analysis and the key risks and opportunities identified, as depicted in the materiality matrix, we prioritise those matters that are most material to our ability to execute our strategy and create sustained value in the short, medium and long-term value to our stakeholders.

Our materiality assessment process



We plotted identified issues in a materiality map based on the level of stakeholders' considerations and the extend of impact on the viability of our business and relationship with stakeholders as well as boundary of the topic. Our social, economic, and environmental aspects are categorised into three groups namely Highly Material, Material and Important.

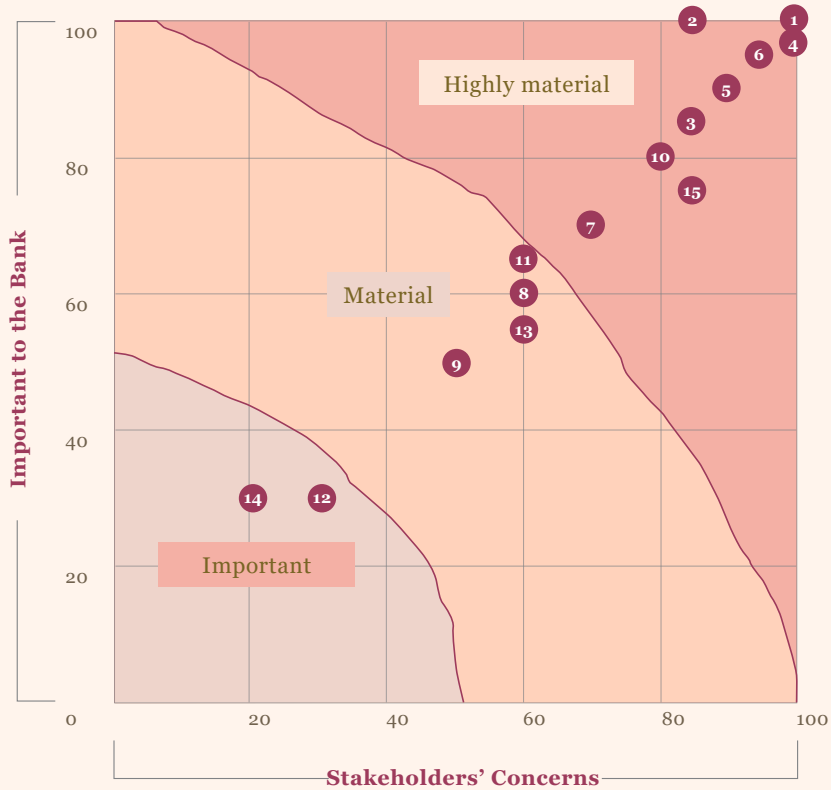
3. Apply and assess

We apply our material matters into our strategy and operational plans. These issues are associated with our strategic value drivers and play an important role in our decision-making and value creation processes by evaluating trade-off between our six capitals. We responded to them by evaluating their impact and by making appropriate strategies to mitigate those with the potential to disrupt value creation, as well as management interventions to capitalise on those factors that offered opportunity for greater value creation.

We track our performance against this strategy using identified Key Performance Indicators (KPIs) that are cascaded throughout the Bank. We assess the matters continuously and review in annual strategic business plan workshop to ensure that our strategy remains relevant.

Materiality matrix

Following our materiality assessment process, we identified 15 material issues that have the potential to impact our operations and are of great importance to our stakeholders. These form the basis of our internal and external reporting throughout the year and our responses to these material issues are established in the form of strategies or plans. The material issues have been grouped under three main pillars: Economic, environment, and social, as illustrated by the following diagram. We have also prioritised matters and plotted them on the materiality matrix diagram below:



Economic

5		Economic value for contributors
9		Economic and social impact
8		Financial inclusion
15		Operational efficiency

Environment

12		Environmental footprint

Social

1		Customer service and experience
2		Risk-focused organisational culture
3		Digital transformation
4		Cybersecurity, fraud prevention, and anti-money laundering
6		Regulatory compliance
7		Responsible lending
9		Economic and social impact
10		Attracting, developing, and retaining talent
11		Diversity and inclusion
13		Workplace safety, health, and well-being
14		Supply chain responsibility

Credit risk

Market risk

Liquidity risk

Operational risk

Reputational risk

Strategic risk

Customer service and experience

Offering a unique customer value proposition consisting of innovative and effective customer solutions, superior service quality with a strong commitment to business ethics that result in a high level of customer satisfaction and trust in the organisation.

Why it matters: Risk and opportunities

Delivering an excellent customer service is essential to build trust, financial strength and stability. Poor customer service and capacity constraints result in strained customer relationships and loss of business.

To retain and acquire customers and clients, we have to remain relevant by offering innovative and cost-effective products and solutions.

Management approach

- Maintaining and growing a loyal and satisfied customer base through an extensive digital and physical presence
- Accelerating our quality and speed of customer service across all channels through technology
- Products and process innovation to deliver an efficient customer experience

Time frame – Short to long term

Matters raised by

GRI topic	GRI boundary
416 – Customer health and safety	outside
417 – Marketing and labelling	outside

Related strategic priorities

Related capitals

Related stakeholders

Impacted SDGs

Economic value for contributors

Delivering consistent returns to our investor and contributing to socio-economic progress of local economies through taxes, job creation, facilitating trade and industries and strengthening the financial resilience of our stakeholders.

Why it matters: Risk and opportunities

Enhancing direct and indirect economic value of our stakeholders enables us to maintain a sustainable competitive advantage.

Management approach

- Budgeting and strategic planning to improve organisational performance
- Focusing on organic growth and increasing market share to enhance financial performance
- Effective cost management and operational efficiency enhancement to drive economic growth
- Continuous improvement in internal process, systems and controls to realise productivity improvements
- Proactive risk management with desired risk appetite to enhance the resilience of the Bank

Time frame – Short to long term

Matters raised by

GRI topic	GRI boundary
201 – Economic performance	Within and outside
203 – Indirect economic impacts	outside

Related strategic priorities

Related capitals

Related stakeholders

Impacted SDGs

10 REDUCED INEQUALITIES
8 DECENT WORK AND ECONOMIC GROWTH
1 NO POVERTY

Regulatory compliance

Maintaining highest standards of professional and ethical conduct through compliance with applicable laws, rules, regulations and standards and maintaining a sound risk management framework.

Why it matters: Risk and opportunities

Being a premier State Bank in Sri Lanka and a custodian of public funds, we operate in a highly regulated environment. Any failure of compliance results in waning of public trust and confidence in our Bank and compromising the stability of the financial system of the nation.

Management approach

- Engaging with regulators proactively and in an open and transparent manner to uphold our role as a safe, secure and trusted banking institution
- Strengthening our risk management and compliance capabilities to safeguard our reputation
- Having a zero tolerance approach towards non-compliance to secure the sustainability of our business

Time frame – Short to long term

Matters raised by

GRI topic	GRI boundary
205 – Anti corruption	Within and outside
206 – Anti competitive behaviour	Within and outside

Related strategic priorities

Related capitals

Related stakeholders

Impacted SDGs

11 SUSTAINABLE CITIES AND COMMUNITIES
16 PEACE, JUSTICE AND STRONG INSTITUTIONS
17 PARTNERSHIPS FOR THE GOALS

Operational efficiency

Delivering an unparalleled customer experience through operational excellence by driving efficiency and improving productivity leading to effective cost management and best ways of doing things.

Why it matters: Risk and opportunities

Low productivity levels due to absenteeism or operational inefficiencies lead to poor service quality, loss of reliability and weak asset performance. Productivity and efficiency gains provide a competitive edge resulting in a value premium for our Bank in the long-term.

Management approach

- Enhancing operational efficiency through automation, digitisation and integration of technology
- Reducing unnecessary paperwork, streamlining workflows and adopting stringent internal controls
- Improving data capture and reporting to reduce any manual errors and enhance the speed of processing

Time frame – Short to medium term

Matters raised by

GRI topic	GRI boundary
205 – Anti corruption	Within
404 – Training and education	Within

Related strategic priorities

Related capitals

Related stakeholders

Impacted SDGs

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Attracting, developing, and retaining talent

Develop a winning team functioning in a conducive environment to increase our capacity to create value by attracting, developing and retaining the right talent.

Why it matters: Risk and opportunities

Attracting, developing and retaining the right talent is critical for continued creation of shared value and efficient execution of our strategies to achieve business objectives.

Requirement for scarce skills and competition for specialised skills.

Management approach

- Conducting leadership programmes and coaching targeting specific management levels
- Creating a conducive environment and providing opportunities for career progression and training to hone employee skills
- Re-skilling and supporting our workforce to be future ready

Time frame – Short to long term

Matters raised by

GRI topic	GRI boundary
202 – Market presence	Outside
401 – Employment	Inside and outside
404 – Training and education	Within
407 – Freedom of association and collective bargaining	Within

Related strategic priorities

Related capitals

Related stakeholders

Impacted SDGs

8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES
11 SUSTAINABLE CITIES AND COMMUNITIES
4 QUALITY EDUCATION

Digital transformation

Invest in digitalisation to deliver a superior customer experience by meeting their evolving needs, transforming our processes and honing new skill sets of our employees for digital and data specialists in our market space.

Why it matters: Risk and opportunities

Being in sync with emerging technologies strengthens the sustainability of our Bank leading to consistent financial growth. It also enhances our service capabilities, enhances the productivity of our employees and nurture a culture of innovation.

Management approach

- Making all products and services available in digital channels
- Re-engineering, digitising and automating our processes
- Evolving our IT architecture and systems
- On boarding new technologies in our day to day operations
- Becoming an agile data-driven organisation

Time frame – Short to medium term

Matters raised by

GRI topic	GRI boundary
401 – Employment	Within
413 – Local communities	Outside
418 – Customer privacy	Within

Related strategic priorities

Related capitals

Related stakeholders

Impacted SDGs

Risk-focused organisational culture

Developing a solid risk culture to achieve stable and sustainable growth through informed risk-based decision making.

Why it matters: Risk and opportunities

Developing a risk focused culture enhances customer outcomes, improves customer confidence and give us the licence to operate and promoting trust in the financial system.

Management approach

- Mitigating potential risks through robust internal processes and stakeholder feedback
- Aligning the Bank's risk appetite to the operating environment and prudent management of our risk exposures
- Embedding a culture of ethical behaviour and doing the right business the right way
- Adopting best corporate governance practices and a robust risk management framework to protect the stakeholders' interest

Time frame – Short to long term

Matters raised by

GRI topic	GRI boundary
205 – Anti corruption	Within and outside
206 – Anti competitive behaviour	Within and outside
403 – Occupational health and safety	Within
418 – Customer privacy	Within and outside

Related strategic priorities

Related capitals

Related stakeholders

Impacted SDGs

Cybersecurity, fraud prevention, and anti-money laundering

Contribute to a secure and trusted banking environment by prioritising cybersecurity, fraud prevention and anti-money laundering.

Why it matters: Risk and opportunities

With the increasing trend of digitalisation of banking services and automation of business processes, cyber security, fraud prevention and anti-money laundering have become high priority areas as it strongly affects the reputation of the Bank.

Management approach

- Continuous investment in cybersecurity and data management as a strategic differentiator
- Robust risk management systems and processes to strengthen privacy of customer data and prevent fraud
- Implementing effective policies and processes to safeguard customer information and confidentiality
- Collaborating with government and related institutions and peer-industries to strengthen the resilience of the financial system and minimise the impact of threat
- Supporting the regulators to prevent cybercrime, money laundering and terrorist financing

Time frame – Short to long term

Matters raised by

GRI topic	GRI boundary
418 – Customer privacy	Within and outside
205 – Anti corruption	Within and outside

Related strategic priorities

Related capitals

Related stakeholders

Impacted SDGs

Workplace safety, health, and well-being

Create a safe and healthy working environment for employees to ensure their physical, mental, and social well-being.

Why it matters: Risk and opportunities

Nurturing a safe and healthy workplace is imperative for our success as it improves employee well-being, job satisfaction and employee motivation resulting in high performance.

Management approach

- Providing the necessary facilities to nurture a conducive workplace that drive employee well-being and close engagement
- Communicating matters related to employees' health and safety including conducting of safety drills
- Strengthening the security policies and processes to mitigate of hazards and risks in the workplace

Time frame – Short to long term

Matters raised by

GRI topic	GRI boundary
403 – Occupational health and safety	Within

Related strategic priorities

Related capitals

Related stakeholders

Impacted SDGs

Environmental footprint

Contribute towards building a low-carbon economy by reducing our ecological footprint and protecting our planet to ensure long-term sustainable value creation of the Bank.

Why it matters: Risk and opportunities

Preserving the planet and creating positive long-term outcomes for our stakeholders in our daily operations is essential for the long-term sustainability of the Bank.

Management approach

- Aligning our objectives with the Government and United Nations Sustainability Development Goals
- Managing our resources wisely focusing on minimising paper, water, and energy consumption and efficient waste management
- Responsible funding and implementing energy conservation measures

Time frame – Short to long term

Matters raised by

GRI topic	GRI boundary
302 – Energy	Within and outside
303 – Water	Within and outside

Related strategic priorities

Related capitals

Related stakeholders

Impacted SDGs

13 CLIMATE ACTION

Economic and social impact

Strengthen our social fabric by supporting community development and building vibrant communities.

Why it matters: Risk and opportunities

As a state-owned bank, we play a key role in driving investment growth that leads to improved living standards of all citizens and creating positive long-term outcome for all our stakeholders.

Management approach

- Aligning our objectives with the Government and United Nations Sustainability Development Goals
- Investing in projects that create a strong community impact
- Playing a major role in government financing of infrastructure development projects
- Considering environmental, social and governance issues in decisions-making

Time frame – Short to long term

Matters raised by

GRI topic	GRI boundary
202 – Market presence	Outside
203 – Indirect economic impacts	Outside
413 – Local communities	Outside

Related strategic priorities

Related capitals

Related stakeholders

Impacted SDGs

7 AFFORDABLE AND CLEAN ENERGY

3 GOOD HEALTH AND WELL-BEING

4 QUALITY EDUCATION

Diversity and inclusion

Create an inclusive culture within the Bank by recruiting people from diverse backgrounds which represent the society in which we operate.

Why it matters: Risk and opportunities

Hiring and nurturing a diverse team of employees enables to harness a richer variety of experiences, perspectives and skills that makes our Bank stronger and more effective.

Management approach

- Respecting and appreciating the diversity of employees and promoting multiple religious and cultural practices within the Bank
- Providing equal pay for women and men for identical job roles with similar responsibilities
- Implementing anti-discriminatory policies across the Bank

Time frame – Short to medium term

Matters raised by



GRI topic	GRI boundary
401 – Employment	Within
405 – Diversity and equal opportunity	Within
413 – Local communities	Outside
203 – Indirect economic impacts	Outside

Related strategic priorities



Related capitals



Related stakeholders



Impacted SDGs



Financial inclusion

Empower communities by providing access to affordable financial solutions to diverse segments of society across the nation.

Why it matters: Risk and opportunities

Providing access to innovative and cost-effective financial products and services helps to acquire new customers and increase our market share.



Management approach

- Developing a comprehensive network of customer touchpoints both physical and digital
- Improving access, customer convenience and affordability of financial solutions
- Educating customers to manage their finances more effectively
- Helping our customers save, invest and plan for the future according to their individual needs

Time frame – Medium to long term

Matters raised by



GRI topic	GRI boundary
413 – Local communities	Outside
203 – Indirect economic impacts	Outside

Related strategic priorities



Related capitals



Related stakeholders



Impacted SDGs



Supply chain responsibility

Conduct our procurement process responsibly by ensuring the business practices of our suppliers are environmental friendly and compliant with the requirements of procurement policy.

Why it matters: Risk and opportunities

Ensuring social and environmental compliance of our supply chain strengthens our reputation, improves cost efficiencies, reduces risks and improves outcomes for the society and the Bank.

Management approach

- Consolidating suppliers through a competitive and transparent sourcing processes
- Adhering to legal and regulatory requirements on procurement
- Adhering to environmental, social and governance requirements

Time frame – Medium to long term

Matters raised by

GRI topic	GRI boundary
204 – Procurement practices	Within and outside

Related strategic priorities

Related capitals

Related stakeholders

Impacted SDGs

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Responsible lending

Preserve the rights of our customers and ensure our products and services comply with the relevant regulations pertaining to product and marketing and environmental compliance.

Why it matters: Risk and opportunities

Our lending which fuel development projects may have an impact on the environment and the community in which we operate.

Management approach

- Addressing environmental, social and governance issues when making lending decisions
- Acting in customers' best interest to ensure affordability and transparency of terms and conditions
- Supporting customers who face financial difficulties
- Adhering to all legal and regulatory marketing and advertising requirements and relevant industry codes
- Supporting new and viable business opportunities that drive sustainability

Time frame – Medium to long term

Matters raised by

GRI topic	GRI boundary
204 – Procurement practices	Outside
203 – Indirect economic impacts	Outside
417 – Marketing and labelling	Within and outside
418 – Customer privacy	Outside

Related strategic priorities

Related capitals

Related stakeholders

Impacted SDGs

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Management Discussion and Analysis

This section is a comprehensive overview of NSB's operations, performance, challenges, and future outlook according to each capital. Further, it outlines NSB's position with regard to sustainability as a binding part of our business operations and performance.

90 Financial Capital

112 Manufactured Capital

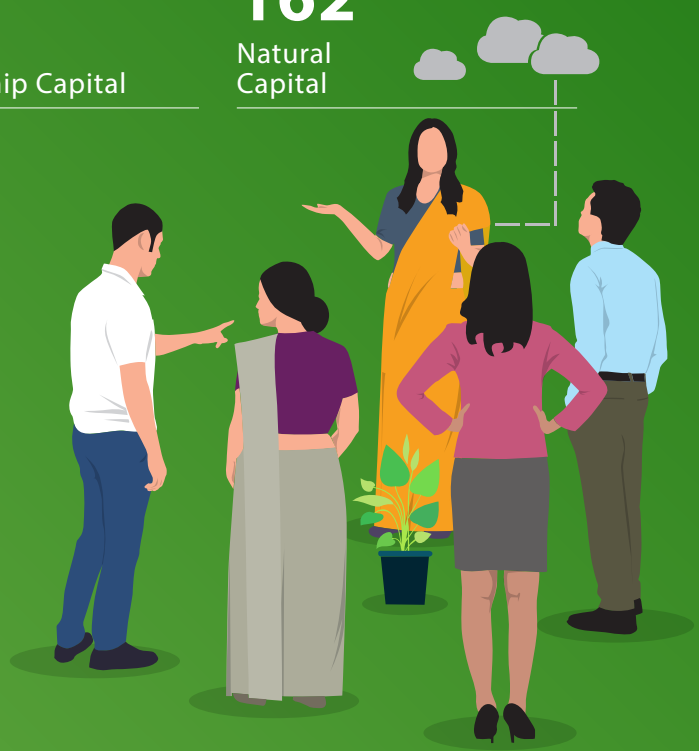
120 Intellectual Capital

130 Human Capital

144 Social and Relationship Capital

162 Natural Capital

170 GRI Content Index in accordance with Core Criteria



Financial Capital

Financial capital includes monetary assets used by the Bank to create value for the stakeholders. We continually strive to increase the value of financial capital to ensure long-term sustainability of our Bank.

What it includes

Our financial capital includes monetary resources contributed by the General Treasury (GOSL) and generated through our business operations.

Inputs

- Share capital and reserves
- Deposits from customers
- Borrowings

How it adds value

Our financial sustainability relies on the availability and management of our own and borrowed funds. Financial capital enables value creation with all other capitals. Through the combined use of capital inputs, such as share capital, reserves and borrowings, we grant loans, fund our projects, build manufactured assets, enhance the productive capacity of our people through training, innovate around technology and services, and benefit our community relationships through our investment in community engagement initiatives.

Our approach

- Diversify revenue streams
- Stringent cost management and cost optimisation
- Maintaining cost-effective structured funding
- Maintain credit ratings

Key challenges and opportunities for 2019

Key challenges

- Decline in private sector credit growth
- Slowdown in economic activities
- Regulatory pressures on capital
- Trade-off between income generated from mandatory investment in Government Securities and disbursement in loans and advances
- Increasing low-cost funding

Opportunities

- Monetary policies to reduce the funding costs and to induce the credit growth
- Performance of government securities market



Strategies to enhance the value of financial capital

- Funding strategy based on strategic priorities
- Capital investments that are likely to yield the best financial results, but not at the cost of social and environmental results
- Continue financial stability and strength

Material matters

Related stakeholders

Short to medium-term strategic priorities

Highlights

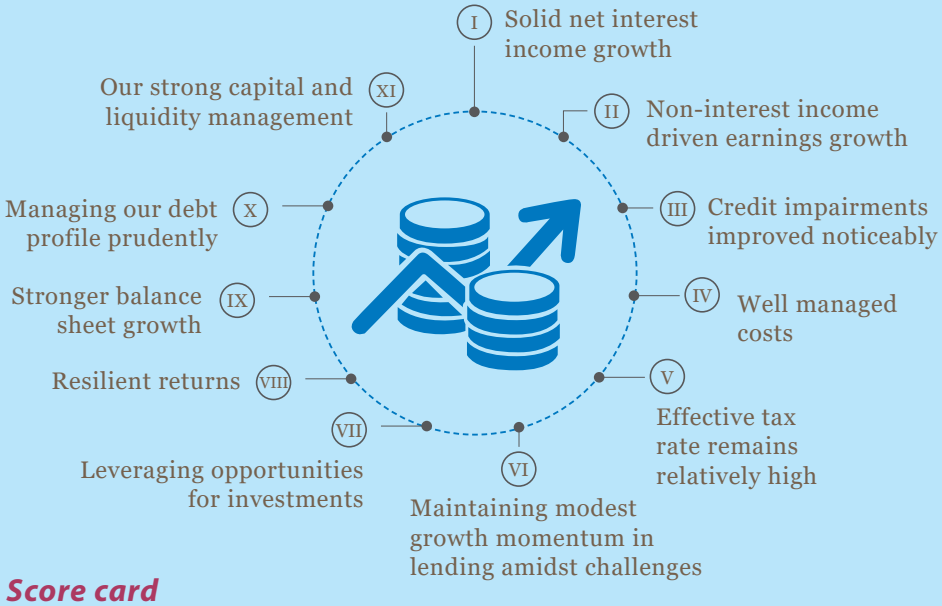
Rs. 171.4 Bn.
Deposits mobilised

Rs. 10.5 Bn.
Profit before tax

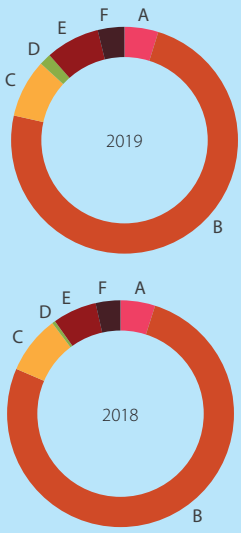
1.57%
Non-Performing Loan Ratio

14.35%
Total Capital Adequacy Ratio

Drivers of value creation



Direct economic value generated and Distributed



	2019 %	2018 %
A – Operating expenses	**4.8**	4.9
B – Depositors	**73.7**	76.5
C – Employees	**8.3**	8.3
D – Providers of capital	**1.7**	0.5
E – Government excluding dividends	**7.7**	6.3
F – Direct economic value retained	**3.8**	3.5

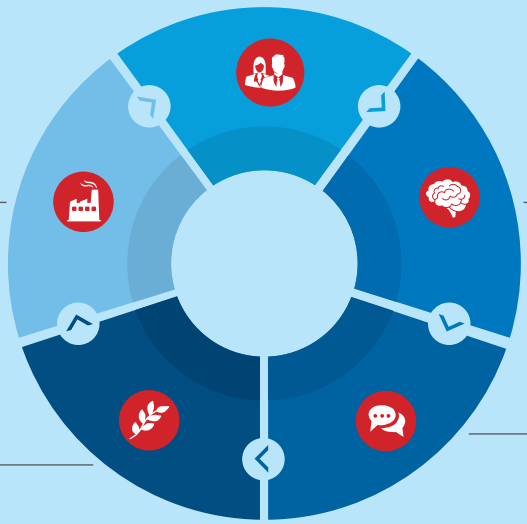
Score card

	Increase/ (decrease)	2019 %	2018 %
Return on average assets	0.17	**0.95**	0.78
Return on average equity	4.37	**15.32**	10.95
Cost to income ratio	(4.83)	**49.35**	54.18
NPA ratio	0.13	**1.57**	1.44
Total provision cover	8.16	**50.75**	42.59
Loan to deposit	(3.36)	**44.70**	48.06
Gross Income per employee (Rs. Mn.)	1.06	**25.86**	24.80

Direct economic value generated and distributed

	2019 Rs. Mn.	2018 Rs. Mn.
Direct economic value generated to:	**121,929**	111,902
Operating expenses	**5,894**	5,526
Depositors	**89,898**	85,622
Employees	**10,158**	9,263
Providers of capital	**2,000**	500
Government excluding dividends	**9,348**	7,036
Direct economic value retained	**4,631**	3,955
Direct economic value distributed	**117,298**	107,947

Linkage to other capitals



Investments in learning and development develops the capacity of the workforce

Investments in digital and physical infrastructure builds manufactured capital

Investments in brand and skills development enhances the intellectual capital of the Bank

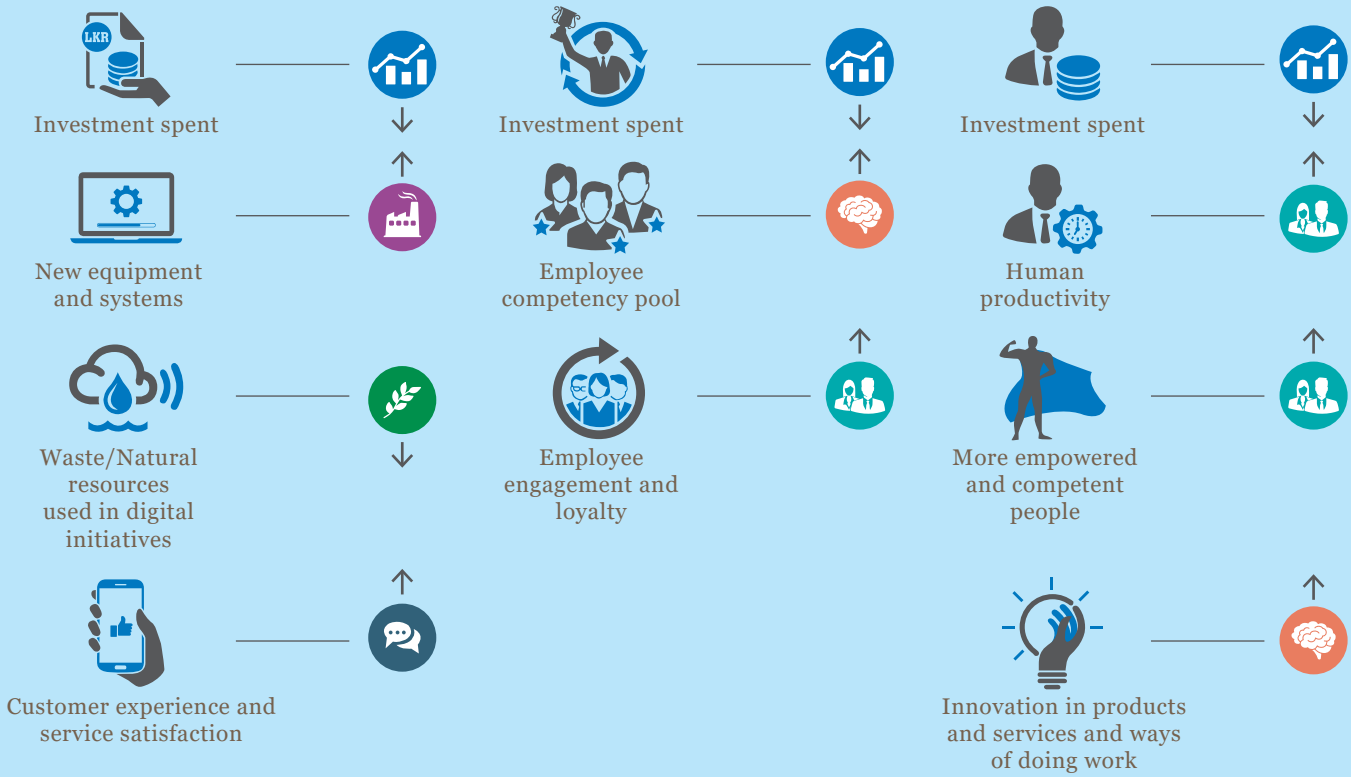
Investments in CSR projects builds community capital

Investments in physical and digital infrastructure improves customer convenience and strengthens supplier relationships

Investment in energy efficient buildings, energy saving initiatives and enhancing of digital channels contributes towards a low carbon economy

Trade-offs

- **Capital investment in expanding physical and digital infrastructure**
- **Investment in personnel cost**
- **Investment in skills development**



- **Investment in community development projects**



Contribution to SDGs



Committed to making investments in physical and digital infrastructure to provide innovative product and solutions





Harnessing economic development and living standards in the community through the investment on our people (employement opportunities and benefits) and community development projects

Outputs

- Operating profit before tax
- Profit after tax
- Capital
- Gearing
- Capital investment
- Dividend payment
- Contribution to the government

Outlook/Future priorities

- Achieve the financial targets set out in the budget as well as Strategic Business Plan
- Improve the non-interest earnings
- Continue stringent cost management
- Optimal utilisation of capital while complying with all regulatory requirements

Summarised statement of income

			2019 Rs. Mn.	2018 Rs. Mn.	2017 Rs. Mn.	(2019 Vs. 2018) YoY change %
Page 94	A	Net interest income	**28,832.0**	24,884.7	25,134.0	15.9
Page 94	B	Net non-interest income	**3,067.3**	1,253.9	4,307.9	144.6
		Total operating income	**31,899.3**	26,138.6	29,441.9	22.0
Page 95	C	Impairment charges	**565.5**	871.0	765.9	(35.1)
		Net operating income	**31,333.8**	25,267.6	28,676.0	24.0
Page 95	D	Operating expenses	**15,674.9**	14,096.5	11,047.4	11.2
		Operating profit	**15,658.9**	11,171.1	17,628.6	40.2
Page 95	E	Tax on financial services	**5,197.3**	3,229.7	3,493.6	60.9
Page 96	F	Profit before income tax	**10,461.6**	7,941.4	14,135.0	31.7
		Income tax expenses	**3,763.4**	3,441.2	4,419.0	9.4
Page 96	F	Profit for the year	**6,698.2**	4,500.2	9,716.0	48.8

A Solid net interest income growth

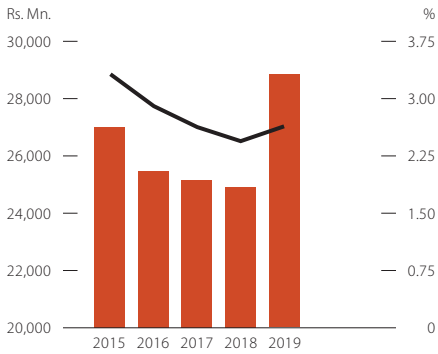
Interest income recorded a growth of 7.4% , recording to Rs. 118.7 Bn. in 2019 over Rs. 110.5 Bn. in the last year, boosted by the expansion of the loan book by 7.4% over 2018. Despite customer deposits growing by 21.1% during the year, interest expenses increased only by 5.0% to Rs. 89.9 Bn. against Rs. 85.6 Bn. reported a year ago due to reduction in interest rates.

This was as a result of the Central Bank of Sri Lanka (CBSL) imposing maximum interest rates on Sri Lanka rupee deposits from April to September 2019, with a view to lowering costs of funds of the banks, envisaging a consequent reduction in lending rates. Thereafter, though CBSL imposed caps on lending rates in September 2019. However, the impact on interest income was not immediate as the loans and advances were not repriced as fast as the deposits were repriced.

As growth in interest income more than offset the growth in interest expenses during the year, net interest income grew by 15.9% to Rs. 28.8 Bn. for the year under review compared to Rs. 24.9 Bn. in 2018 primarily owing to reduction in deposit rates and expansion in loan book. Further, as deposits were repriced at early part of the year, the Bank was able enjoy higher margin until the lending rates were repriced at latter part of the year.

As a result of net interest income (NII) growing by 15.9% to Rs. 28.8 Bn. while interest earning assets growing by 11.94 % to Rs. 1,093.49 Bn., Net Interest Margin (NIM) (net interest income as a percentage of average total assets) improved to 2.63% at the end of 2019 against 2.43% reported last year.

Net interest income and net interest margin



Outlook

NIM to grow at mid to upper single digit levels.

B Non-interest income drove earnings growth

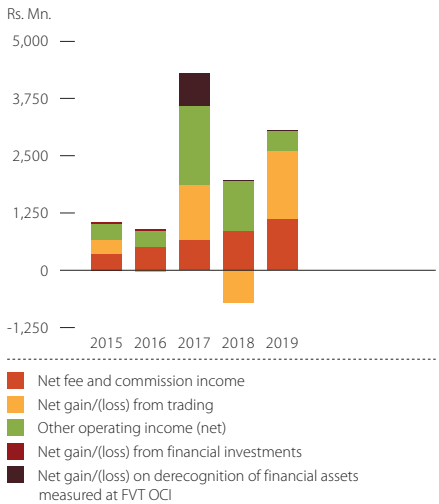
Total operating income including Net Interest Income (NII), and Net Non-Interest Income during 2019 increased to Rs. 31.9 Bn., by 22.0% as against Rs. 26.1 Bn. reported in the last year.

Net fee and commission-based income rose by 30.7% to Rs. 1.1 Bn. against Rs. 0.9 Bn. reported during 2018 as a result of growth recorded in processing fees due to increase in volumes of credit.

Other main reason that could be attributable to the growth of operating income is mark to market gains from trading portfolio which grew by 310.9% to Rs. 1.5 Bn. compared to the loss of Rs. 0.7 Bn. recorded in 2018. This is was primarily driven by increases in prices of fixed income securities which is accounted for 79% of trading income and grew as double increased twofold over 2018.

Other operating income observed a decline of 61.1% to Rs. 0.4 Bn. during the year from Rs. 1.1 Bn. reported in 2018 resulting from the negative revaluation gains due to exchange rate movement on the foreign currency related operations of the Bank. The Sri Lankan rupee remained stable during the year and was appreciated marginally by 1.0% against the USD, closed at Rs. 181.63 in 2019 in comparison to the 19.6% depreciation of the rupee in 2018.

Analysis of non-interest income



Outlook

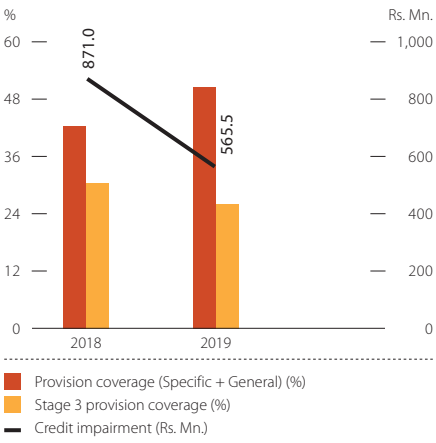
To grow at lower to mid single digit.

C Credit impairments improved noticeably

Net impairment charged to the income statement was of Rs. 0.6 Bn. only for the year 2019, a reduction of 35.1% compared to Rs. 0.9 Bn. in 2018. The reason for decrease in impairment provision was largely attributable to the reduction in loss rate applicable for personal loans and pawning advances combined with partial conversion of dollar denominated loan given to Kothalawala Defence University (KDU) into rupees during the year under review. The Bank will continue to place greater focus on collections and recovery processes to mitigate the impact of impairment charges on its profitability.

Provision coverage ratio including specific and general provisions has surged to 50.7% as of December 2019 from 42.6% clocked in 2018 resulted from growth in loans and advances.

Provision coverage



Outlook

Manage provision coverage ratio at current level.

D Costs well managed while investing

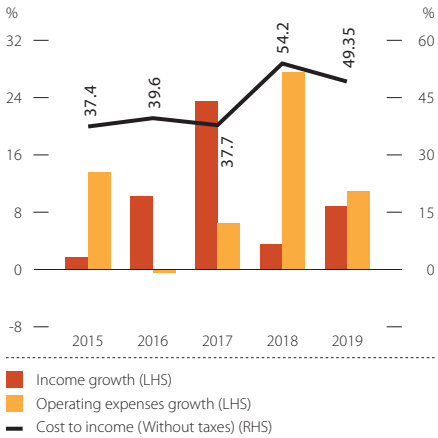
Total operating expenses comprising personnel expenses, depreciation and amortisation and other expenses rose by 11.2% to Rs. 15.7 Bn. during the year under review compared to Rs. 14.1 Bn. in 2018.

Personnel expenses representing 64.8% of operating expenses hiked by 9.7% to reaching Rs. 10.2 Bn. from Rs. 9.3 Bn. reported in 2018 largely driven by recruitment of new employees as well as absorbing contractual basis employees into permanent cardre.

Despite accounting only for 6.7% of operating expenses, depreciation and amortisation expenses drastically increased by 63.3% to Rs. 1.0 Bn. against the Rs. 0.6 Bn. in 2018. This was mainly due to the investments made in new IT infrastructure to enhance digital customer experience while strengthening the cybersecurity, opening up of one new physical branch and strengthening the network reach through by adding 34 new Smart ATM/CRM zone facilities.

Other operating expenses reflecting administration and establishment expenses increased by 6.7% to Rs. 4.5 Bn. during the year 2019. Amidst such expenditure, the Bank successfully improved its cost to income ratio (before VAT) to 49.35% in 2019 from 54.18 % recorded in the year 2018. Operational resilience continues to improve due to investments in infrastructure, process efficiencies, people and technology.

Cost and income growth



Outlook

Expenses to grow slightly marginally above mid-single digits due to the plan of new recruitments, opening of new branches in strategic locations and investments in digital infrastructure (depreciation and amortisation).

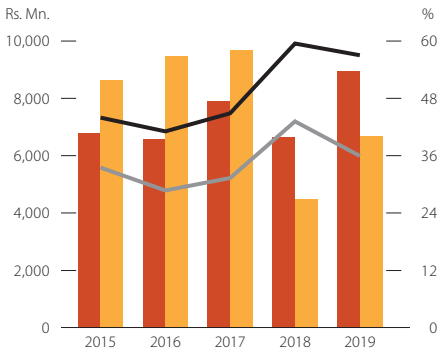
E Effective tax rate remains relatively high

During the year, the Bank's contribution to the Nation via taxes rose by 34.3% to Rs. 9.0 Bn. compared to Rs. 6.7 Bn. in 2018. Total taxes include, Value Added Tax (VAT) and Nation Building Tax (NBT) on financial services, Debt Repayment Levy (DRL) and income tax.

Income tax was Rs. 3.8 Bn. during the year, up by 9.4% over the Rs. 3.4 Bn. recorded during 2018, while taxes on financial services increased by 60.9% to Rs. 5.2 Bn. in 2019 compared to Rs. 3.2 Bn. reported a year ago. Full year impact of the DRL which was introduced in the latter part of 2018, caused the taxes on financial services to increase by Rs. 2.0 Bn. The effective tax rate however decreased

to 57.2% in 2019 from 59.7% in 2018 due to the increase in allowable expenses amidst the higher Debt Repayment Levy.

Tax impact to profitability



Outlook

Effective tax rate is likely to reduce marginally.

F Resilient returns

The Bank recorded a profit before tax of Rs. 10.5 Bn. for the year 2019, a growth of 31.7% over Rs. 7.9 Bn. in 2018 amidst the challenging economic conditions and the heavy tax burden. The Bank's profit after tax was Rs. 6.7 Bn., an increase of 48.8% against Rs. 4.5 Bn. reported for the last year.

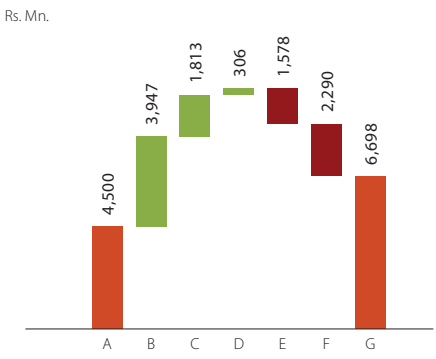
Consequently, earnings per ordinary share also increased by 6.1% to Rs. 7.13 from Rs. 6.72 of 2018. The surge in the profitability of the Bank for 2019 was underpinned by the improvements achieved in the diverse income streams combined with decreased cost on servicing deposits.

We envisage that financial and operational performance of the Bank will further improve in 2020, since the economy and the banking industry will is expected to grow in 2020 since policy and political stability, tax reliefs given to individuals and corporates including financial institutions and the relief package extended to SMEs are expected to speed up the recovery.

Our Return on Equity improved considerably to 15.32% from 10.95% last year, boosted by increased earnings, and a resilient performance amidst tough operating environment. Return on assets also rose to 0.95% from 0.78% reported in the last year.

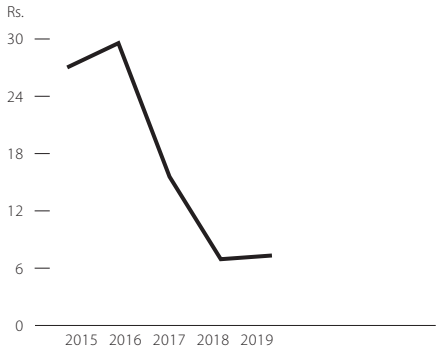
We consider our Profit After Tax as an appropriate indicator of the sustainable operating performance of the Bank. The graph below summarises the factors that drove the earnings performance of 2019.

Impact on earnings



A – Profit after tax 2018
B – Net interest income
C – Net non-interest income
D – Impairment
E – Administration and other overhead expenses
F – Taxes
G – Profit after tax 2019

Earnings per share



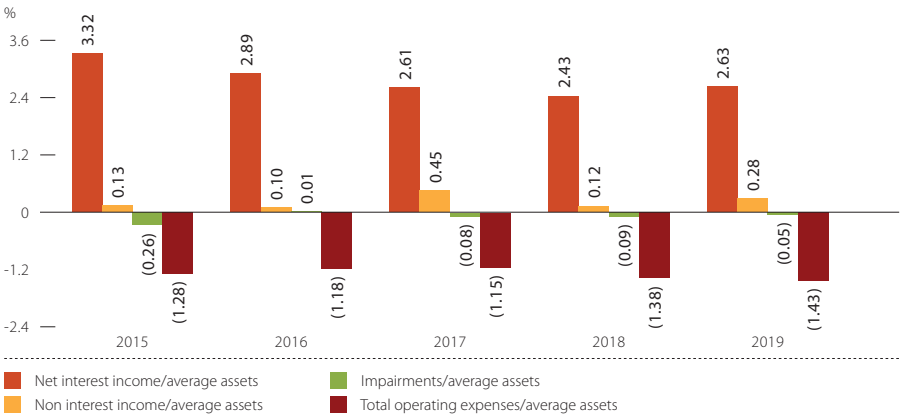
Outlook

Maintaining ROE at mid to upper double digit levels.

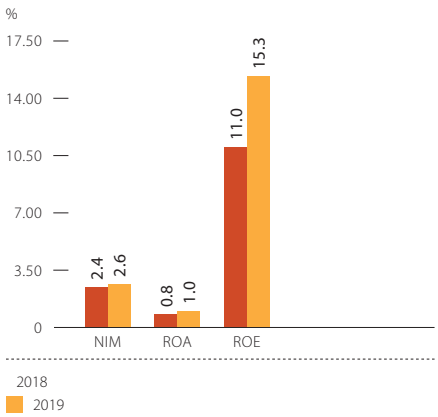
Changes in statement of comprehensive income

The main contributory factor for the increase in the loss in the Statement of Comprehensive Income was due to the items that will not be reclassified to the Income Statement. The loss occurred due to the remeasurement of post-employment benefit obligations that accounts for 92% of the losses recorded. The Bank recorded a gain of Rs. 114.2 Mn. from the items that will be reclassified to the Income Statement resulting from mark to market gains on Treasury Bond portfolio measured at fair value through other comprehensive income against the recorded loss of Rs. 418.3 Mn. in 2018.

ROE decomposition (major drivers of ROE)



Profitability ratios



		2019 %	2018 %	2017 %	2016 %	2015 %
	Net interest margin	**2.63**	2.43	2.61	2.89	3.32
Add	Non-interest income/average assets	**0.28**	0.12	0.45	0.10	0.13
Less	Impairments/average assets	**0.05**	0.09	0.08	(0.01)	0.26
Less	Total operating expenses/average assets	**1.43**	1.38	1.15	1.18	1.28
Less	Taxes on financial services/average assets	**0.47**	0.32	0.36	0.32	0.30
Equals	Return on assets	**0.95**	0.78	1.47	1.51	1.60
Multiply	1 – Direct taxation rate	**64.03**	56.67	68.74	71.40	66.54
Equals	Profit after tax /average assets	**0.61**	0.44	1.01	1.08	1.07
Multiply	Equity multiplier	**25.09**	24.92	26.95	27.21	29.23
Equals	Return on equity	**15.32**	10.95	27.24	29.37	31.15

Summarised statement of financial position

			2019 Rs. Mn.	2018 Rs. Mn.	2017 Rs. Mn.	(2019 Vs. 2018) YoY Change %
Page 99	A	**Total assets**	**1,157,966.7**	1,036,845.6	1,010,977.4	11.7
Page 100	E	Cash and cash equivalents	**5,376.7**	3,434.5	3,849.5	56.5
		Placements with banks	**12,364.5**	17,588.5	23,437.3	(29.7)
Page 99	C	Derivative financial instruments	**11.6**	4,740.1	1,360.7	(99.8)
		Financial assets recognised through profit or loss – measured at fair value	**11,459.9**	16,680.4	6,472.3	(31.3)
		Financial assets at amortised cost				
Page 99	B	– loans and advances	**454,395.0**	422,894.7	375,703.7	7.4
		– debt and other instruments	**615,634.3**	518,948.0	555,468.6	18.6
Page 99-100	C	Financial assets measured at fair value through other comprehensive income	**3,478.8**	6,184.4	5,693.8	(43.7)
		Investments in subsidiaries	**4,811.0**	1,700.0	900.0	183.0
		Property, plant and equipment	**14,163.5**	13,465.8	12,395.7	5.2
		Right-of-used assets	**1,073.5**	0.0	0.0	100.0
Page 100	D	Other assets	**35,197.9**	31,209.2	25,695.7	12.8
Page 100	F	**Total liabilities**	**1,113,589.3**	993,750.3	971,881.7	12.1
Page 100	G	Due to banks	**35,045.3**	77,119.1	48,596.6	(54.6)
		Derivative financial instruments	**0.0**	1.5	956.9	(100.0)
		Financial liabilities at amortised cost				
Page 100	H	– due to depositors	**1,016,574.3**	839,574.4	737,212.6	21.1
Page 100	G	– due to other borrowers	**21,203.2**	14,804.8	12,837.0	43.2
Page 101	I	Lease Liability	**1,066.9**	0.0	0.0	100.0
Page 100	G	Debt securities issued	**26,691.7**	52,389.1	162,709.0	(49.1)
		Retirement benefit obligations	**6,508.7**	3,830.8	3,711.4	69.9
Page 101	I	Deferred tax liabilities	**547.2**	582.5	507.1	(6.0)
		Other liabilities	**5,951.5**	5,447.3	5,350.2	9.3
		Due to subsidiaries	**0.5**	0.8	0.8	(27.0)
Page 101	J	**Total shareholders' equity**	**44,377.3**	43,095.3	39,095.7	3.0
		Stated capital/Assigned capital	**9,400.0**	9,400.0	6,700.0	0.0
		Statutory reserve fund	**3,562.9**	3,228.0	3,003.0	10.4
		Retained earnings	**4,464.4**	3,984.7	1,102.8	12.0
		Other reserves	**26,950.0**	26,482.6	28,289.9	1.8
		Total equity and liabilities	**1,157,966.7**	1,036,845.6	1,010,977.4	11.7
Page 101	I	Contingent liabilities and commitments	**10,355.2**	4,481.4	18,320.3	131.1

A Stronger balance sheet growth

The Bank's asset base grew by 11.7% to reach Rs. 1.16 Tn. at the end of 2019 over the Rs. 1.04 Tn. reported at the end of previous year. The balance sheet growth was supported by the investments which increased by 14.5% to Rs. 647.8 Bn. against Rs. 565.8 Bn. in 2018 along with the expansion of the net loans and advances by 7.4% to reach Rs. 454.4 Bn. against Rs. 422.9 Bn. at the end of 2018.

On the liability front, the Bank's deposit base has increased to reach Rs. 1.02 Tn. at the end of the 2019, 21.1% growth over the previous year's base of Rs. 839.6 Bn. However, our borrowings declined by 42.5% to Rs. 82.9 Bn. as at the end of 2019, compared with Rs. 144.3 Bn. reported a year ago.

B Maintaining modest growth momentum in lending amidst challenges

Loans and advances consist of term loans such as housing and property loans, personal loans, Auto loans, educational loans, syndication loans, loans to Bank and financial institutions as well as pawning advances, staff loans, loans to Government and securities purchased under resale agreements (Reverse REPO). Loans and advances grew by 7.4% to Rs. 454.4 Bn. at the end of 2019 compared to Rs. 422.9 Bn. recorded at the end of last year mainly driven by retail loans. Loans granted for personal consumption (35.7%), construction/housing (27.9%) and infrastructure (15.5%) requirements dominated the loans and advances portfolio at the gross level as at the end of 2019.

The gross non-performing loans (NPL) ratio was clocked at 1.57% at the end of 2019, a 13bps marginal increase from end 2018 reflecting the wider trend in industry NPLs caused by difficulties in recovering loans after Easter Sunday attack to gather with other challenging conditions prevailed in the country. However, credit quality of the Bank was maintained in a stable manner in comparison to the industry average of 4.7% as at the end of 2019.

Outlook

Achieve lending growth at mid to upper single digit level and reducing NPL ratio lower than the industry average.

C Leveraging opportunities for investments

Investments in debt and equity securities

The Bank's total investment portfolio of equity and debt instruments witnessed a growth of 16.4%, achieving Rs. 630.6 Bn. at the end of 2019 against Rs. 541.8 Bn. reported in 2018. While debt instruments including Government Securities, corporate debt instruments and trust certificates represented 99.2% of the total portfolio, the rest comprised equity securities. Equity portfolio of the Bank declined by 5.1% to Rs. 1,782.3 Mn. at end of 2019 from Rs. 1,878.9 Mn. in 2018 due to divestment of shares.

The Bank has been continuously fulfilling its mandate by contributing to the Government's financing requirements. Accordingly, Government Securities portfolio including Sri Lanka Development Bonds and Treasury Bills and Bonds (which accounted for 98.0% of total investment portfolio) increased by 17.1% to Rs. 612.7 Bn. from last year's Rs. 523.2 Bn. mainly driven by the increase of 17.8% recorded in the Treasury Bond portfolio. Other debt instruments including corporate debt securities and trust certificates dipped by 3.0% to Rs. 12.6 Bn. due to the decline in trust certificates portfolio.

Derivative financial instruments

Derivative financial instruments of the Bank as at end December 2019 was only Rs. 11.6 Mn. against Rs. 4.7 Bn. recorded at the end of 2018. The reason for the substantial reduction was the expiration of foreign currency swap agreement to hedge against the risk caused by foreign currency fluctuations. The Bank had raised USD 250 Mn. in September 2014 through a US dollar denominated foreign borrowing for a period of five years against which a swap agreement had been entered into with the Central Bank of Sri Lanka for USD 249.31 Mn. on a monthly renewal basis with a view to hedging the risk on the capital portion of the foreign currency denominated borrowings, attributable to changes in LKR/USD exchange rate. The borrowing was settled on maturity in September 2019.

The existing balance of Rs. 11.6 Mn. in the Statement of Financial Position represents the swaps entered into with the DFCC Bank in order to hedge against the interest rate risk caused by Rs. 2.0 Bn. term loan provided to Sri Lanka Telecom.

Property, plant and equipment

Property, plant and equipment increased to reach Rs. 14.2 Bn. by 5.2% from Rs. 13.5 Bn. recorded last year mainly driven by purchase of land and buildings and computer hardware.

Right-of-use assets

SLFRS 16 – "Leases" which was implemented from 2019, requires the lessee to recognise almost all lease contracts on the statement of financial position excluding certain short-term lease assets and low value assets while LKAS 17 –"Leases"

required to make a distinction between a finance lease (on financial position) and an operating lease (off-balance sheet). Accordingly, the Bank recognised a corresponding lease liability for all lease contracts amounting to Rs. 1.1 Bn. as "right-of-use-assets" in its financial position as at December 31, 2019.

Investment in subsidiaries

Investment in subsidiaries increased to Rs. 4.8 Bn. as at the end of 2019, against Rs. 1.7 Bn. recorded in 2018. Rs. 3.1 Bn. was invested in Sri Lanka Savings Bank (SLSB) as a fully-owned subsidiary on 11 October 2019 in alignment with the proposal made in Government Budget 2016 (For further details see page 68 to 69).

D Rise in other assets

At the end of 2019, other assets including receivables, prepayments, receivables from Treasury on interest payment to senior citizens, advance payment to Treasury and Notional Tax/WHT receivable increased by 12.8% to Rs. 35.2 Bn. from Rs. 31.2 Bn. a year ago. Since these non-interest earning assets represents 3% of the total assets, the Bank is in the process of taking necessary steps to recover such amounts.

E Managing cash and cash equivalents

Cash and cash equivalents and placement with banks

Cash and cash equivalents comprise cash in hand, balances with banks and money at call and short notice. As at the end 2019, the Bank had Rs. 5.4 Bn. in cash and cash equivalents, up by 56.5% over 2018 caused by increase in balances with banks. Placements with the banks are short-term deposits which declined by 29.7% to Rs. 12.4 Bn. in 2019 against Rs. 17.6 Bn. reported last year. Both cash and cash equivalents and placements with banks are maintained at optimum levels and are used by the Bank for meeting its short-term commitments and liquidity needs comfortably.

F Total liabilities

Total liabilities increased by 12.1% to Rs. 1.1 Tn. from Rs. 993.8 Bn. in 2018, primarily driven by the increase in customer deposits despite the decrease in total borrowings by 42.5% over the previous year.

G Managing our debt profile prudently

Our borrowings consisting of due to banks and other borrowers, debt securities issued, and other borrowings plummeted by 42.5% to Rs. 82.9 Bn. as at the end of 2019, compared with Rs. 144.3 Bn. reported a year ago mainly because of the settlement of USD 250 Mn. bond in September 2019 as well as drop in Repo borrowings.

Due to Banks

Due to banks representing overdrafts, call money borrowings, borrowing from banks and Repos has plunged by 54.6% to Rs. 35.0 Bn. from Rs. 77.1 Bn. in 2018 owing to repayments regarding to foreign currency borrowings and reduction of REPO borrowings .

Due to other borrowers

Due to other borrowers comprises Repo borrowings excluding those due to banks and rose by 43.2% to Rs. 21.2 Bn. in 2019 against Rs. 14.8 Bn. reported last year.

Debt securities issued

Debt securities issued encompasses US dollar denominated international Senior Note, unsecured subordinated redeemable debentures and senior unsecured redeemable debentures. In September 2019, the Bank settled USD 250 Mn. worth of US dollar denominated Senior Note upon maturity. However, the Bank raised Rs. 20.0 Bn. through the issuance of senior debentures with the view to finance the funding requirement of unwinding the USD/LKR swap agreement which was arranged against the above-mentioned US dollar denominated Senior Note. Due to the above developments that occurred in 2019, the portfolio of debt securities issued as at the end of December 2019 declined by 49.1% to Rs. 26.7 Bn. from Rs. 52.4 Bn. registered a year ago. Further, the portfolio contained Rs. 6.0 Bn. worth of five year subordinated debentures issued in 2016 to increase the capital of the Bank in order to enhance the capital adequacy ratio and reduce the mismatch in maturity between the assets and the liability portfolios of the Bank.

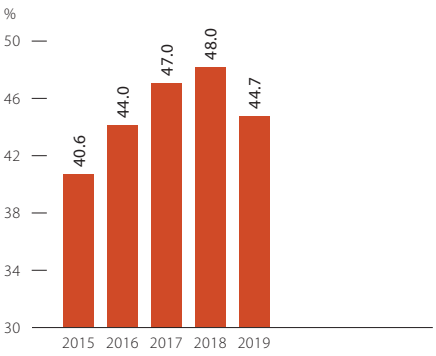
H Achieving One Trillion deposit milestone with the highest annual mobilisation in history

Deposits are the single largest funding source of the Bank and accounted for 87.8% of the total assets as at the end of 2019, increasing from 81.0% recorded a year ago. The Bank's deposit base has recorded its highest mobilisation ever for a year by mobilising Rs. 171.4 Bn. during the year to reach Rs. 1.02 Tn. at the end of 2019, 21.1% growth over the previous year's base of Rs. 839.6 Bn. The main reason could be attributed to the time deposits, which increased by 24.4% to reach Rs. 798.0 Bn. against Rs. 641.2 Bn. in 2018, causing the time deposits

in the deposit mix to increase from 75.6% to 77.8% during the year under review. Savings deposits also reported a healthy growth of 10.2%, registering Rs. 218.5 Bn. compared to Rs. 198.3 Bn. in total in the previous year.

Modest growth in the lending portfolio and higher increase in the deposit based caused the reduction in loans to deposit ratio in the year 2019 compared to previous year.

Loans to deposits



I Rise in other liabilities

Retirement benefit obligation

Retirement benefit obligations has surged at the end of December 2019 by 69.9% to Rs. 6.5 Bn. compared to Rs. 3.8 Bn. reported in the corresponding period last year. This was mainly due to the changes in the discount rate, increase in the amount of pensions provided along with revisions made in pensioners' medical assistance scheme to make it on a par with the staff medical assistance scheme of the current employees. Consequently, the revised pensioners' medical assistance scheme limit per employee witnessed 87.0% rise compared to the existing limit.

Lease liability

Rs. 1.1 Bn. was recognised as a lease liability in accordance with the requirements of first-time adoption of SLFRS 16 – "Leases".

Other liabilities

Other liabilities including provisions and payables made on fees and expenses, tax on financial services and sundry creditors increased by 9.3% to Rs. 6.0 Bn. against Rs. 5.4 Bn. in 2018.

Contingent liabilities and commitments

During the year, the Bank reported a 131.1% increase in its total commitments and contingencies to Rs. 10.4 Bn. compared to Rs. 4.5 Bn. last year. This is mainly attributable to the increase in commitments for unutilised credit facilities and capital commitments arising from the amount agreed but not paid for core banking project.

J Our capital remains strong

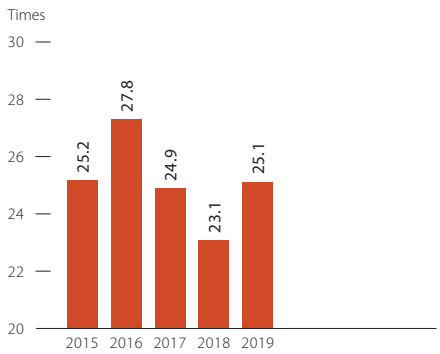
Shareholders' equity

Total shareholders' equity rose to Rs. 44.4 Bn. in 2019 from Rs. 43.1 Bn. in the previous year. During the year, the earnings per share increased to Rs. 7.13 from Rs. 6.72 in 2018, as a result of increased profit attributable to shareholder. Given the limited avenues available for the Bank to enhance its capital base, we were compelled to curtail the dividend payout to 29.9%, thereby allowing the shoring up of internally generated funds during the year.

Capital management

The Bank's capital management is intended to create value for shareholder by facilitating the achievement of long-term and short-term goals of the Bank. NSB manages its capital levels in line with a number of factors, including our internal assessment of the level of risk being taken, the expectations of the rating agencies, the requirements of the regulators and the returns expected by shareholder. NSB also seeks to ensure that its capital structure takes full advantage of the range of capital instruments and capital management activities available in optimising the financial efficiency and loss absorption capacity of its capital base.

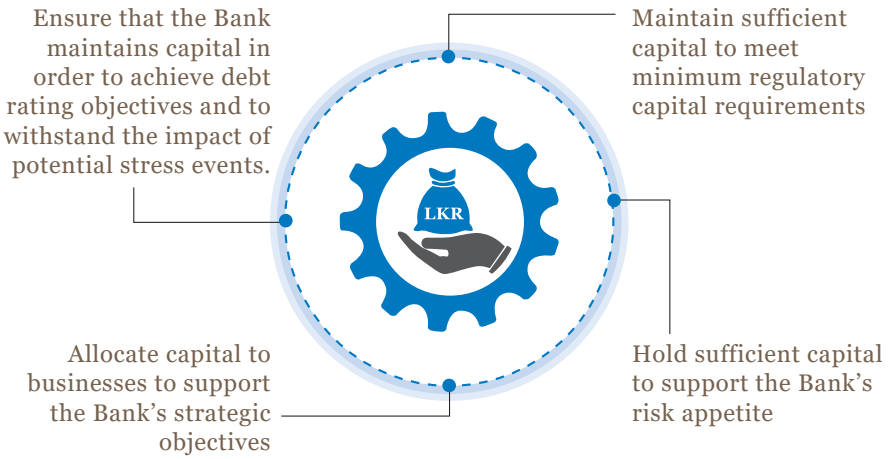
Debt to equity



Capital management objectives

The main purposes of capital management are to support Bank's business strategy and to ensure a sufficient level of capital to withstand even severe downturns without breaching regulatory requirements.

The Bank's capital management objectives can be summarised as follows:



Process

The Board of Directors (Board) is responsible for setting our capital management objectives. The Board articulates this objective in the form of capital targets. These objectives are pursued while delivering returns to the shareholder and ensuring that adequate capital resources are available for business growth and investment opportunities as well as withstanding adverse situations, taking into consideration our strategic plans and the risk appetite. Our dividend policy is to pay sustainable dividends over time, consistent with our capital management objectives and long-term growth prospects. In line with our dividend policy, the Bank paid a final dividend of Rs. 2.0 Bn. during 2019.

Our capital management objectives are implemented via a capital management and planning process approved by the Board through Board Integrated Risk Management Committee (BIRMC) and overseen by the Asset and Liability Management Committee (ALCO). The General Manager/CEO Chairs the ALCO. The Committee receives regular updates on the current and projected capital position. A key tool for capital planning is the annual Internal Capital Adequacy Assessment Process (ICAAP) through which we assess our projected capital supply and demand relative to regulatory requirements and our capital targets. The ICAAP has a three-year horizon and covers various scenarios, including stress scenarios of differing scope and severity.

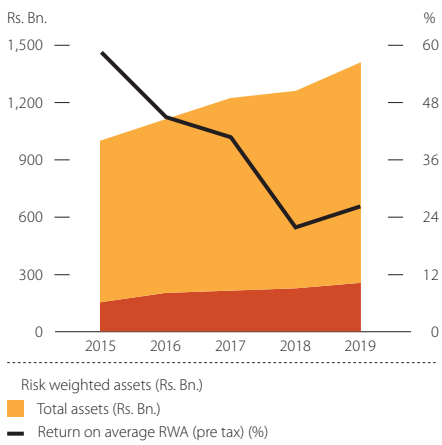
During the year, the Bank assessed its capital requirements under the ICAAP using standardised approach for credit, standardised measurement approach for market risk and basic indicator approach for operational risk under Pillar 1 as directed by the CBSL while using internally generated models according to the industry best practices to assess Pillar 2 risks, taking into account a broader range of risks and the Bank's risk and capital management capabilities. Capital allocations by business lines are set as part of the budgeting process and are being monitored throughout the year. Corporate Management of the Bank met periodically to assess the capital adequacy and other capital-related issues and to formulate and escalate its suggestions for implementation by way of strategies. NSB has performed extensive and comprehensive stress testing during the period under review and concluded that the Bank remains well-capitalised relative to its business activities, the Board approved strategic plan, risk appetite, risk profile and the external environment in which it operates.

The Bank has been historically generating capital through retained earnings. Dividend payout ratio for 2019 was 29.9%.

Capital adequacy ratios remain at comfortable levels

Our Risk-weighted Assets (RWA) has increased to Rs. 255.4 Bn. by 12.1% against the Rs. 227.8 Bn. recorded in 2018. This increase was in line with the asset growth and largely due to 13.7% increase in Credit RWA along with 10.2% increase in Operational RWA. (Further reference to risk weighted assets is given in the Pillar 3 Disclosures under Basel III on pages 433 to 445)

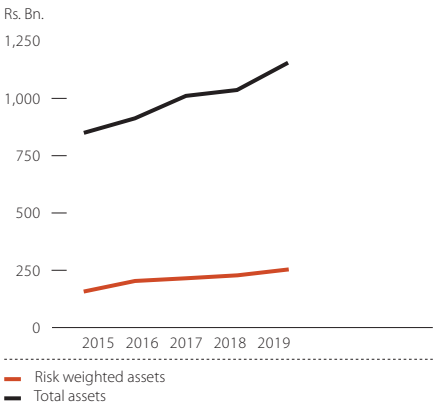
Return on average RWA



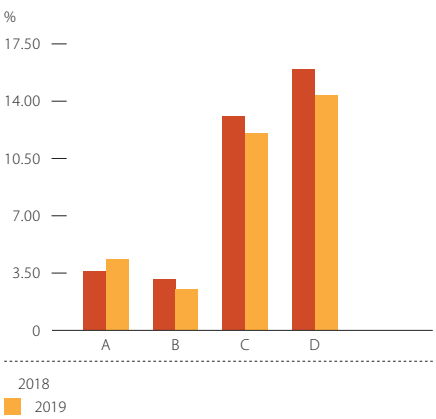
The CBSL issued a direction on the framework for dealing with Domestic Systemically Important Banks (D-SIBs) in December 2019, identifying the banks on a relative score basis. Despite crossing the Rupees One Trillion in asset base, the Bank remains a non D-SIB as per the

direction with the minimum capital requirements at Tier I and Total Capital levels being 8.5% and 12.5% respectively. The Tier 1 and the total capital adequacy ratios of the Bank as of 31 December 2019 were at 12.02% and 14.35% respectively, well above the minimum capital requirements. Leverage ratio, measured by Tier 1 over total gross exposures with applicable adjustments, improved to 5.13%, well above the minimum requirement of 3.0%.

Total assets vs RWA



Basel III – Capital adequacy



A – Return on average RWA (Pre tax)
B – Return on average RWA (Pre tax) industry
C – Tier-1– Capital
D – Total Capital

Outlook

Capital adequacy and liquidity ratios will be maintained above the regulatory requirements.

Sources and utilisation of funds

The Bank is actively managing its financial position, taking advantage of debt opportunities to ensure that the Bank has a robust liquidity position on an ongoing basis with funding primarily sourced from customer deposits and a range of other sources. Given the nature of the banking industry along with the limitations in capital available as a state-owned Bank, our debt to equity ratio was 25 times at the end of 2019.

The Bank continues to ensure that it has the appropriate amount, tenor and diversification of funding sources to support its current and forecast asset base while minimising cost of funds. Funding markets are evaluated on an ongoing basis to ensure appropriate group funding strategies are executed depending on the competitive and regulatory environment. The Bank continued to focus on building its deposit base as a key component of the funding mix.

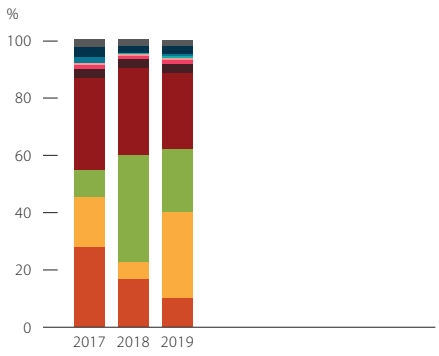
The Bank relies on deposits from customers, debt securities, term loans and securities sold under repurchase agreements as its primary sources of funding. Deposits from customers generally have shorter maturities and a large proportion of them is repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk arising from asset liability mismaturities and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

	2019 Rs. Mn.	2018 Rs. Mn.	2017 Rs. Mn.
Source of funds			
Income from operating activities	**117,998**	110,454	100,543
Deposits	**170,677**	101,634	75,188
Borrowings	**6,288**	31,086	32,251
Maturities in investments	**18,132**	43,245	17,167
Others	**15**	7	1,136
	313,110	286,426	226,285
Utilisation of funds			
Loans and Advances	**31,734**	48,291	63,125
Debt and other instrument	**94,261**	15,976	39,002
Repayment of borrowings	**67,873**	107,553	21,197
Interest paid	**83,363**	86,068	73,070
Payment to employees	**9,576**	8,944	6,977
Payment on other operating activities	**4,450**	3,732	3,411
Capital expenditure	**1,505**	1,742	1,050
Investment in subsidiaries and associates	**3,111**	800	–
Dividends	**2,000**	500	5,111
Taxes paid	**8,725**	6,738	7,620
Others	**6,512**	6,082	5,722
	313,110	286,426	226,285

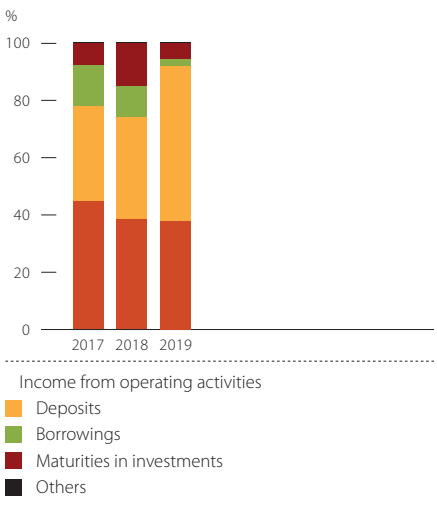
NSB's funding and usage 2019

The loans to deposits ratio was at 44.70% at the end of 2019, lower than the 48.06% reported a year ago, largely attributable to moderation in loan growth compared to previous year. Also, the Bank is constrained by the statutory requirement of investing 60% of deposits mobilised during the year in the Government Securities, given risk free rate which results in lower yields. The Bank managed to maintain the Government Securities to total deposits ratio at an optimal level of 60.88% at the end of December 2019, marginally decreasing from 60.94% reported in 2018.

Utilisation of funds



Source of funds



Our cash and cash equivalents at the end of 2019 of Rs. 5.3 Bn. was an increase of 57.9% from the prior year as a result of increase in operating activities. Investing activity of acquiring Sri Lanka Savings Bank (SLSB) as a 100% owned subsidiary for the consideration of Rs. 3.1 Bn. as well as financing activity of paying a dividend of Rs. 2.0 Bn., a 300% increase against the last year partly set-off the positive cash flow generated from operating activities.

Investment in six capitals

Over the past three years, we have made a total capital investment of Rs. 5.6 Bn., of which Rs. 2.3 Bn. was invested in 2019. This is an increase by 7.3% compared to Rs. 2.1 Bn. reported in the year before in line with our business plans. We focused our investments mainly on non-

Cash flow management

	2019 Rs. Mn.	2018 Rs. Mn.
Cash flows from operating activities	**16,462.8**	9,117.9
(Increase)/decrease in operating assets	**(114,421.5)**	(24,660.1)
Increase/(decrease) in operating liabilities	**108,707.7**	23,714.6
Income tax paid	**(3,798.6)**	(3,365.8)
Net cash (used in)/from operating activities	**6,950.4**	4,806.6
Net Cash flows from investing activities	**(2,228.5)**	(3,843.8)
Net Cash flows from financing activities	**(2,780.0)**	(1,280.0)
Net (Increase)/decrease in cash and cash equivalents	**1,941.9**	(317.2)
Cash and cash equivalents at the beginning of the year	**3,352.0**	3,669.2
Cash and cash equivalents at the end of the year	**5,293.9**	3,352.0

current assets, skills development, community development projects and business transformation projects on digitalisation and technologies.

	2019 Rs. Mn.	2018 Rs. Mn.	2017 Rs. Mn.
Property, plant and equipment	**1,516**	1,295	396
Training and development	**40**	39	34
IT and digital infrastructure development	**691**	772	712
Community development projects	**30**	17	20

Long-term funding

Our long-term funding is a combination of shareholder's equity, long-term borrowings, issuances of financial instruments, long-term deposits and other long-term liabilities.

Our long-term funding ratio increased to 8.9% in 2019 from 8.3% recorded in 2018. During the year, the Bank successfully increased long-term funding, raising Rs. 20 Bn. through the issuance of senior debentures.

Debt profile

Our long-term capital expansion projects are financed by a combination of floating and fixed rate long-term debt as well as internally generated funds.

Debt profile	2019 Rs. Mn.	2018 Rs. Mn.	2017 Rs. Mn.
Short term (less than 1 year)	**50,994**	126,281	179,857
Medium term (1 to 3 years)	**25,623**	12,032	38,286
Long term (over 3 years)	**6,323**	6,000	6,000
	82,940	144,313	224,143

Composition of debt profile	2019 Rs. Mn.	2018 Rs. Mn.	2017 Rs. Mn.
Repo borrowings	**44,142**	73,658	61,253
FCY borrowings	**12,023**	18,183	–
Senior Notes Issued	**–**	46,383	156,703
Subordinated liabilities	**6,006**	6,006	6,006
Debentures	**20,685**	–	–
Other	**84**	83	180
	82,940	144,313	224,143

Credit rating

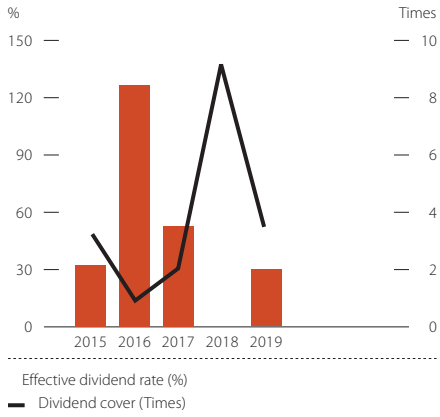
Our credit ratings are influenced not only by our own significant risks, but also by the systemic risks such as movements in the sovereign credit rating of Sri Lanka. In December 2018, Fitch Ratings downgraded the sovereign's Long-Term Foreign-Currency Issuer Default Rating to 'B' from 'B+' with a Stable Outlook. Following the recalibration of the Sri Lankan National Rating scale, Fitch Ratings has revised the National Long-Term Rating of National Savings Bank (NSB) to "AA+ (lka)" from "AAA (lka)" in February 2019. Again in late 2019, the Fitch Ratings revised the outlook on Sri Lanka's Long-Term Foreign-Currency Issuer Default Rating to negative from stable and has affirmed "B" due to the tax cuts which is expected to increase further fiscal burden announced by the new government.

However, the ICRA Lanka Limited has assigned the issuer rating of [SL] AAA with stable outlook to the Bank during 2019.

Dividend

The Bank paid Rs. 2.0 Bn. as dividend to the Government during 2019, more than 4 times compared to Rs. 500 Mn. paid in the previous year. Dividend per share was Rs. 2.13 in 2019 against Rs. 0.8 in 2018. Dividend coverage ratio decreased in 2019 to 3.35 times from 9.0 times recorded last year due to the increase in dividend payout ratio.

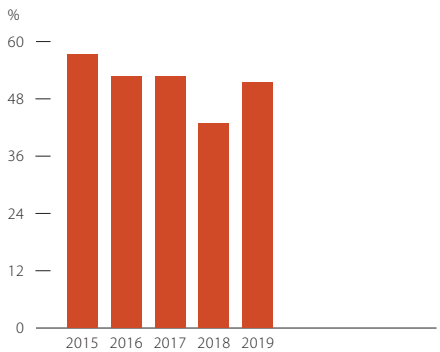
Effective dividend rate and dividend cover



Liquidity management

Appropriate liquidity buffers were held in line with the assessment of liquidity risk in stressed market conditions. Despite the volatile and constrained liquidity environments, adequate liquidity was maintained to fully support balance sheet growth through proactive liquidity management measures.

Liquid assets to liabilities



(as per CBSL Reporting)

Portfolios of marketable and liquid instruments to meet regulatory and plausible stress situations were maintained as protection against unforeseen disruptions in cash flows. These portfolios are managed within defined limits on the basis of diversification and liquidity. Managed liquidity represents unencumbered marketable instruments including High Quality Liquid Assets (HQLA) eligible under Basel III Liquidity Coverage Ratio (LCR), which would be able to provide sources of liquidity in a stress scenario.

LCR under the Basel III promotes short-term resilience of the Bank's 30 calendar day liquidity risk profile by ensuring it has sufficient HQLA to meet potential outflows in a stressed environment. The objective of the Basel III Net Stable Funding Ratio (NSFR) is to promote funding stability and resilience in the banking sector by requiring banks to maintain a stable funding profile in relation to the composition of assets and off-balance sheet activities. The available stable funding is defined as the portion of capital and liabilities expected to be available over the one-year time horizon considered by the NSFR.

Our liquidity profile also remained healthy, with liquid assets and other sources of liquidity growing 33.9% to Rs. 568.5 Bn. as per the Statutory Liquid Assets Ratio (SLAR) requirement. LCR, measured by total High Quality Liquid Assets over 30 days Net Cash Outflow, was consistently maintained above 100% throughout the year. Our liquidity coverage ratios as at the end of 2019 given below too were comfortably above the minimum hurdles. NSFR which is used to measure the long-term funding stability of the Bank also improved to 175.18%, complying with minimum requirement of 100%. The Bank calculates the below ratios on a stand-alone basis.

	2019	2018	Increase/ (Decrease)
SLAR – minimum requirement 20%	**60.20**	54.88	5.32
Rupee LCR – minimum requirement (2019 – 100%, 2018 – 90%)	**278.12**	245.06	33.06
All currency LCR – minimum requirement (2019 – 100%, 2018 – 90%)	**276.64**	321.29	(44.65)
NSFR – minimum requirement (2019 - 100%)	**175.18**	146.67	28.51

Managing funding and liquidity risk

The primary role of a bank in terms of financial intermediation is to transform short-term deposits into longer-term loans. When fulfilling this role, banks are inherently susceptible to liquidity mismatches and consequently funding and market liquidity risks. Through the robust Liquidity Risk Management Framework, the Bank manages its funding and market liquidity risk to ensure that banking operations continue uninterrupted under normal and stressed conditions. The key objectives that underpin the Liquidity Risk Management Framework include maintaining financial market confidence at all times, protecting key stakeholder interests and meeting regulatory liquidity requirements.

Bank accords as much importance to funding and liquidity as for capital, for ensuring that the Bank has sustainable sources of funding and maintains adequate levels of liquidity at all times to maintain public trust in the Bank and the financial services system. NSB never compromises on its liquidity in its drive to generate returns for shareholder.

The liquidity risk management process includes regular analysis and monitoring of the liquidity position by the ALCO and maintenance of market accessibility. Regular cash flow forecasts, liquidity ratios and maturity gap analysis are used as analytical tools for this purpose. Liquidity and funding risk are measured using a range of metrics, including Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Refer Risk Management Report from pages 263 to 266 for further details on liquidity risk management.

Financial performance outlook

We envisage a modest improvement in real GDP growth in Sri Lanka to 3.5% (IMF) in 2020, with upside potential from fixed investments, a rebound in confidence in global growth and political stability, although fiscal consolidation remains a concern, with downside risk for credit ratings. We believe that the Central Bank of Sri Lanka will keep interest rates on hold for sometime.

Given these assumptions, and excluding major political, macroeconomic or regulatory developments, we expect our loan and deposit growth to improve in 2020. Our net interest margin is likely to improve marginally next year, due to rate and expansion in the loans and advances portfolio.

Operational costs will remain well controlled, and our operating jaws should improve from last year's. While SLFRS 9 could increase volatility, we expect a stable credit loss ratio. Our capital ratio is likely to remain above regulatory targets, which will allow us to maintain our current dividend cover. Lastly, our normalised return on equity too should improve slightly in 2020.

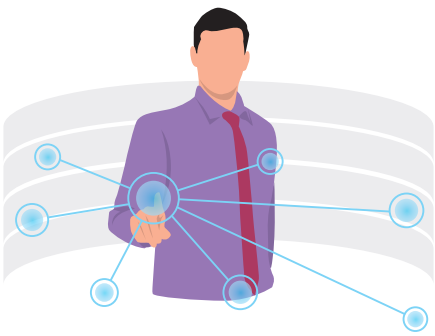
Nevertheless, the scenario has changed with the outbreak of COVID-19 which has been declared a pandemic by the World Health Organization (WHO), across the world creates more stress for the Sri Lankan economy including the banking and financial sector. Further details could be seen on page 34 under "Operating Environment"



KPI	2019 Performance	Outlook 2020	Medium to long-term targets
ROE	**15.32%**	in line with the target	10.0% – 12.5%
NIM	**2.63%**	in line with the target	2.5% – 3.0%
Growth in deposits	**21.1%**	in line with the target	10.0% – 12.0%
Growth in interest income	**7.4%**	in line with the target	11.0% – 11.5%
Total CAR	**14.35%**	Above the regulatory minimum	Above the regulatory minimum
Cost to income ratio	**49.35%**	in line with the target	53% – 54%

Business lines review

Branch management



Products and services

Full range of services including deposit taking, retail lending, Bank guarantee, card solutions and transactional banking.

Customers

Natural persons and legal persons.

Delivery channels

Branches, ATMs, Post offices and sub postal offices, CDM/CRM Machines, Online banking, telephony, call centre and hand held POS machines.

Operating environment

- Subdued economic activities following the Easter Sunday attack
- Interest ceiling imposed on deposits and lending combined with other monetary policy easing decisions
- Slowdown in credit growth

Risk and challenges

- Deterioration of asset quality continuously
- Mobilising lower costs funding by increasing savings mix
- Impact of interest rate ceiling on the interest income and interest margin
- Decreasing market share
- Rural sector deposits are gradually moving to grassroots level finance companies
- Lower card penetration level
- Limited avenues due to mandatory requirement of investment in Government Securities.

Strategic focus areas

- Retain our customers and to focus on new customer acquisition
- Focus on relationship as our core, moving from a product focus to serve the customer through their life stages
- Strong focus on net interest revenue and transactional numbers
- Conservative credit policy and focus on collections and impairments
- Drive cost efficiencies
- Maintaining market share with reasonable growth

Key developments in 2019

- Achieved highest ever mobilisation of Rs. 171.4 Bn. deposits through branches and postal network
- Opening of 1 new branch and 26 CRMs were installed during the year
- More than 13,000 new customers have been added to the Internet banking network.
- Implementation of the DMS system.
- Introduced special housing loan scheme for migrant workers naming "*Sihina Maliga*"
- Introduced responsive Internet Banking Application with the theme "NSB e-connect connect anytime"
- Strengthening postal banking sector by bringing under the supervision of regional managers to boost rural based deposits
- Introduce Lanka Pay products for Internet Banking Application (custom payments, BOI payments, direct debit, Inland Revenue Department payments)
- Reduced loss-making branches by 54%
- Revamp the product targeted to youth segment with savings product of *Prarthana* Plus
- Increased the staff housing loan amount to Rs. 7.5 Mn.
- Obtained PCI-DSS (The Payment Card Industry Data Security Standard) certification in order to strengthen the security in relation to debit cards
- Expedite the loan recovery by declaring month of March as the recovery month of Non-performing loans
- Introduction of debit cards with EMV chip as well as NFC technology

KPIs

- 21.1% growth in deposits
- 168.9% growth in postal deposit mobilisation
- 15% growth in retail lending
- Market share of deposits increased to 10.75% from 9.58% in 2018.
- 1.57% Gross NPL ratio lower than the industry average of 4.7%

Way forward

- Accelerate digital transformation and invest in digital capabilities
- Improve digital customer experience on self-service channels without foregoing the security aspects
- Improvement in macroeconomic stability and expecting the recovery in credit growth
- Arresting the declining market share
- Cost optimisation strategies and leverage technology to drive operational efficiency

Target

- Maintaining market share while achieving the targeted growth in identified areas/products
- Increasing low costs funds and rural deposits
- Increase retail lending portfolio by double digit growth
- Managing NPA ratio for retail lending lower than banking sector average

Corporate finance



Products and services

- Direct lending to financial institutions and their subsidiaries,
- Structuring financial facilities (Derivative products for the clients)
- Plays the role of agent for syndicated facilities who coordinates the settlement and transactions between the lenders and the borrower/s
- Investing in trust certificates, private placements and debentures
- Leading industry expertise in funding for infrastructure projects
- Issuance of debt securities

Customers

Corporates, State-owned enterprises, financial institutions, and private institutions, Medium scale entrepreneurs.

Delivery channels

Direct approach

Operating environment

- Weakening macroeconomic fundamentals and slow economic growth
- Slowdown in certain sectors such as construction, tourism and agriculture
- Lower investor confidence and capital outflows
- Lower than expected credit growth

Risk and challenges

- Moderation in credit demand
- Volatility prevailed in the market liquidity
- Likelihood of increasing non-performing loans
- Limited avenues due to mandatory requirement of investment in Government Securities

Strategic focus areas

- New client acquisition
- Focus on fee based income generated activities
- Focus on key growth sectors (Power, utilities, infrastructure, renewable energy, green businesses, and financial institutions) through commercialisation capabilities keeping an eye on high risk exposure sector
- Strengthening relationship and leveraging partners to expand our footprint in Sri Lanka
- Managing credit quality
- Refining pricing models and optimise capital allocation

Key developments in 2019

- Successfully issuance of Rs. 20.0 Bn. debentures
- Around Rs. 20.0 Bn. loans disbursed to the corporate customers under project financing during the year.
- Rs. 10.0 Bn. loans were disbursed to support agriculture and SME sector through lending to the other financial services institutions.
- Rs. 7.5 Bn. loans were provided for public finance for infrastructure development projects
- Rs. 4.0 Bn. was invested in the debentures issued by the Airport and Aviation Services Ltd.

KPIs

- 14.87% growth in corporate lending disbursements
- 11.5% growth in fee based income generated from corporate finance operations
- NPL ratio at 0%

Way forward

- Preserving credit portfolio quality
- Process improvements and automation
- Prudent lending approach by monitoring market trends
- Lending for the sectors with high growth, but with low to medium risk profile.
- Supporting the government funding through infrastructure projects lending

Target

- Contribute to increase fee based income by achieving mid-single digit YoY growth
- Preserving non-performing loans ratio at current desired level

International banking



Products and services

- Foreign currency deposits (Savings and FD) in USD, EUR, GBP, AUD and JPY
- Inward and outward remittances
- Foreign currency exchange
- Issuance of import letter of credit
- Handling of import bills and
- Issuance of shipping and air freight guarantees

Customers

Residents in Sri Lanka, Sri Lankans resident outside the country, Foreigners resident in Sri Lanka.

Delivery channels

Branches, Online Banking, Correspondent Banks, Exchange houses, worldwide money transfer companies, Eurogiro postal network and overseas representatives, Telephony and Call centre.

Operating environment

- Slowdown in global trade activities
- Measures taken to curtail the imports
- Declining foreign exchange earnings from the key source markets (Ex: middle east)
- Growing numerous digital technology companies and other money exchangers

Risk and challenges

- Declining Net Interest Margin
- Entering Non-financial institutions into the market.

Strategic focus areas

- Market penetration and market development in key source markets for remittances
- Looking into other markets to reduce the dependency on middle east markets
- Access market for trade services permitted to the Bank through arrangements with Government institutions/trade unions/new automobile dealers
- Enhance the fee based income

Key developments in 2019

- Recorded foreign remittances of Rs. 40.1 Bn.
- Exceeding the financial targets set
- Established new correspondent banking relationship with Emirates NBD Bank PJSC (UAE) and Erste Group Bank AG (Austria) as well as exchange house with G-money Trans Co Ltd (Korea)
- Introduce 12-month monthly interest payment for Foreign Currency Fixed Deposits
- Enabling customers to maintain foreign currency accounts in CAD (Canadian Dollar), SGD (Singapore Dollar), CHF (Swiss Franc) and AED (Unite Arab Emirates Dirham)

KPIs

- Achieved 9.1% growth in foreign deposits with Rs. 11.86 Bn.
- Exceeded the fee based income target of Rs. 30 Mn. by achieving Rs. 79 Mn.
- Increased the market share of remittances by 22bps to 3.29%

Way forward

- Operational Excellence – (Ex: efficient money transfer)
- Expand the footprint into high growth remittance markets
- Concentrate more into export trade finance business
- Improve customer experience

Target

- Achieving double digit growth in foreign currency deposits and remittances
- Improve market share growth in remittances markets

Treasury



Products and services

- Investment in Government Securities, equities and FX, REPO borrowings and reverse REPO lending

Customers

Financial Institutions, Non-Financial Institutions, Individuals, SOEs.

Delivery channels

Direct access, online trading platforms.

Operating environment

- Volatility prevailed in the market liquidity
- Liquidity deficit in the market
- CBSL measures to reduce interest rates
- Lower yield in Government Securities
- Investment outflow from Government Securities market

Risk and challenges

- Reinvestment of government securities at lower interest rate
- Managing liquidity and investment
- Trade-off between fulfilling the mandatory requirement in investing government securities and the lending using customer deposits
- In activity of the secondary market for government securities

Strategic focus areas

- Realigning fixed income and securities portfolio to Optimising return
- Maintaining the statutory requirement of investment in government securities

Key developments in 2019

- Implementation of online cash management system
- Successfully settled the USD 250 Mn. Senior Note at its maturity date

KPIs

- Maintaining Government Securities to deposits ratio at optimum level at 60.9%
- Contributing 48.50% of interest income from Government Securities to the total interest income
- Stabilising at 10.7% yield from Government Securities

Way forward

- Impact of the developments in the global events on the value of rupee
- Impact of domestic and global events and policies on the investor confidence as well as investments and capital flows in the market
- Focus on effective liquidity management to minimise the maturity mismatch of the Bank's balance sheet
- Operational excellence in front-middle-back offices through implementation of new systems and processes

Target

- Optimise return by attractive trading opportunities of the Bonds (G-Sec), Equity and FX markets of the Bank's balance sheet
- Deploy and invest mobilized funds for maximum return

Manufactured Capital

Manufactured capital which includes Bank's physical and digital infrastructure is an important value driver. We continuously strive to develop a high-quality asset base which provides a distinctive competitive edge.

What it includes

The Bank's manufactured capital consists of physical and digital infrastructure that help us to reach customers as well as to achieve operational excellence. This comprises, property, plant, equipment and infrastructure including branch network, ATM network, IT systems and software and other digital channels.

- **Physical infrastructure:** Property, Plant and Equipment, Network of branches, ATMs, CRMs, Merchant Point of Sale, Hand held Point of Sale machine, Post offices and Sub-post offices, and mCash retailers
- **Digital infrastructure:** ICT systems and digital platforms such as Internet banking, Chatbox, and presence in social media.

Inputs

- Property, plant and equipment – Rs. 14,163 Mn.
- Capital Expenditure – Rs. 2,207 Mn.
- Physical touchpoints
- Virtual touchpoints/Digital Channels
- Digital infrastructure

How it adds value

Proper management of the manufactured capital strengthens the relationship enabling the customers to access seamlessly through self-service channels by providing the optimum accessibility and superior customer experience. This capital directly contributes to operational efficiency, driving costs down, improving profitability and sustained growth of the Bank.

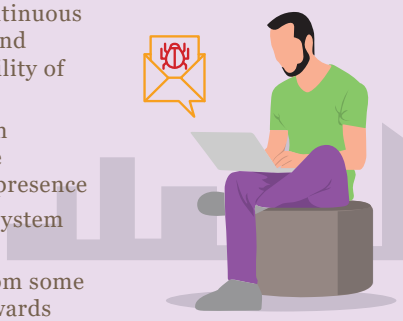
Our approach

Investment in manufactured capital is a continuous and ongoing process to ensure Bank's ability to deliver on its strategy. The key determining factor of any investment in manufactured capital is the value offered towards achieving the Bank's strategic objectives. We strive to develop a high-quality asset base that provide a distinctive competitive advantage, which in turn secure the long-term growth prospects of the Bank. We ensure all assets are maintained at optimal levels always to eliminate downtime or rework.

Key challenges and opportunities for 2019

Key challenges

- Continuously changing customer preferences
- Requiring continuous investments and financial viability of the projects
- Limitations on expanding the geographical presence
- Information System Security
- Resistance from some customers towards new technology



Opportunities

- Improving our operational efficiency
- Enhancing the productivity of our Bank
- Enhancing customer experience
- Using our digital capability as a strategic differentiator
- Facilitating a speedy transformation to digital banking
- Strengthening the agility of our organisation

Strategies to enhance the value of manufactured capital

- Developing a high-quality asset base that provides a distinctive competitive advantage to our long-term growth prospects
- Ensuring all assets are maintained at optimal levels to eliminate downtime or rework
- Integrated capital projects to reduce the costs
- Invest in digital capabilities to enhance customer experience and to expand customer accessibility
- Striking a balance between opening of new physical branch outlets as well as digital channels
- Relocating selected outlets to more strategic locations
- Strengthening information security
- Automating front to end operations to maximise operational excellence

Material matters



Related stakeholders



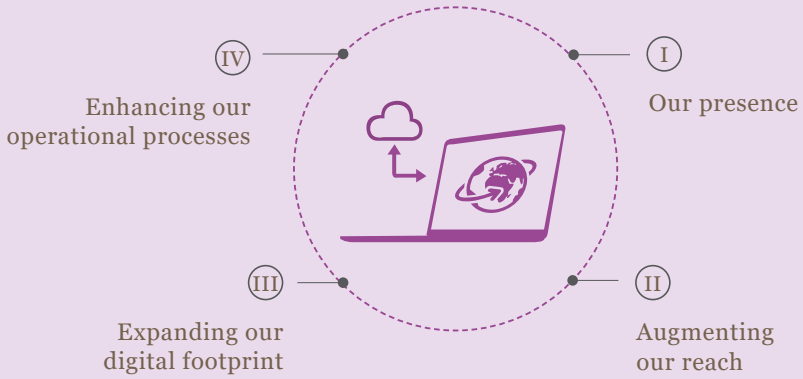
Short to medium-term strategic priorities



Outputs

- 17,847 new internet banking customers
- Branch Network – 256
- ATMs – 286
- Cash Recycling Machines (CRMs) – 48
- Post offices and sub-post offices- 4,063
- mCash retailers – 16,000+
- ICT systems, digital platforms and cloud services
- 42 solar panel installed branches

Drivers of value creation



Highlights



256
Branches across the island



286 ATMs
48 CRMs



450+
Handheld POS machines and TABs



NSB iSaver
16,000+
mCash retailers



4,063
Post and sub-post offices



Rs. 691 Mn.
investment in digital capital



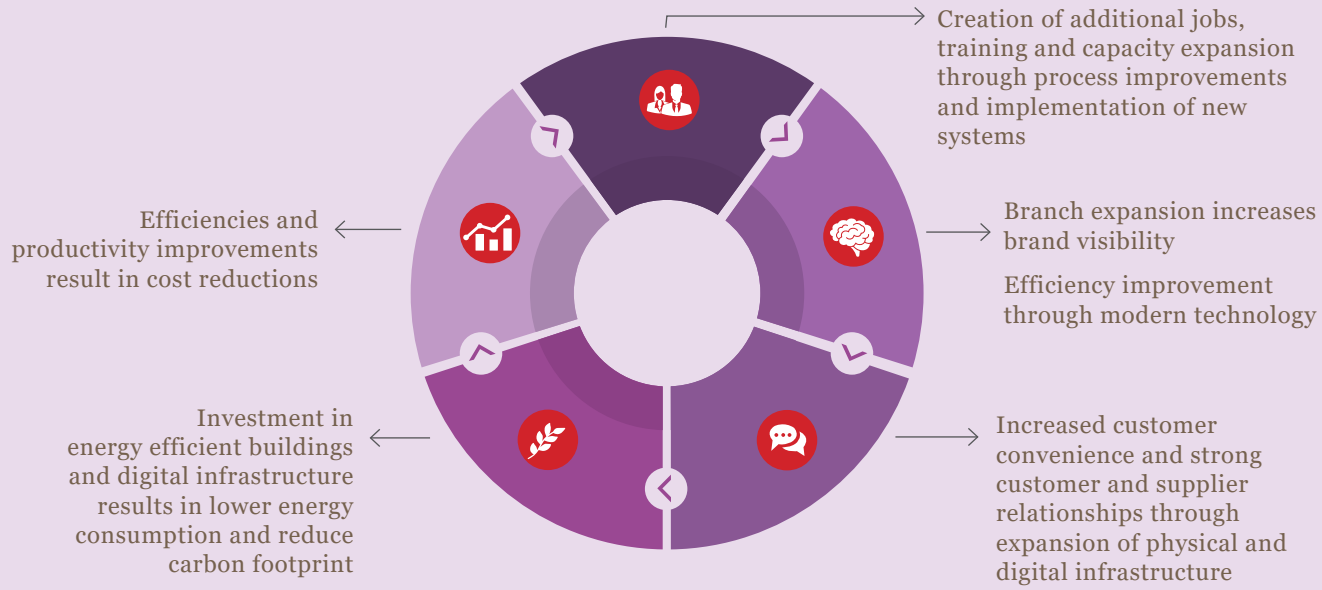
39
Smart Zones

Score card

	Increase/ (decrease)	2019	2018
Number of branches	1	**256**	255
Number of Smart Zones	34	**39**	5
Number of ATMs	(2)	**286**	288
Number CRMs	26	**48**	22
Net book value of property, plant and equipment (Rs. Mn.)	697	**14,163**	13,466

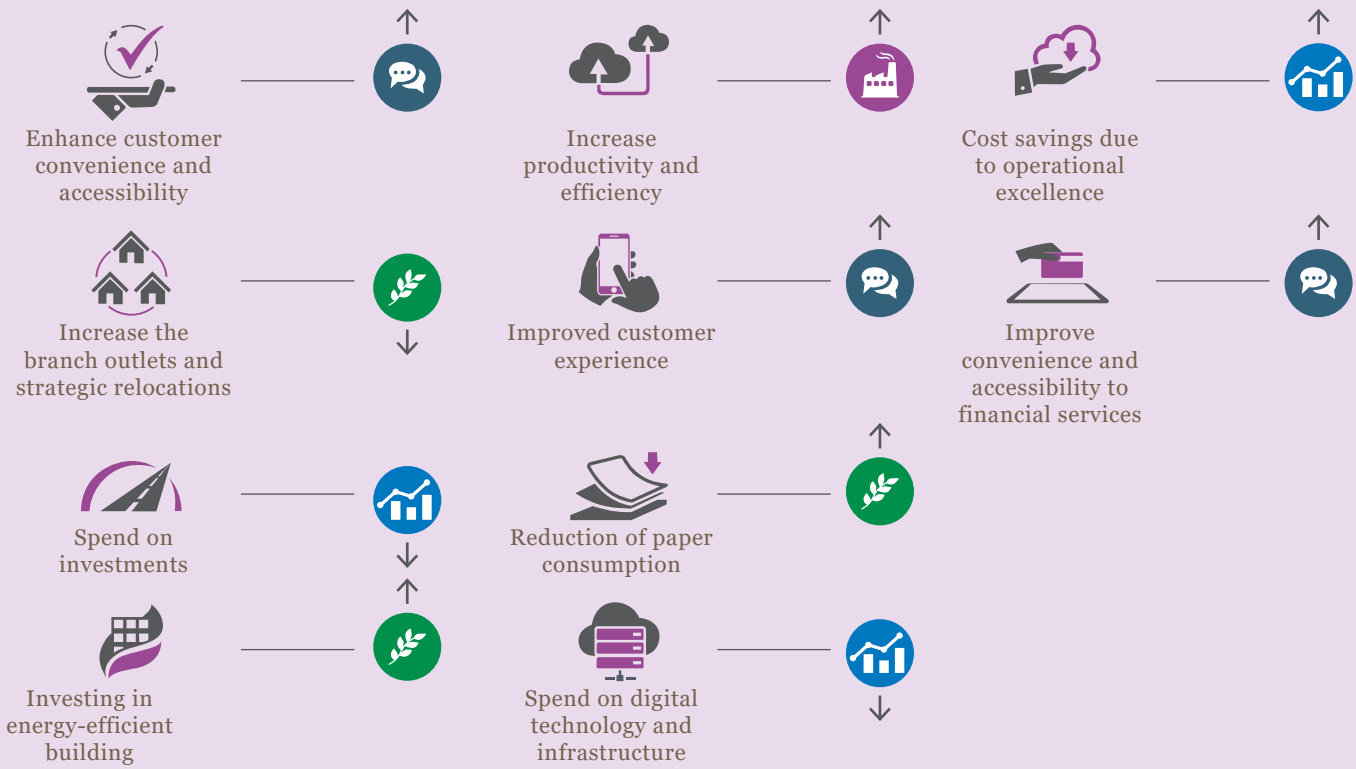
Linkage to other capitals

Manufactured capital is impacted by and impacts each capital of the Bank.

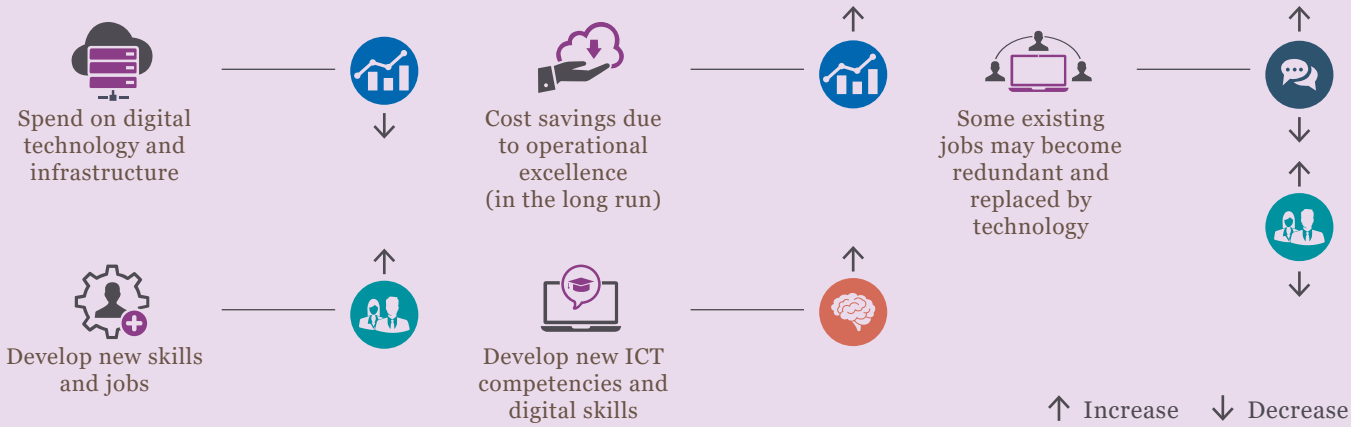


Trade-offs

- **Expanding our physical network**
- **Expanding our digital channels**



- **Investment in digital technology and infrastructure**



Contribution to SDGs



Ensuring equal rights to economic resources and access to financial services



Contribute towards paper reduction through digitalisation of banking services



Installing solar energy in branches



Provide access to banking services to a wider community by establishing branches including Smart Zones across the nation.



Reduce carbon footprint by investing in energy efficient buildings and investing in digitalisation of banking services



Investing in energy efficient buildings

Our presence

Our extensive local presence

As a Bank that promotes financial inclusion, we serve every strata of society through our extensive network that covers every province and district in our nation. The network comprises 256 branches, including 6 super grade branches, 8 regional offices, 4063 post offices/ sub post offices and 334 ATMs/CRMs providing Visa and Mastercard debit card facilities.

We are part of the LankaPay Common ATM Switch, the national payment network that connects over 4900 ATMs including Cash Deposit Machines (CDMs) and Cash Recycle Machines (CRMs) across the country. Additionally, we are accessible through over 16,000 mCash retailers and through hand-held Point of Sale (POS) machines.

Visit our web page for more information on list of branches.

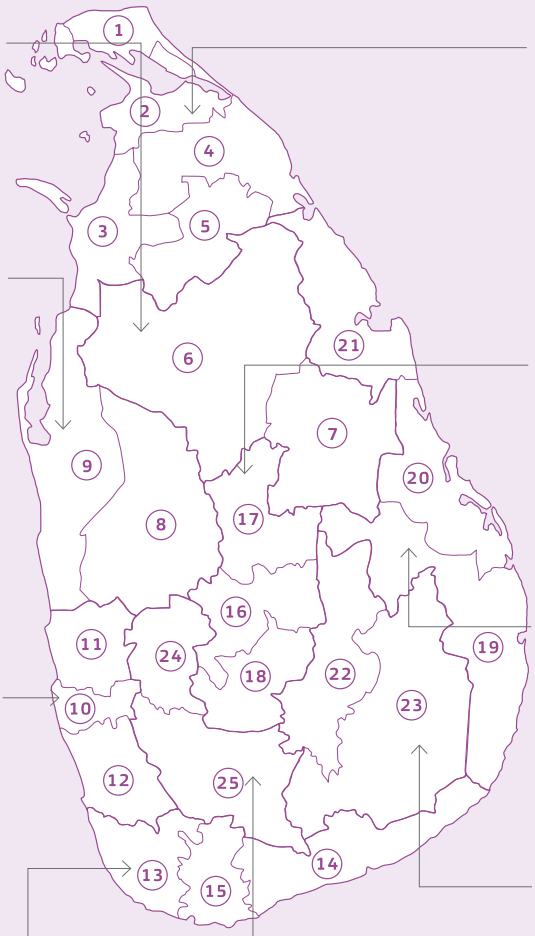
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	Branches	ATM/ CRM	Smart Zone
North Central Province	15	17	1
6. Anuradhapura	12	14	1
7. Polonnaruwa	3	3	-

	Branches	ATM/ CRM	Smart Zone
North-Western Province	26	35	5
8. Kurunegala	18	22	1
9. Puttlam	8	13	4

	Branches	ATM/ CRM	Smart Zone
Western Province	81	126	23
10. Colombo	43	71	13
11. Gampaha	26	39	7
12. Kalutara	12	16	3

	Branches	ATM/ CRM	Smart Zone
Southern Province	36	41	1
13. Galle	13	15	-
14. Hambantota	10	11	-
15. Matara	13	15	1



	Branches	ATM/ CRM	Smart Zone
Sabaragamuwa Province	21	24	2
24. Kegalle	10	11	1
25. Ratnapura	11	13	1

	Branches	ATM/ CRM	Smart Zone
Northern Province	20	25	4
1. Jaffna	14	19	4
2. Kilinochchi	1	1	-
3. Mannar	2	2	-
4. Mullaitivu	2	2	-
5. Vavunia	1	1	-

	Branches	ATM/ CRM	Smart Zone
Central Province	28	34	3
16. Kandy	17	21	1
17. Matale	4	5	1
18. Nuwara Eliya	7	8	1

	Branches	ATM/ CRM	Smart Zone
Eastern Province	17	17	-
19. Ampara	8	7	-
20. Batticaloa	7	8	-
21. Trincomalee	2	2	-

	Branches	ATM/ CRM	Smart Zone
Uva Province	12	15	-
22. Badulla	6	9	-
23. Monaragala	6	6	-

Augmenting our reach

Augmenting our local presence through our island-wide network

Expanding our manufactured capital is strategically important as branches play a key role in facilitating customer interactions and providing visibility to our brand. However, with the changing customer behaviour and with more customers choosing alternative channels such as ATMs and digital platforms for banking, we are adapting to respond to these evolving requirements in an effective manner.

Our island-wide physical touchpoints is a key asset in our value creation process. Whilst building our digital infrastructure, we continue to augment our branch network by adding new branches in strategic locations. In 2019, we opened a new branch in Makola. Branch relocation, expansion and renovations continued with full steam during the year to enhance customer experience and provide a pleasant work environment to our employees. Branches in Chunnakam, Pettah, Puttalam, Manipay, Athurugiriya, Mahabage, and Haliela were relocated to new spacious locations. Five divisions in the Head Office were refurbished including the Chairman's Division, Branch Management, Legal, Risk Management, and Welfare to provide a conducive working environment to our teams and support offering of holistic integrated solution to customers. Aftermath of Easter attack

in April 2019, the security measures were strengthened to protect our physical assets from casualties caused by any disasters and violence.

Expanding our model branch concept and self-banking proposition

"Model Branch" concept was launched in 2017 to provide an exemplary experience to our customers at every touchpoint through state-of-the-art banking services. Under this concept every branch will have a bespoke "Smart Zone" equipped with ATM and CRM for digital banking with Integrated Digital Media Signage (IDMS) under the brand name of "NSB Connect" to enhance customer convenience. All branding and signage displays are designed according to the 5S standards.

Since launching the first Smart Zone in 2017, we have gradually increased the number of Smart Zones, over the past two years, bringing the total to 39 as at end 2019. Our plan is to add 25 new Smart Zones in the ensuing year, which would increase the total to 64 by the end of 2020.

A total of 29 Smart Zones have been established in buildings owned by us, whilst 5 Smart Zones have been established in leased branch buildings as at end 2019.

	Smart Zones
2017	2
2018	3
2019	34
2020 (projected)	25

Facilitating differently-abled access

Being cognisant of the special needs of people with disabilities or physical restrictions, we have paved the way for customers with disabilities to bank with us without any inconvenience by providing disability access to our branches. Disability access is provided at 224 branches across the island. We have taken measures to address this requirement in construction of new branches and relocations and expansion of existing branches.

Sustainable energy efficient buildings

In our efforts to contribute towards climate change and move towards sustainable growth, several measures were implemented to improve energy efficiency and capture cost-effective energy saving mechanisms in our branches. All new branches are constructed according to our green building concept, focused on optimising natural light and air circulation contributing to reduction in energy consumption. We have also installed solar power systems in 42 branches which has reduced our electricity consumption. The green concepts are detailed under Natural Capital on page 166.

Our branch premises are designed to consume lower energy by fitting glazed windows that create thermal insulation which reduces the flow of incoming and outgoing heat. Our Kataragama circuit bungalow which is identified as Green Building consumes minimal electricity for lights and cooling facility by optimising the natural light and air.

Expanding our digital footprint

With the increasing sophistication of customers and the demand for digital, self-service channels that deliver convenience and flexibility, we continued to strength our digital infrastructure to respond to these requirements effectively. Through ongoing investments we expanded our self-service propositions, payment solutions, digital solutions and strengthened information security. These investments are improving our customers' experience, simplifying processes and also helping to increase the efficiency and effectiveness of our employees.

Enhancement of digital channels platform

With increasing trend of on-line users and fast-expanding tech-savvy customers, we focused on digital channels to reach a wider customer segment, especially the youth. This has helped to accelerate our business by acquiring new clients, interact with our existing customers and boost our business visibility. During the year under review, our Instagram page was launched which has become a popular mode of communication especially among youth.

Secured debit card management

We continue to create and offer our customers innovative and secured payment options in support of our country's cashless initiatives.

- In order to counterfeit fraud, the Bank commenced its in-house printing of EMV (Europe, Master Card and Visa) Debit Cards which is more secured chip enabled card opposed to magnetic stripe only card and the Bank converted around 450,000 existing cards to EMV chip based cards up to 2019.
- Moreover, the Bank introduced the NFC (Near Field Communication) technology enabled Visa and Master Debit Cards, offering maximum protection against skimming and cloning of information.
- The Bank introduced the Green PIN issuance for EMV Cards where the PIN is issued through the SMS, safeguarding the customer credentials by providing mobile phone based card activation procedure.
- A new Card Management System (CMS) which was implemented providing the CMS access to all

the Branches enhancing customer service in 2018 was upgraded during the year under review.

- Customer grievances regarding the debit cards are handled by Automated Tracking System integrating card centre, call centre and ATM support services units
- Data Security Standard PCI-DSS Certification: In our efforts to continuously improve security standards of the Bank and protect customers from card related frauds, we became the first Sri Lankan State Bank to receive the coveted Payment Card Industry Data Security Standard PCI-DSS Certification; the cardholder data security standard accepted worldwide. For further details, refer "Intellectual Capital: Strengthening Data Security" on Page 127.

Payment solutions systems implemented in 2019

CBSL has taken a series of measures to foster migration to secured e-payments. An online real time payment solution was introduced through LankaPay – CEFTS which facilitates online real-time interbank fund transfers with the highest levels of security. These transactions can be initiated via any payment channel such as ATM, OTC, Internet Banking or any Mobile Payment Device. During the year, the Bank also has developed several payment solutions as follows:

Lanka Pay Online Payment Platform (LPOPP)

By connecting to LPOPP, we have enabled our customers to directly make payments via any channel connected to CEFTS (Internet, Mobile, ATM or Over the Counter). These payments are credited on a real-time and 24 X 7 basis and customers are provided with a payment confirmation details on a real-time basis. Further, the Bank enables the customers to make payments to Sri Lanka Customs.

JustPay

This is a convenient, secure and affordable option for retail payments which are primarily made by cash and cards. Customers are allowed to make retail payments using smart mobile, increasing customer convenience. This enables customers to access their savings accounts to top up a Smart Phone Application (App) to a maximum of Rs. 10,000 or directly transfer a maximum of Rs. 10,000 to a merchant's account using an App.

US dollar online clearing system

We have facilitated depositors to obtain funds speedily, through the new US Dollar Cheque Clearing from LankaPay which expedite realisation and thereby eliminate delays to obtain credit.

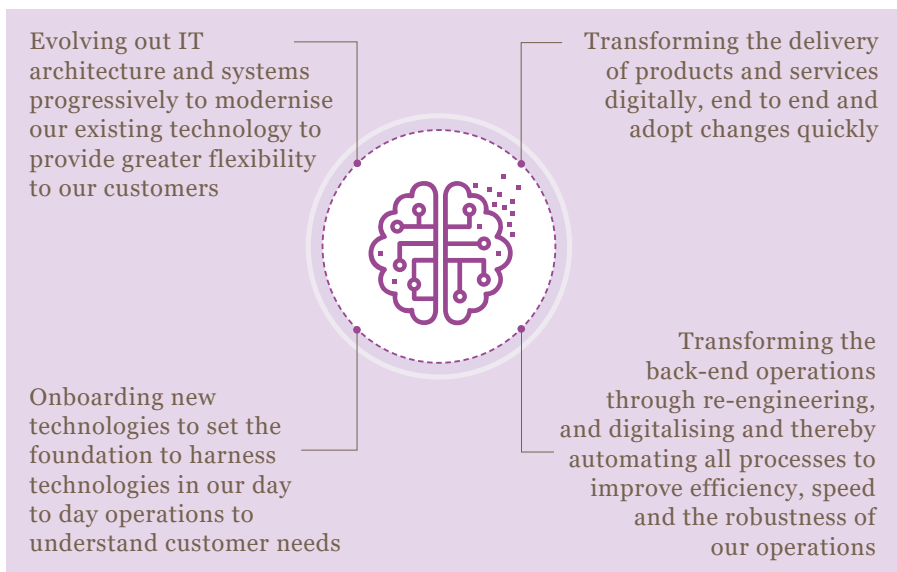
Enhancing our operational process

Understanding the importance of integrating ICT to all banking operations in the digital age of banking, we continue to maintain and improve our systems and processes. This enables us to stay ahead of the curve to effectively respond to the evolving customer expectations in the digital age through a safe and secure banking system and achieve operational excellence.

We continue to deliver the best customer service in the fastest and most efficient manner through our investments in digital infrastructure which complements our physical infrastructure. These investments support the smooth functioning of our daily operations.

Integrated Core Banking Solution

The procurement of the core banking solution was completed in 2019. This modern solution covers the full spectrum of Deposits, Credit, Cheques, Loans, Collaterals, Collections and payments on a single platform. Our core banking solution is focused on:



Adopting of the core banking solution enables us to handle the most sophisticated integrated banking requirements with high levels of automation and risk-free deployment. It would also facilitate ease of use, and maximise operational efficiency whilst ensuring compliance with regulatory requirements and international best practices. This would lead to increased employee productivity and enhanced customer experience. In the long run, we are able transform into a more agile and data-driven organisation that is able to respond to customer needs in a more efficient manner, with improved time to market and greater productivity. This core banking system will be complemented by integrating other systems such as Anti-Money Laundering Solution (AML), Treasury Management System (TMS) and Human Resource Management System.

Treasury Management System

The new Treasury Management System was procured during the year enabling the Bank to integrate, strengthen and streamline all its treasury functions. We are able to have greater visibility into cash and liquidity, gain control of bank accounts, maintain compliance, take advantage of integrated reporting tools and manage in-house banking and financial transactions more efficiently. The solution has allowed greater flexibility in reporting, workflow and intraday reconciliation process, reduced risks from manual error.

Human resource management system

With the view of automating human resource functions, we are in the process of procuring a Human Resource Management System. This system would enhance the efficiency and effectiveness of HR functions including gathering, storing and assessing employee information, managing recruitment and onboarding, payroll, performance evaluation, employee benefits administration and learning and development.

Anti-Money Laundering solution (AML)

The AML solution was implemented in 2019, enabling monitoring and tracking of transactions to prevent fraud and money laundering activities. Adoption of the AML solution has provided a consistent lifecycle coverage for Know Your Customer (KYC) and customer due diligence, screen customers and transactions against sanctions lists and remain compliant with AML regulations. Our due diligence procedures will also be greatly improved due to system-enabled tracking and monitoring of blacklisted customers. This solution complements the core banking system and has enhanced the operational efficiency of the Bank.

Cash@Ease System

We streamlined the cash management process of the Bank by implementing the Cash@Ease System in 2019. The system has facilitated operational efficiency in the cash management process across branches and the Treasury Division, facilitating viewing of daily cash positions, requesting for cash from the Treasury, managing the balances and sending online confirmations of the transactions. This has facilitated cost savings, increased accuracy, enhanced efficiencies and customer service levels across the Bank significantly.

Future priorities

Short term	Medium term	Long term
Implement the Digital Platform Project to launch LankaQR based products and incorporate mobile applications with payment cards. Obtain 3DS2.0 which is the highest Security Standard available for e-commerce Expanding customer touch points with CRMs, SMART ATM areas and digital platforms Expand and upgrade the AML system of the Bank to be complaint with new regulations	Being a fully-fledged Digital Banking Solution to enable customers to conduct banking from anywhere, anytime using a smartphone or a digital device Core Banking Solution to be integrated with HR Management System and Treasury Management System Implementing an Information Security Management System (ISMS) and obtaining the ISO 27001 certification process Strengthen the Information Security Management System of the Bank Move towards “online compliance assessments” to facilitate close monitoring of the branch network	Become an agile and data driven organisation



Intellectual Capital

Intellectual capital which includes intangible assets is a vital source of competitive advantage. Increasing the value of intellectual capital enables us to achieve a value premium in the long-term.

What it includes

Intellectual capital is a culmination of all our capitals comprising intangible assets including our tacit knowledge, customer loyalty, brand and reputation, internal systems and process, business ethics, corporate values, policies and our corporate culture that is essential to create value for our stakeholders.

Inputs

- Learning and development
- Policies, frameworks and processes
- Standard operating procedures
- Corporate culture
- Responsible leadership

How it adds value

We strongly believe that Intellectual Capital is a vital source of competitive advantage that would result in a value premium for NSB in the long-term. It stimulates innovation which is a source of competitive advantage and results in future wealth generation.

Our approach

We develop our intellectual capital through strong process flows, partnership with other institutions and encouragement for learning and innovation. We nurture our intellectual capital through development of new products, improvement of systems and processes that enable us to be more efficient while reducing the environmental impact and operating costs, by enhancing our corporate image, and consumer confidence.

Key challenges and opportunities for 2019

Key challenges

- Information security
- Mutually exclusive projects due to limitation in capital allocation
- Resistance to change
- Sustaining brand value



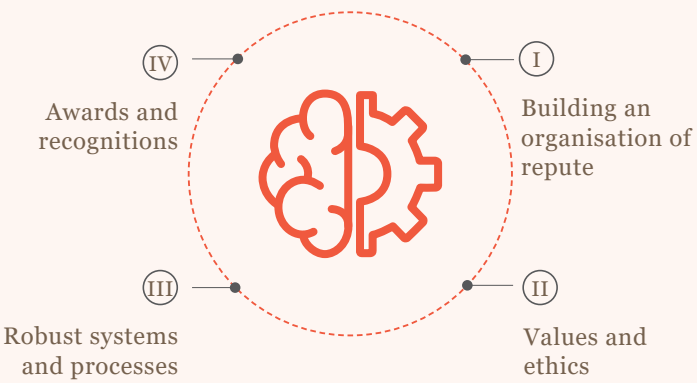
Opportunities

- Digitisation of workflow systems
- Improved decision making
- Agile working environment
- Improve operational efficiency

Strategies to enhance the value of intellectual capital

- Harness intellectual capital through the expertise and skills of our employees
- Improve the efficiency of business processes and management systems
- Enhance corporate image and improve customer confidence through ethical practices, integrity and accountability
- Optimise investment in information technology
- Nurture an organisational culture that drives innovation
- Reduce environmental impact through sustainable business practices

Drivers of value creation



Material matters



Related stakeholders



Short to medium-term strategic priorities



Highlights



Safest
Bank in Sri Lanka for the 4th consecutive year



Data security
First Sri Lankan state-bank to receive Payment Card Industry Data Security Standard PCI-DSS Certification



AA from AA-
Brand rating increased



Rs. 34,771 Mn.
Brand value increased by 25%



AAA
Credit Rating by ICRA Lanka Limited



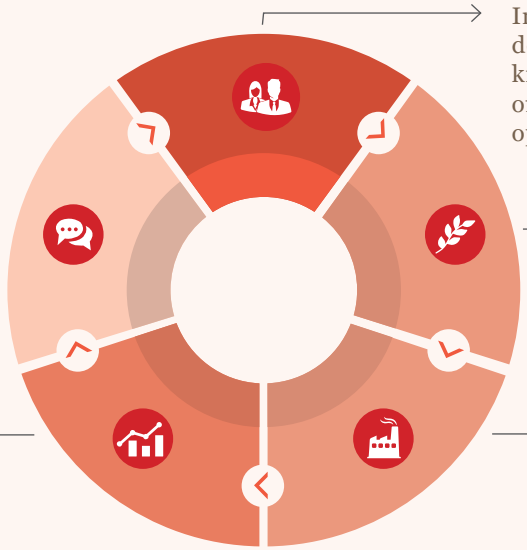
28.4%
of employees with over 10 years service

Scorecard

	Increase/(decrease)	**2019**	2018
Brand value (Rs. Mn.)	6,969 (Up by 25% YoY)	**34,771**	27,802
Brand rating	One notch increase	**AA**	AA-
Credit rating	–	**AAA**	AAA
Employees with over 10 years service (%)	2.0	**28.4**	26.4

Linkage to other capitals

Intellectual capital is impacted by and impacts each capital of the Bank.



Investment in training and development enhances the tacit knowledge, skills and experiences of our employees which underpins operational excellence

Our values, business ethics and risk management framework enhance our corporate reputation and strengthens the confidence of customers and other stakeholders

Our focus on environmental sustainability instils confidence on our sustainability initiatives among stakeholders

Growth in financial capital has enabled us to improve our processes and invest in areas such as brand development and staff development which in turn has enhanced our corporate reputation and increased confidence in the Bank among our stakeholders

Investments in infrastructure, systems and processes results in improved business processes

Trade-offs

- **Investment in training and development**



New skills and innovation



Improved decision making



Spend on training and development

- **Expanding digital infrastructure and network**



Enhancing customer experience, convenience and accessibility



Financial inclusion



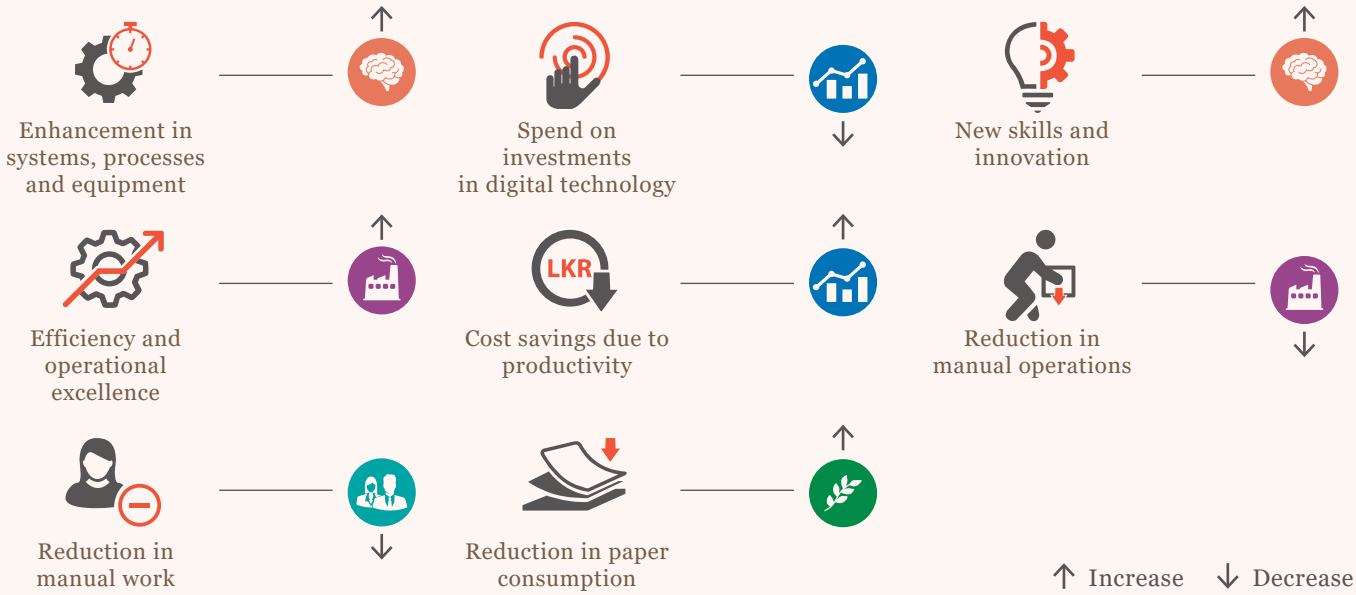
Spend on investments in digital infrastructure



New infrastructure equipment

↑ Increase ↓ Decrease

- **Investments in new and enhancing digital technology**



Contribution to SDGs



Promoting ethical behaviour, good governance and compliance across the Bank



Nurturing a culture that drives innovation and investing in technology and infrastructure

Outputs

- 5th most valuable brand with brand value of Rs. 34.77 Bn.
- Holding PCI-DSS Certification as a first state-bank
- In-house designed Data Management Systems and Card Management System
- Introducing Near Field Communication (NFC) enabled debit cards and in-house printing of EMV debit cards
- In-house developed LankaPay payment solutions enabling online US dollar payments and Just Pay solutions
- Implementing industry security standards with in-house knowledge and experience

Building an organisation of repute

NSB has become a household name for all Sri Lankans since our inception in 1972. Drawing upon a banking legacy of 187 years from our predecessor, The Ceylon Savings Bank (CSB), we have been at the forefront of ensuring safety for all our customers with our very unique Government guarantee to uphold claims on all deposits and interest thereon. As the premier savings bank in Sri Lanka, our brand is synonymous with trust and confidence and being awarded the Safest Bank by Global Finance Magazine for the fourth consecutive year in 2019 exemplifies this fact. We have steadily grown from strength to strength achieving many milestones both financial and non-financial. Our wide network across the island enables to reach a wider customer segment.

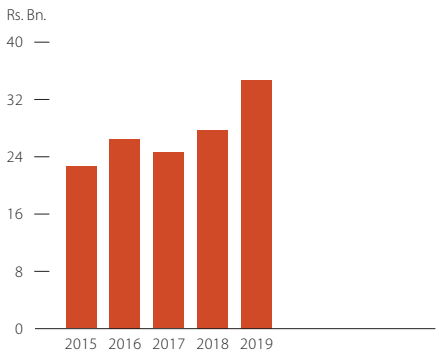
Increasing our brand value and ratings

Our brand position remained strong throughout the year under review, as exemplified by ICRA Lanka Limited assigning the Bank a credit rating of [SL] AAA with Stable outlook reflecting the 100% government ownership and explicit guarantee on deposits and interest thereon, good quality lending portfolio, presently adequate capital profile and low risk investment portfolio. NSB was ranked as the fifth most valuable brand in Sri Lanka by Brand Finance recording a brand value of Rs. 34,771 Mn. in 2019. Our brand value has notched up 25% YoY reflecting the consistent improvement. The brand rating also improved from AA- in 2018 to AA in 2019.

Year	Brand value Rs. Bn.
2015	22.65
2016	26.47
2017	24.59
2018	27.80
2019	34.77

(Source – Brand Finance report, May 2019)

NSB brand value



Tacit knowledge

The Bank's technical know-how and the knowledge accumulated over our 47 years of serving the nation since 1972 are an intrinsic part of our competitive advantage. The processes and practices that have matured over decades and our experienced workforce, comprising a high percentage of employees who have been with the Bank for more than ten years, principally contributes to our tacit knowledge. We treasure such knowledge and carefully manage by identifying the stores of tacit knowledge possessed by each employee and ensuring we retain the most important employees. In addition, our employees belonging to different geographies, generations, and backgrounds bring diverse knowledge and skills to the NSB family.

Our HR policy facilitates high levels of employee engagement and has launched several structured programmes to disseminate and document the knowledge gathered. These include, structured training programmes, knowledge sharing sessions, mentoring and other informal way of training tools. Our internal training and induction programmes conducted by our experienced staff members serve to transfer existing knowledge to our new employees. Over 55% of the Corporate Management team have served the Bank for over fifteen years and 28.4% of the employees have over ten years of expertise in the Bank. Our ability to retain staff is reflected by the high staff retention ratio of 98.1%. These factors have contributed to enriching the tacit knowledge of our Bank.

Building our corporate brand

A range of brand building exercises were carried out throughout the year, varying from advertising, events, exhibitions, sponsorships, and special promotional campaigns. We promote our products in mass media, social media, website and other web-based advertising, billboards and bus halts around the country. These forms of advertising have enhanced our brand visibility which resonate with a wider demographic from all walks of life. Sponsoring and co-sponsoring various national, social, and cultural events, including religious events have enabled to develop our Brand Image and advance public relations.

GRI 102-16

Values and ethics

Our values

Our corporate values which are the fundamental beliefs upon which our Bank is based on have evolved over 47 years. They provide a clear statement of our corporate vision, our mission, and what drives our actions. Whilst these values have shaped our corporate culture they have contributed to our ethos, our identity, and our philosophy.



Trust

Building relationships through having complete confidence in the interests of all involved.



Mutual respect

Recognising the inherent worth of every individual and treating everyone with dignity.



Integrity

Being honest, consistent, and transparent in all our actions and decisions.



Creativity

Challenging existing practices whilst continuously seeking out for novel concepts.

Ethical business conduct

As the premier savings bank of the nation, ethics and integrity are ingrained in our DNA. We believe that our business goes beyond banking to embracing ethical responsibility to our main stakeholders. The tone for ethical conduct is set by the Board of Directors and is permeated across the Bank through policies and procedures that seek all employees to demonstrate utmost commitment towards ethical behaviour and standards. Our internal standards, codes and control mechanisms, regulatory and compliance requirements are constantly reviewed and upgraded to be in line with the industry best practices and requirement of relevant regulatory authorities.

The Board gives utmost priority to risk management and compliance by considering these aspects as integral strategic investments and by driving a risk conscious culture within the Bank. The strong culture of risk awareness which begins at the top across the Three Lines of Defence forms the basis for compliance and accountability. We continuously strengthen our values-based risk focused culture by enhancing our standard of corporate governance, robust risk management framework and compliance.

Nurturing a culture of excellence and innovation

The corporate culture that prevails in NSB resonates with our values and mission and is central to our long-term success. It is a culture of utmost professionalism, teamwork, accountability, transparency, diversity, and respect between individuals. We constantly strive to build a strong team fostering personal responsibility and collective decision-making with a strong level of compliance and governance. There is a sense of family and a strong sense of employee loyalty towards the Organisation.

To nurture a sense of comrade among the NSB family, numerous events and programmes are organised throughout the year as outlined in our human capital section. These activities are organised through the NSB Sports Club, Buddhist Society, Christian Society, NSB Welfare Society, and Kala Kawaya (Arts Circle). Details on how we nurture our people and the channels of communication we have established for our employees and other stakeholders are available under Human Capital section on page 142 and Engagement with Stakeholders section on page 70 respectively.

To adapt to evolving market and cater to the expectations and requirements of rapidly changing customer demands, we encourage a culture that sustains and supports innovation. We constantly strive to doing things differently, catering to market needs, and adapting to changing technologies to improve on processes, people, and productivity. Our concerted effort was directed to driving a culture of innovation across the Bank by investing in training and development for our employees. This paves the way to creating skilled, experienced and technically qualified employees, industry thought leaders and experts that enables us to efficiently respond to a constantly changing operating environment. For the details of new products and value additions during the year, refer “Augmenting our product offer” on page 150.

Since we are a national organisation, connecting with and giving back to the local community are also a part of the fabric of our corporate culture. See more details on our commitment to the national and community development in social and relationship capital on pages 158 to 161.

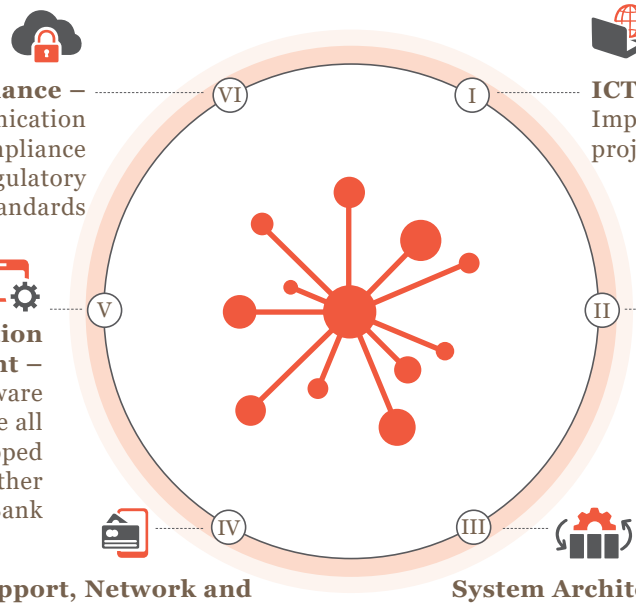
Robust systems and processes

Expanding technical capacity/digital knowledge management

In our efforts to be in sync with the evolving trend of digital banking, we have commenced investing in state-of-the-art technology to enhance our digital capabilities. Migrating into the internationally accepted T24 Core Banking solution would transform our entire retail banking operations to be more efficient, effective and agile giving us a solid competitive edge. More details are given in the Manufactured Capital section under pages 117 to 119.

In addition to investing in new technology, we continue to invest developing our human capital to hone and acquire new skill sets to fulfil the requirement for digital and data specialists in our market space. A total of 12 IT professionals were recruited during the year under review specialised in application development and information security to support our strong IT team. These experts are responsible for the development of new product innovations and product extensions to meet the increasing demand and customer expectations.

Our IT Division underwent a restructuring process, to facilitate the implementation of our new digital-based solutions and to standardise all IT operations in accordance with international best practices. In order to support these complex and newly added functions, the Bank's IT arm was segregated into six interdependent sections. Following are the six sections and their responsibilities:



ICT Security and Governance – Assure information and communication technology security and compliance and commit to maintaining regulatory (international/national) standards

ICT Business Technology – Implement all new IT related projects

Software Application Development – Maintain and support all software developed by the Bank to handle all functionalities of in-house developed retail banking solution and other related software used by the Bank

ICT Operations – Deploy and support all IT related solutions for a smooth banking operation

ATM Support, Network and Communication – Manage all ATM related work and the entire network links of the data centre, disaster recovery centre and branches

System Architecture – Install the hardware and data centres to maintain a solid base for the IT related solutions in the Bank

Enhancing our systems and processes to improve operational excellence

It is essential to maintain robust systems and processes to uphold our role as a safe, secure, and trusted banking system and enhance customer experience through operational excellence. Our systems are continuously reviewed and aligned to reduce turnaround times, enhance efficiency and customer service standards. In particular, we focus on safeguarding our information and maintaining the integrity of our systems, which is a critical business function in an environment where technology is evolving at a dynamic pace and security threats are increasing alarmingly. Through regular investments to upgrade security infrastructure and timely updates to corporate policies and procedures, we strive to mitigate the risk. In the year under review, we achieved a number of milestones in improving our structures, unifying systems as well as automating, digitalising and simplifying processes.

Business Continuity Management System (BCMS)

The Bank has upgraded the business continuity management framework which ensures the continuity of business operations in the event of any business disruption. The following information was developed in collaboration with respective divisions. This included functional recovery procedures, business impact assessments and call trees which includes the contact details of all officers in a division.

Production data centre

We understand that data-centric customer experience is key to achieving a competitive edge in a digital-economy. Our state-of-the-art primary data centre, structured based on TIA 942 (Tier III) international standard was completed during the year. This has facilitated efficient management of the scale and volume of data and its storage which is essential to have a 360˚ customer view and deliver a seamless customer experience. The Data Centre has enhanced our speed of service, reliability, and availability and effectively integrated banking services to fulfil customer satisfaction and enhance internal service excellence.

Other systems in the process of implementation

- Anti-money laundering Customer Screening System implemented to facilitate identification of customers who are black listed. This system will be enhanced further with the implementation of Core Banking Solution. (See further details on "Manufactured Capital: Anti-Money Laundering Solution" on page 119)
- In-house online cash management process was streamlined with the implementation of Cash@Ease System (See further details on "Manufactured Capital: Cash@Ease System" on page 119)
- With the view of improving Bank's functionalities to a great extent, the Bank is in the process of implementing integrated Core Banking Solutions coupled with other systems namely Treasury Management System and Human Resource Management System. For further details refer Manufactured Capital, "Enhancing our operational process" on pages 118 and 119.
- The Bank has introduced new technologies in relation to debit cards and data security as well as developed LankaPay payment solutions. For further details refer Manufactured Capital, "Expanding our digital footprint" on pages 117 to 118.

Other process improvements during the year:

- New fingerprint system was implemented across the Bank to streamline the attendance process
- Delegation of authority for procurement for urgent medium scale branch interior projects, granting approvals for staff loans, loans recovery and management of non-performing advances
- The procedure for recovery of non-performing loans and the process of litigation was streamlined. For example, to reduce the unnecessary delay in the recovery process of retail loans, the provisions of convening the mediation board in the recovery policy was amended and revisions were made to the terms and conditions of loans on immovable property mortgage
- The number of regions were reduced to eight and restructured
- Measures were taken to improve the quality of reporting of suspicious transactions in accordance to the Financial Transactions Reporting Act
- A help desk software was installed to ensure productivity and efficiency within the Bank by managing our large customer base effectively
- Risk and Control Self-Assessment (RCSA) process was streamlined to identify branch level risk in the pawning process with a view to strengthen the internal controls
- Know Your Customer (KYC) form for Institutions/Associations/ Clubs and Societies/Trusts/NGOs were redesigned
- The application form of distress loan/consumption loan for the employees was redesigned and amalgamated as one to increase convenience
- The application form for loan against deposits was redesigned to access other deposit accounts of customers in the event of the loan exceeds the deposit value
- The scores generated from the CRESS System was improved in risk based pricing

Strengthening data security

Cybersecurity is a top priority in today's highly-digitised world where identity theft and data hacking happen frequently. Protecting our data, particularly the customer information is of paramount importance to us. We understand the negative consequences of a breach in data security and customer privacy, whilst violation of trust would be devastating for the customer and would hugely impact stakeholder confidence in our competence. In our efforts to assure the safety of cardholder data, we obtained the Payment Card Industry Data Security Standard (PCI-DSS) in 2019, making NSB the only State-Bank in Sri Lanka to be PCI-DSS compliant. It is one of the most accepted international standards for payment card security, based on specific technical and operational controls for card operations and related information systems. The certification of compliance is a stringent process which demands a high level of commitment from all related operational and technical areas. We have enhanced the data security of over million debit cardholders using

MasterCard or Visa branded cards issued by us. This is a testament of the measures taken by us to ensure our IT systems, processes and procedures relating to cardholder data adhere to the globally accepted security standards.

We implemented File Integrity Monitoring (FIM) software which is an information security infrastructure to validate the integrity of our operating system (OS), database, and application software files on a continuous basis. By implementing a Multi-Factor Authentication (MFA), we have protected the Bank against remote attacks. Vulnerabilities are identified and breaches are prevented using Security Operation Centre technology to monitor our network traffic, endpoints, logs and security events.

CBSL issued a road map to improve technological resilience with a time line for implementation from 2019 to 2020. Accordingly, the Bank is in line with all the milestones set out and will continue to implement the measures in 2020 as well.

Awards and recognitions

Our brand is strengthened every year by numerous accolades that are bestowed upon NSB.

We strive towards achieving excellence in all our operations, to deliver increased stakeholder value and to strengthen our sustainability. The recognition we receive in our journey is an encouragement and testament to the success of our management approach. During the year 2019/20 we were awarded:

BestWeb.lk Award



Bronze Award – Best Banking and Finance Website



Merit Award – Best Tamil Website

Technnovation Awards 2019



The Bank of the Year for Excellence in Customer Convenience – Merit Award



The Bank of the Year for Financial Inclusivity – Merit Award

Best Employer Brand Awards 2019



South Asian Federation of Accountants (SAFA) BPA Report Awards and SAARC Anniversary Awards for Corporate Governance Disclosures 2018



Winner – Public Sector Banking Institutions

CA Sri Lanka 55th Annual Report Awards 2019



Silver Award – State-Banks

ARC Annual Report Awards 2019





Grand Awards for "Best of Sri Lanka" and "Financial Data"



Gold Award – Financial Data: Banks: Savings and Loan



Gold Award – Infographics: Banks: Savings and Loan



Silver Award – Written Text: Banks: Savings and Loan



Bronze Award – Chairman/ President's Letter: Banks: Savings and Loan



Bronze Award – Interior Design: Banks: Savings and Loan



Bronze Award – Printing and Production: Banks: Savings and Loan

Fifth CMA Excellence in Integrated Reporting Awards 2019





Top 10 Best Integrated Reports and Best Integrated Report for state-owned enterprises/companies

Future priorities

Short term

Pawning system data migration to oracle

Implementing in-house Document Management System for Back Office operations

Implementing 5S system to the branches to increase productivity and operational efficiency

Focus on expanding our card base by optimising 3DS2.0 which is the highest Security Standard available for e-commerce

Medium term

Introducing e-learning platform

Performance management system to the target based system

Change management with the transformative digital environment

Automation of Middle Office and Back Office operations

Enabling QR Code mobile payments

Implement a digital banking solution to deliver an enhanced customer experience and strengthen the sustainability of the Bank

Long term

Harnessing the potential of Big Data for the whole Bank



Human Capital

Human capital is the most valuable asset of our Bank. Nurturing a highly competent and engaged workforce results in efficient achievement of our corporate objectives and creating value to all our stakeholders.

What it includes

Our human capital refers to value of our employees' experience, skills, well-being and engagement.

Inputs

- Training and development
- Positive working environment
- Established solid labour relationships
- Develop critical skills and succession planning
- Performance and talent management
- Policies and procedures to improve service delivery

We engage with our employees fairly, ensuring they have the appropriate knowledge, training and skills to perform their roles.

As a responsible employer, we encourage diversity in the make-up of our employees, affords a work environment that promotes good health and safety and provide opportunities for personal development. By promoting a culture of diversity we have enhanced the teams' performance and ability to innovate. Our values are embedded in the standards, policies and guidance which we set out to help our people to perform.

Strategies to enhance the value of human capital

- Promoting professional development and merit-based criteria in selection and internal processes
- Empower employees through investing their development and offering career growth opportunities
- Delivering a range of health and wellness initiatives and services to employees

How it adds value

Highly skilled and engaged employees improve the ability to understand and serve our customers, driving our business performance successfully. They facilitate the effective implementation of our strategies to achieve corporate objectives and to create value to all our stakeholders. They also facilitate value creation in a dynamic and unpredictable environment in which rapid and unexpected developments take place.

Our approach

We strive to create an inclusive work culture where every employee has access to a secure working environment coupled with opportunities for personal and professional growth. We believe there is a direct link between employee engagement, business performance and an ability to serve customers. Therefore, we are committed to a positive employee experience throughout their career at NSB.

Key challenges and opportunities for 2019

Key challenges

- Aging workforce, coupled with a shortage of qualified talent, particularly in new trends of technology
- Connecting the tech saavy, less traditional new generation workforce to achieve the objectives of the Bank
- Employees becoming more qualified, multi-skilled and talented increase the expectation of higher wages and benefits.
- Influence from unions and political arena may disrupt best practices of Human Resource Management
- Increasing trend of new competitors and new labour markets require more sophisticated skills in managing and operating human resources

Opportunities

- Ability to attract and retain highly skilled and qualified young employees
- High productivity through quality employees who are engaged and retained
- Diverse and experienced talent equipped to meet current and future needs
- Enhance and improve human capabilities and productive capacity within the Sri Lankan job market



- Improving HR processes and documentation to effectively utilise time and resources
- Enhance employee experience and loyalty by supporting a healthy work-life balance
- Enabling our people to be agile and adaptive to remain relevant in rapidly evolving environment

Material matters



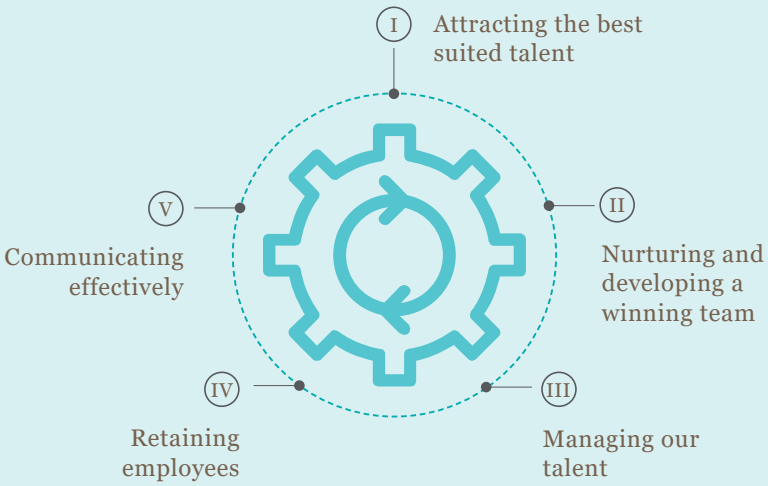
Related stakeholders



Short to medium-term strategic priorities



Drivers of value creation



Highlights



296
New recruitments



91.6%
covered by collective agreement



28.4%
Employees with over 10 years of experience in the Bank



55%
of female employees (permanent)



98.1%
Retention ratio

Scorecard

	Increase/ decrease	2019	2018
Number of employees	188	**4319**	4131
Investment in training and development (Rs. Mn)	1.7	**40.3**	38.6
Average training hours per employee	(6)	**7**	13
Number of female employees	76	**2380**	2304
Average revenue per employee (Rs. Mn)	1.1	**28.2**	27.1
Retention ratio (%)	0.2	**98.1**	97.9
Employee turnover ratio (%)	(0.2)	**1.9**	2.1

Linkage to other capitals

Human capital is impacted by and impacts each capital of the Bank.



Trade-offs

- **Providing job opportunities and recruiting new people**
- **Training and development: building competencies around customer service, innovation, operational excellence and corporate culture, and value**



Contribution to SDGs

Supporting economic development by providing employment opportunities

Improving the quality of life of employees by providing direct employment opportunities

Creating new avenues for employment through specific skills development through training and development

Enabling opportunities to encourage more female entrants into the workforce

Ensuring a safe, conducive and a rewarding workplace for our employees and facilitating economic growth for local suppliers and service providers

Creating a conducive environment for more female participation in our workforce

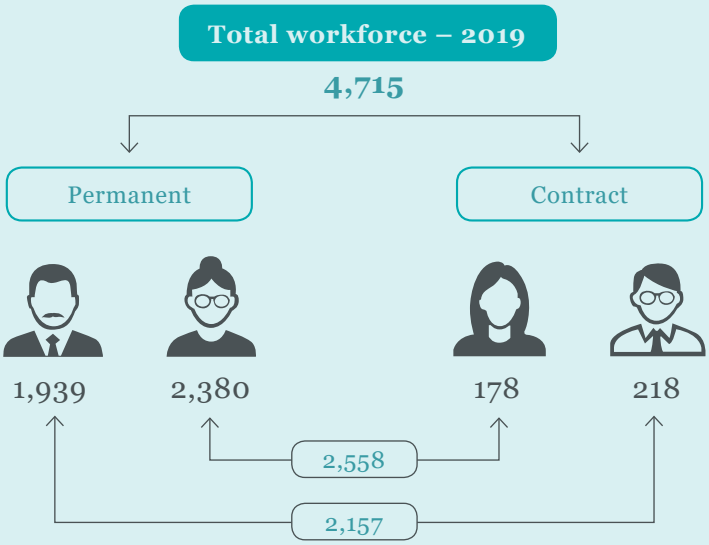
Outputs

- More professionally skilled employees
- Higher retention ratio
- Motivated and engaged employees
- Agile workforce
- Diversity and inclusion

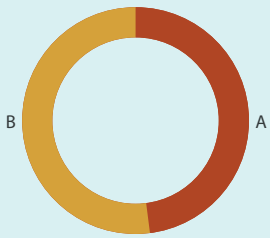
GRI 102-8, 401-1

Our team

Employees form the backbone and strength of our Bank and are essential to our long-term success and sustainability. Our diverse workforce comprises 4,715 employees as at 31 December 2019, consisting of 396 contract employees and 4319 permanent employees. During the year a total of 296 new employees were welcomed to the NSB family and the number of female employees increased by 76. Our retention rate stood at 98.1% and the high employee retention ratio across the Bank reflect the effectiveness of our HR policies and our employee value proposition. Over 28.4% of our employees have served the Bank for more than 10 years reflecting the trust and loyalty of our employees towards the Bank. The following is a detailed statistical representation of NSB's workforce in 2019:

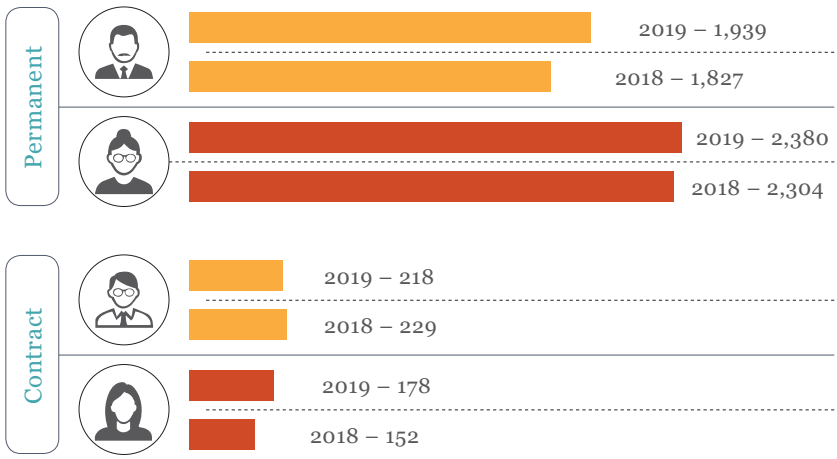


Composition of new recruits

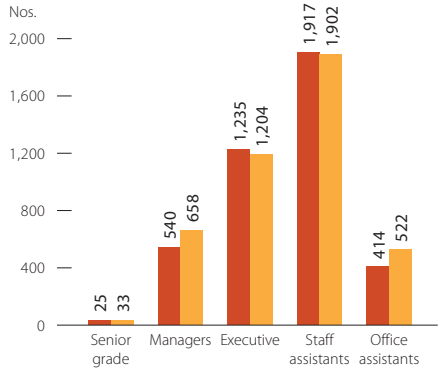


A – Female – 48%
B – Male – 52%

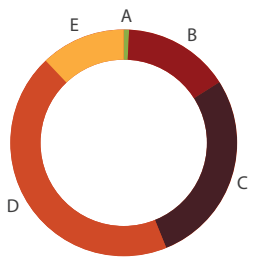
Employee breakdown by employment category and gender



Grade composition



Staff grade composition – 2019



A – Senior grade – 1%
B – Managers – 15%
C – Executive – 28%
D – Staff assistants – 44%
E – Office assistants – 12%

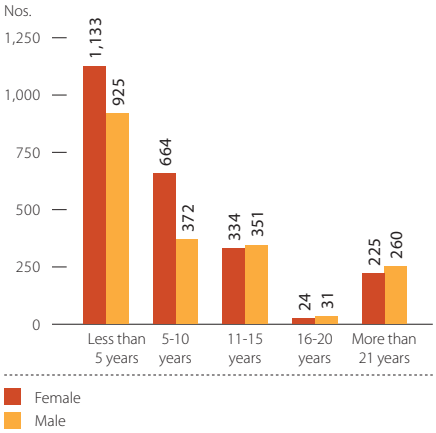
Type of employment



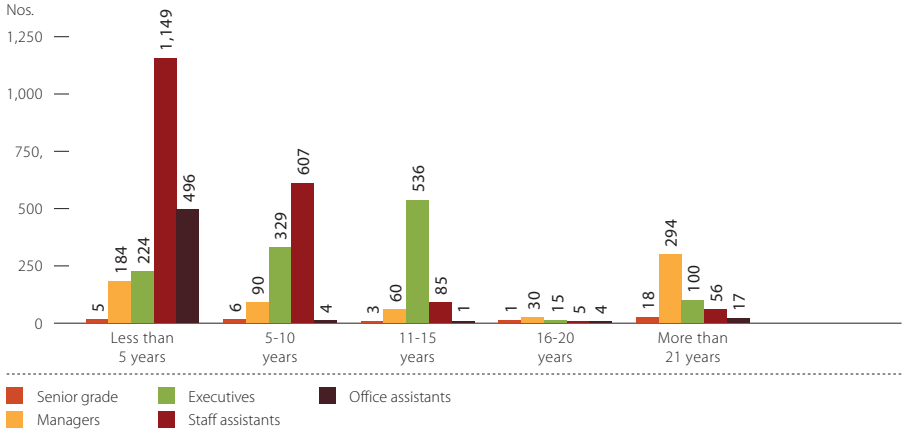
	2019 %	2018 %
A – Permanent	**91.60**	91.56
B – Contract	**8.40**	8.44

2019	Less than 25 years		25-35 years		36-45 years		46-55 years		Above 55 years		Grand total	
Grade category	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Senior grade	–	–	1	–	4	1	5	8	7	7	17	16
Managers	–	–	74	104	87	74	119	125	35	40	315	343
Executives	4	16	248	434	196	173	42	74	12	5	502	702
Staff assistants	21	90	455	1,114	71	96	40	8	6	1	593	1,309
Office assistants	59	2	282	4	114	4	43	–	14	–	512	10
Total	84	108	1,060	1,656	472	348	249	215	74	53	1,939	2,380

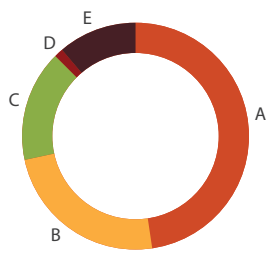
Service years by gender



Service years by grade category

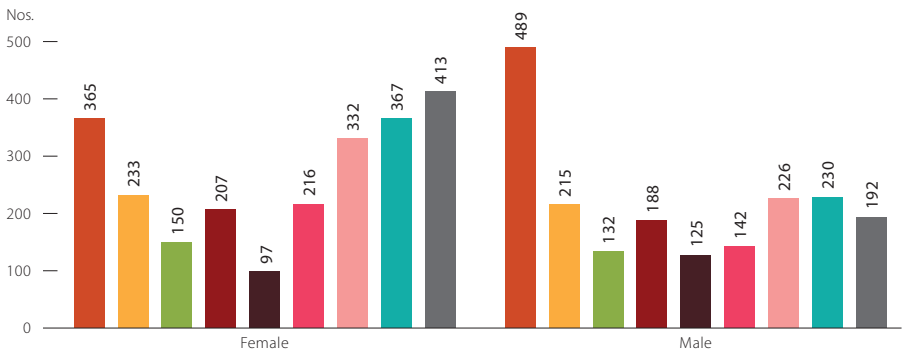


Service years of permanent employees

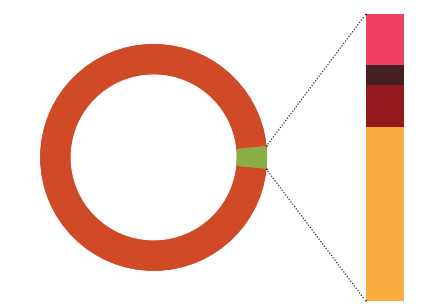


A – Less than 5 years – 48%
B – 5-10 years – 24%
C – 11-15 years – 16%
D – 16-20 years – 1%
E – More than 21 years– 11%

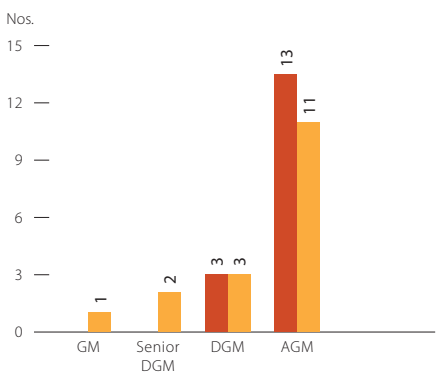
Geographical distribution by gender



Professionally qualified employees in permanent cadre – 2019



Senior management by gender – 2019



GRI 202-2, 401-1

Attracting the best suited talent

The success of our Bank is driven by dedicated employees who possess the required knowledge and competencies. Therefore, by adopting a stringent recruitment policy we strive to attract the right candidate for the right job. All recruitments are based on merit through fair and open competition without patronage, favouritism or discrimination. The recruitment process including competitive exams, and subsequent

interviews are held in a transparent manner. All recruits are required to complete a probation period of one year, and those who successfully complete this period is absorbed into the permanent cadre. During the year 2019, 296 employees were recruited to the Bank. Focusing on skill-based recruitment, we continued to hire individuals with specialised skills, especially in the areas such as IT Systems Architecture, IT Systems Security, Internal Audit and Finance. Being an equal opportunity employer, 48% of the recruits were female.

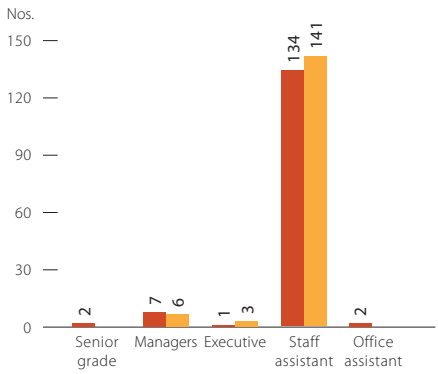
We remain committed to recruiting employees from local community and 100% of our Senior Management is hired locally. Ensuring we attract a diverse group of people that reflects our varied customer segments is essential for maintaining our relevance and effectiveness in serving the latter's banking needs. This helps to bring diversity of perspectives resulting in better decision-making, innovation, and, creativity. Employee diversity also helps to meet customer requirements effectively through deep understanding of their needs. In our efforts to offer employment opportunities for our younger generation to gain valuable experience by working at a leading bank in the country, we provided internship opportunities for 21 youth in the year under review. It is compulsory for all new recruits follow a comprehensive induction programme which is designed to familiarise them with the Bank's culture, values, ethics, operational processes, systems and practices.

Composition of new recruits



A – Female – 48%
B – Male – 52%

New recruits by grade and gender



GRI 404-2, 404-18

Nurturing and developing a winning team

At NSB, we value our people. As a premier state-bank in Sri Lanka, we can fulfil our mandate, and deliver an unparalleled customer experience if we have a highly talented and engaged workforce. Whilst, professional development and career progression provide strong impetus for employee engagement, it ensures we have a highly competent, qualified, and experienced team to achieve our organisation objectives. Therefore, we consider employee development as a long-term investment.

Training Needs Analysis (TNA)

By conducting a training needs analysis, we identified the training and development needs of our employees using several methods. These included the annual training needs survey, interviews with the respective team leaders, consultations with the General Manager/Chief Executive Officer and DGMs and reviews of customer complaints, performance appraisals, and questionnaires.

Our TNA process:



Developing a high performance team through training and development

Reflecting our commitment to supporting our employees to develop professionally and personally and advance their careers, we have made significant progress to consolidate our employee development programmes and to build high performing bench of employees across the Bank. We provide our employees with a range of professional development opportunities including on-the-job, in-house, and external training in both local and foreign locations, sponsorships, and educational incentives. Different categories of training are offered to our employees throughout their career lifecycle to develop their functional and technical expertise. The following programmes focus on enabling the new recruits to gain valuable experience and job-specific skills and enhance the competencies of employees who have been in the Bank for a longtime. These includes:

- Induction
- On board training
- Learning through feedback
- Technical skills development
- Soft skills development
- Leadership skills development

These training programmes are geared towards developing functional and technical expertise that is required as an employee of NSB from the day he/she joins the Bank. During the year under review, First- Time Manager Development training programme was organised for selected 30 branch managers. 260 change management champions were identified during the project of Core - Banking training and implementation: creating new leaning culture and sharing experiences. Further, nine training programmes were conducted through webinar sessions under "Knowledge sharing via e-learning" programme for greater employee awareness. This programme allows Head Office staff and the branches to connect, share information and solve problems in real time no matter where in the country they may be stationed.

The Bank established new training centre at Mount Lavina during the year to accommodate more training programmes. In 2019, we invested over Rs. 40.3 Mn. in 131 foreign and local training programmes, up from Rs. 38.6 Mn. the previous year. Together our employees logged in 32,138 training hours in 2019. During the year, 75 staff members participated at overseas training programmes. The average number of training hours per employee was 7 hours and the participation ratio was 90%.



Rs. 40.3 Mn.
Investment on training



131
Foreign and local training programmes



32,138
Hours of training



90%
Participation ratio



7
Average training hours per employee



75
Employees received foreign training

Managing our talent

All recruits are inducted to the wider NSB family inspiring them to contribute to the Bank and enrich the talent pool through their individuality and creativity. Although career progression at NSB is slower than that of a start-up or non-traditional type of business, we make every effort to support career growth and promotion within the ranks.

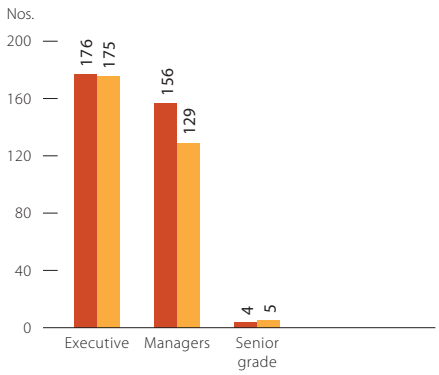
Promoting the best suited

For promotions and vacancies within the Bank we give priority to internal candidates. This enables us to accelerate career progression while retaining people who are experienced and competent. A comparative review is conducted for employees who apply for promotions, on work-related factors such as their qualifications, competence, and the quality of past work performance. As an equal opportunity employer, we do not take into consideration any extraneous, unrelated factors to ensure an equitable and fair selection process.

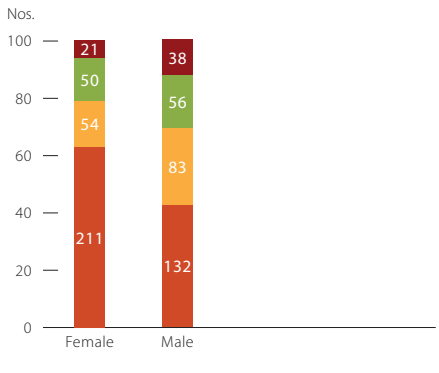
Promotions for each grade is based on the Bank's Promotion Calendar. As per NSB's annual manpower plan, applications are called through the Bank's intranet for vacancies that can be filled by internal promotions. Promotion schemes in the banking and non-banking spheres are separately stated in the banking circulars. Candidates are selected in terms of the relevant schemes of promotions approved by the Board of Directors.

During the year, we promoted 336 women and 309 men – a majority of whom were in the 25-35 age group for both banking and non-banking streams.

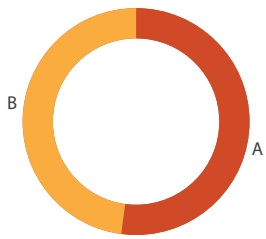
Promotion by grade and gender



Promotion by age and gender



Promotion by gender



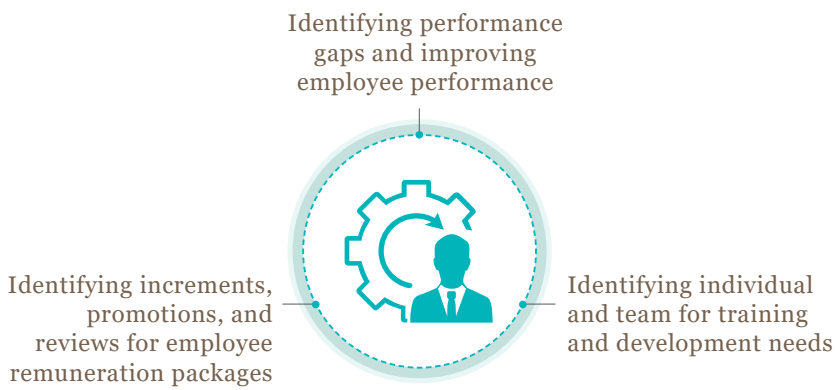
A – Female – 52%
B – Male – 48%

GRI 404-3

Performance management

We employ a performance management system to continually assess the performance of our employees focused on feedback and quality conversations.

Three elements of our performance management policy:



Performance evaluation enables us to track and monitor the performance of individual employees to ensure the alignment of the Bank's goals with individual employee's objectives. This not only improve the operational efficiency but also enhance learning and development and employee engagement. We adopt an equitable, transparent appraisal system, where all employees are evaluated formally on an annual basis and assessed against a set of predetermined criteria each year. The Corporate Management is appraised based on the Key Performance Indicators (KPI) using the Balanced Score Card system. We aim to develop a performance driven culture by implementing a comprehensive KPI based performance management and appraisal system across the Bank. This system is expected to eliminate any biases and facilitate objective evaluation.

Upholding the highest professional and ethical standards

GRI 406-1, 205-2

The NSB Code of Conduct sets out the principles of personal and professional conduct expected of our people with regard to ethics, conduct and compliance. The Code reflects our commitment to merit-based, equal employment opportunities and defines the standards we require to ensure a safe working environment free from discrimination and harassment. All new recruits are informed of their obligations and rights under the Code of Conduct upon joining the Bank.

The Bank's Disciplinary Code of Conduct provides guidance to employees in matters pertaining to discipline. The Disciplinary Code of Conduct was revised in 2017 based on the provisions of the Government Establishments Code Volume II and modified to suit the particular needs of the Bank, maintaining a "zero-tolerance" for all forms of corruption, bribery, and extortion practices. Any inconsistency in individual behaviour with stipulated standards, policies, procedures, and practices and any dispute in relation to operations is handled formally and transparently in line with the Disciplinary Code.

Supporting diversity and equal opportunity

GRI 405-2, 406-1, 401-3

As an equal opportunity employer, we encourage workplace diversity, and continuously foster, inculcate and support an enabling and inclusive environment which promotes a content and productive workforce. Our non-discrimination policy commits to maintaining a workplace that is free from physical and verbal harassment and discrimination based on race, religion, gender, age, nationality, social origin or disability among others. Our non-discrimination and equal opportunity policy applies to every aspect of employee's experience including recruitment, training and development, compensation, rewards and benefits and transfers and promotions.

The female representation in our team (permanent employees) amounted to 55% whilst 48% of new recruits were female in 2019. Women represented 49% and 52% of Senior Management and middle management respectively. Our female employees are offered 84 working days of parental (maternity) leave with full benefits and paternity leave of three days to male employees. A total of 317 female employees took maternity leave and 99.7% of them returned to work after completing their leave in 2019. Paternity leave was taken by 153 male employees.

All complaints on violation of the policy of equal employment opportunity are promptly investigated. There were no complaints on such violation reported during 2019.

Recognising employees

To recognise our people for their commitment and loyalty towards the Bank and their long years of service, a felicitation ceremony was Organised during the year. Employees who have completed 25 and 35 years of service were felicitated at this annual event. During the year, a total of 14 employees received rewards of whom 6 were honoured for their 35 years of service.

The annual Achievers Award Ceremony is held to felicitate academic achievements (GCE Ordinary Level, GCE Advanced Level, and Grade Five Scholarship Examinations) and non-academic achievements in sports and extracurricular activities of the children of the employees.

Ensuring health, safety and well-being of our employees

GRI 403-9

We encourage physical and mental well-being of our people through various initiatives. NSB Sports Club maintains a fully equipped gym in the Bank's Head Office. In order to maintain the mental well-being, yoga and meditation classes were also begun during the year. Further, employees are given the opportunity to attend medical sessions and get the advice from specialists/ consultants through the petitioners' session. Special medical petitioners' sessions were increased by 7.1% to 423, up from 395 recorded in 2018. We also offer flexible working arrangements for new mothers including contract employees by extending an hour to two nursing intervals of one hour each from morning and evening to whom has given birth to a live child until the child completes one year of age.

A range of initiatives have been implemented to ensure the best conditions for a positive working environment. These includes:

- In-house medical centre at NSB Head Office operated by a leading private hospital and managed by the Bank's Welfare Division
- Bimonthly visits by specialised doctors at the medical centre
- Medical clinics conducted by leading private hospitals
- Regular seminars conducted by professionals on areas such as stress management, eye care, and prevention of cardiovascular diseases

We places significant emphasis on ensuring a safe working environment for all our employees, taking steps to ensure that health and safety concerns are prioritised and addressed across the Bank. The Bank's Security Division is present at every NSB branch to ensure a safe and secure workplace. Particularly aftermath of Easter Sunday attack, the security policies and procedures were strengthened across the Bank. During the year, the capacity development was built through awareness programmes, and demonstrations focusing on fire fighting. During the year under review, three minor incidents were reported at our premises.

In the near future our health and safety policy will focus on:

- Enhancing our occupational safety and health system adhering to the provisions of the National Occupational Safety and Health Policy and the Shop and Office Employees Act No. 19 of 1954
- Appoint two individuals from each Branch/Division to ensure health and safe work environment in the respective Branch/Division
- Secure the health, safety, and welfare of employees at work by developing new physical security policy
- Identify potential risks to employees at workplace through redefined risk assessment
- Promote an office environment for employees that are adapted to their health and safety needs
- Establishing firefighting unit and conducting fire evacuation drills

Promoting a healthy work-life balance

GRI 401-2

We offer a range of benefits to help our employees to manage professional and personal commitments to achieve a healthy work-life balance. By using smart management methodologies we help our employees to achieve a work-life balance allowing them to focus on important aspects of their lives. We provide our employees, opportunities to achieve a healthy work-life balance by sponsoring tours and establishing circuit bungalows to provide affordable accommodation at popular holiday destinations.

We maintained 15 circuit bungalows in different locations across the nation as at the end of the financial year 2019. The locations included, Anuradhapura, Kandy, Ambalantota, Nuwara Eliya (two bungalows), Mahiyanganaya, Galle, Bandarawela, Badulla, Dambulla, Chawakachcheri, Beliatta, Marawila, Katharagama and Diyathalawa. During the year, monetary assistance is extended to employees for day outings organised by branches and divisions.

Multireligious ceremonies such as *Vesak Bakthi Gee*, *Avurudu Uthsawaya*, and Christmas Carols are organised by the Welfare Division to spread spiritual and religious harmony among the employees. "*Avurudu Uthsawaya*" is held every year with the participation of our employees and their families. Annual get together of staff " NSB Colours Nite" organised by the Sports Club was also held during the year. A programme "NSB Talent Show" was conducted to recognise the aesthetic talents of our employees and help them to strive. NSB Art Circle provides recreational facilities to the staff by organising dramas/films/ musical events etc.

Our employees also work together in numerous CSR projects which are conducted throughout the year. Details of CSR projects could be seen on pages 159 to 161 under "Building thriving communities" The annual sports meet is held, following the regional sports meets. We have provided opportunities for our employees to participate in a range of sports such as cricket, football, volleyball, and etc. Moreover, we provides library facilities to our employees and the employees are provided with food at a subsidised rate from our Head Office canteen.

The Bank took an initiative to recruit children of the staff members as trainees.

Creating a rewarding culture

GRI 202-1, 401-2, 405-2

Remunerations

We offer fair, competitive, and attractive compensation packages to employees based on their roles and performance. In 2018, the Collective Agreement for salary revision for the period of 2018 – 2020 was successfully signed between the Management and the Trade Unions. Salaries and other financial benefits from the Chief Manager's grade and below are structured according to the agreed terms and conditions set out in the Collective Agreement with the Trade Unions.

All salary scales are published on the Bank's intranet to ensure transparency. Agreements for both salary and non-salary benefits are revised once in every three years subsequent to the discussions between the Management and the Unions of the Bank. We ensure that all personnel who have similar

responsibilities are within the same salary range irrespective of gender, though individual salaries will vary based on an employee's length of service and past performance.

Benefits

Financial benefits

Benefits represent an important aspect of an employee's compensation package. They comprise financial payments received by an employee for continuous employment in the Bank. All regular full-time employees are eligible to enjoy the following financial benefits following confirmation of their service.

Fixed and variable cash benefits

i. Competitive salalary
ii. Bonuses paid in April and December of each year based on Board's decision to reward achievement of set targets.
iii. Encashment of privilege and medical leave up to a maximum of seven days for each type of leave at the end of each year.
iv. An annual increment for those who perform satisfactorily over the preceding 12-month period
v. Fuel/travelling, accommodation assistance, subsistence and duty travel provisions
vi. Job-specific allowance and overtime
vii. A non-contributory pension scheme and a contributory widows and orphans scheme

Reimbursements

i. Membership fees for professional institutions
ii. Honoraria payment for employees completing at the intermediate level in Applied Banking and Finance and Diploma level in Applied Banking and Finance of Institute of Bankers of Sri Lanka (IBSL)
iii. Sponsorship of selected, relevant study courses completed by employees

Subsidised loan benefits

i. Housing, vehicle loans, and other subsidised loans such as consumption and distress loans and festival advances.

Medical assistance schemes

i. Employee medical assistance scheme which offers coverage for specialist/OPD medical charges, hospitalisation, critical illnesses, eye and dental care for all permanent employees including probationers
ii. Compensation scheme for permanent employees, in case of death, permanent disabilities, or partial disabilities up to a maximum of Rs. 1 Mn.

Retirement benefits

GRI 201-3

All permanent employees are entitled to participate in a non-contributory pension scheme and the applicable terms and conditions depends on the pension scheme in place at the date of appointment.

The types of retirement benefit plan obligations include:

- Pension Fund (Scheme I and Scheme II)
- Contributory Widows/Widowers and Orphans Fund (only for Scheme II)
- Contributory retirement medical scheme

The Bank's Pension Fund is fully insured. The cost of provision of benefits under the defined benefit pension plan is ascertained based on the projected unit credit actuarial valuation method. The Bank's Pension Fund (Scheme I) applies to employees recruited before 1 October 1995 to which a contribution of Rs. 400 Mn. was made by the Bank in 2019. The unfunded liability stood at Rs. 4,862 Mn.

The Bank's contribution to the Pension Fund (Scheme II) which is applicable to employees recruited on or after 1 October 1995 was Rs. 263.5 Mn. in 2019. 12% of the employee's gross salary is contributed by the Bank to this fund.

The Retirement Medical Scheme and Widows, Widowers and Orphans Fund are both contributory schemes. Bank contributed Rs. 187.4 Mn. to this Scheme and unfunded liability stood at Rs. 1,739.9 Mn. as at the year end. The monthly contribution to the Retirement Medical Scheme is determined by age of the employee.

The employee/member's contribution of Widows, Widowers and Orphans Fund is determined by the basic salary of employees and the members are required to contribute 5% of their basic monthly salary every month.

New additions to employee benefits in 2019

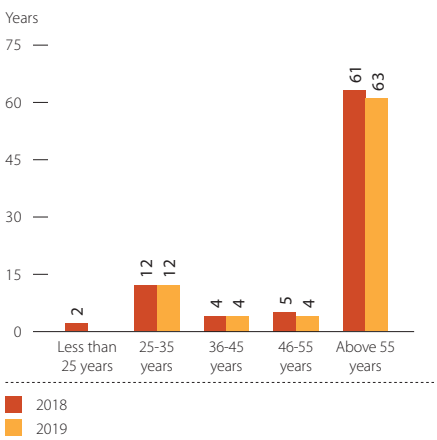
- The loan amount for staff housing loan has increased to Rs. 7.5 Mn.
- Quantum of consumption loans to confirmed employees increased from Rs. 1 Mn. to Rs. 1.5 Mn.
- Reimbursement of subscription payments made by the staff members to professional institutions/associations has increased
- Contributory medical assistance scheme for retired employees was revised and granted benefits on a par with the staff medical assistance scheme
- Other staff welfare facilities including a meal allowance per day, monthly allowance to branch managers, compensation paid on the demise of an employee whilst in service and transport allowance for annual staff trip also increased
- With the view of encouraging performance based culture, special performance allowance for branches for achieving savings mobilisation target set in 2018 was provided.

GRI 401-1

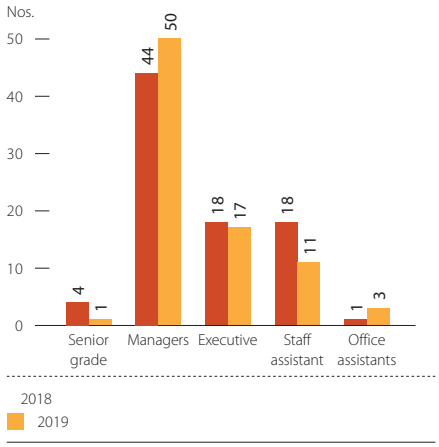
Retaining employees

We continuously monitor our employee retention, and in particular, seeks to keep staff attrition at minimum levels by implementing proactive initiatives that engage employees. The retention rate for permanent employees for 2019 was 98.1% compared to 97.9% in 2018. Employee turnover rate for the year was 1.9% reflecting a decrease from 2.1% recorded in the previous year. We have one of the highest retention rates and lowest employee turnover rates in the industry. This is a strong reflection of the sustainable working culture and the highly engaged and motivating workplace we have nurtured for our employees. We continuously strive to facilitate the recruitment, motivation and retention of our high performance staff at all levels in support of realising our corporate objectives. Total staff turnover for 2019 was 82 employees of whom 56% were male and 79% were in the over 55 age category mainly due to retirement. Highest turnover of 61% was in the managerial level in 2019.

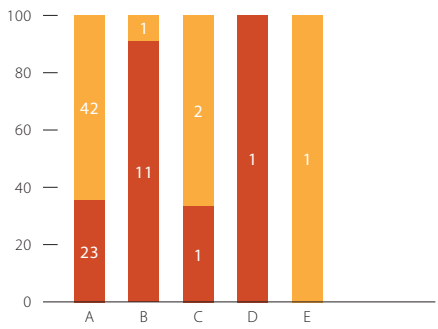
Turnover by age category



Turnover by grade category



Reason for turnover by gender – 2019



A – Retired
B – Resigned
C – Dismissed
D – Deceased
E – Post vacated

Communicating effectively

We keep communication channels between the Head Office and the branch network open and effective so that all our employees can remain well-connected with each other irrespective of their geographic location. Understanding the importance of communication between Management and employees for a healthy and sustainable working relationship, the Management actively encourage employees to bring suggestions, problems, and solutions to them in a proactive manner. This facilitates a friendly work atmosphere that is conducive to employee engagement and increase productivity. Formal channels have also been provided for employees to collaborate, communicate, and flag any issues that could hinder the productivity of the Bank.

Employee communication channels

To facilitate smooth employee communication, we instituted several channels. Whilst keeping employees informed about the Bank's strategic direction, policies and procedures, these communication channels enable employees to provide feedback to the Management. We always strive to communicate in all three languages – English, Sinhala and Tamil whenever possible.

Employee communication channels

- Webinars – Facilitates live communication and open discussions between branches across the nation
- Employee surveys
- Intranet
- Circulars
- Staff notice board
- Emails from Management
- Formal letters from HR Department

GRI 102-41

Freedom of association and collective bargaining

Upholding the freedom of association of our employees and recognising the right to collective bargaining, we keep the communication lines open with trade unions. Communication with union delegates create a further opportunity to provide information, allowing their members and other representative associations to acquire a full understanding of the business activities and the goals of our Bank. Our relationship with trade unions operating within the Bank, including the Jathika Sevaka

Sangamaya, Ceylon Bank Employees' Union, Sri Lanka Independent Bank Employees' Union, Executive Officers' Association, and All Ceylon Bank Employees' Union, continues to be very healthy.

The freedom of association of its employees and the effective recognition of the right to collective bargaining continue to be upheld by the Bank.The collective agreement for salary and non-salary benefits is signed between the Management of the Bank and the Trade Unions once in three years. The agreed terms and conditions set out in the collective agreement with the trade unions affect the salaries and other financial benefits of the Bank's employees.

Employee grievance mechanisms

A "Step Ladder System" is adopted to resolve grievances according to a hierarchy, beginning with the person's immediate superior. The "Open Door Policy" allows the grievance to be directly forwarded to an independent party nominated by the HR Committee. We encourage employees to resolve issues using the former as much as possible. During the year, the total number of grievances filed through formal grievance mechanisms numbered 30, of which all were addressed during the year and 19 resolved. All grievances are handled impartially.

Whistle-blower policy

NSB's whistle-blower policy was established to ensure no employee is penalised in any way – through discrimination or dismissal for reporting instances of corruption or fraud. The policy covers prevention, early detection, reporting, monitoring, recovery, and follow-up actions. Employees can safely blow the whistle on misconduct relating to a range of areas including accounting, auditing, coercion, collusion, corruption, internal controls, irregularity, financial reporting, frauds, and misappropriation through this policy.

Future priorities

Short term	Medium term	Long term
Continue to provide a variety of health and wellness services to our employees to enrich their lives. Provide training for front line employees on product knowledge, customer service techniques and soft skills with evaluation to provide a delightful customer experience Develop a dynamic front office team to enhance customer experience Improve the recruitment process	Digitisation and automation of human capital processes Adopt a target-based performance evaluation system (KPI based) to shift to performance driven culture Introducing e-learning portal	Becoming a top employer of choice Creating an environment in which our people are engaged and enabled to take care of their well-being



Social and Relationship Capital

Social and relationship capital encompasses our relationships with communities, groups of stakeholders, and other networks which determines the viability of our social and legal license to operate.

What it includes

Since our inception, building close relationships based on trust, integrity, value sharing, contributing to the community, and protecting the environment remains core to our ethos. Social and relationship capital encompasses our relationships with communities, groups of stakeholders, and other networks.

Inputs

- Strong and lasting relationship with customers
- Constructive engagement with employees
- A positive relationship with Government and Regulators
- Proactive interactions with communities, citizens and media
- Collaborative and transactional relationships with business partners and suppliers

How it adds value

The viability of our social and legal license to operate depends on our ability to sustain strong relationship with our stakeholders whom we create value individually as well as collectively. These relationships shape crucial perceptions of our Bank. Our relationship with all our stakeholders is essential to build trust and to make informed decisions that create value for all.

Our approach

- Creating solid long-term customer relationships by providing value propositions and exceeding customer expectations.
- Providing support for communities within and around our operations through community engagement programmes
- Supporting manufacturing and services through our supply chain
- Enhancing skills and creating new market opportunities for people
- Compliance with legal and regulatory requirements while maximising value
- We strive to make a meaningful contribution to empower and deliver increased value to the society and community we operate in through consistent and transparent stakeholder engagement detailed in page 70. under “stakeholder engagement”.
- Overall responsibility for stakeholder engagement resets with Board and authority is delegated to General Manager/CEO.

The relationship with our employees are outlined in human capital on page 130 while relationship with environment is discussed in natural capital on page 162. Hence, this section discusses the relationship with our customers, regulators, business partners, and community.

Key challenges and opportunities for 2019

Key challenges

- Continuous evolvement in the stakeholders’ expectations
- Addressing and managing conflict of interest among the stakeholders
- Resource allocation to fulfil the multiple stakeholder requirements
- Failure to maintain the cordial relationship causes reputational damages

Opportunities

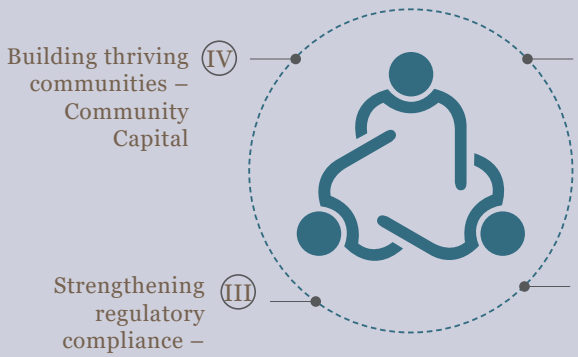
- Ability to integrate the needs of our stakeholders in to our business and deliver our commitments
- Ensure greater engagement and responsiveness to the concerns of our multiple stakeholders
- Ability to create positive impact on the community in the long-term



Strategies to enhance the value of Social and Relationship Capital

- Build long-term relationships with stakeholders to sustain our business
- Create shared value for sustainable socio-economic development
- Ensure sustainability of products and services through strong social governance and fair play

Drivers of value creation



Material matters



Related stakeholders



Highlights

20.9 Mn.
Number of accounts

Rs. 8,095.3 Mn.
Value of POS transactions

351
Registered suppliers

963
Entrepreneurs supported

Rs. 29.8 Mn.
Total investment in CSR projects

348,904
Number of enquiries received over the phone

2,142,769
Number of cards in use

Rs. 63.6 Mn.
Loans granted to POS customers

Rs. 75,966.5 Mn.
Interest paid to customers

Scorecard

	Increase/ decrease	2019	2018
Total number of accounts (Mn.)	0.5	**20.9**	20.4
Total investment in CSR projects (Rs. Mn.)	13	**30**	17
Number of suppliers	198	**351**	153
Funding for infrastructure (Rs. Mn.)	2,458	**7,520**	5,062
Number of cards issued	19,367	**251,471**	232,104

Linkage to capitals

Social and relationship capital is impacted by and impacts each capital of the Bank.



CSR initiatives improves work-life balance of employees and strengthens employee engagement

Investment in CSR projects depletes financial capital

Investment in CSR projects enhances the brand image of the Bank

Investment in digital platforms enhances manufactured capital

Regulatory compliance builds natural capital

Trade-offs

- **Providing customer experience and exceeding customer expectation**



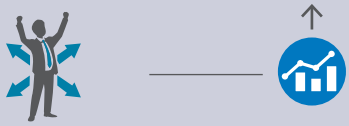
Spend on investment



Deploying right talent to serve the customers



Developing skills and competencies



New business opportunities and new revenue streams

- **Engaging Community Development Projects**



Spend on investment



Increase positive brand image and loyalty



Responsible corporate citizenship + goodwill created through sound community relationships

- **Complying with regulatory requirements**



Spend on systems and process to put in place



Developing necessary skills to apply



Sound reputation management and best practices of governance

Contribution to SDGs

Extend our support to build a healthy nation through the 'I'm Fit' programme

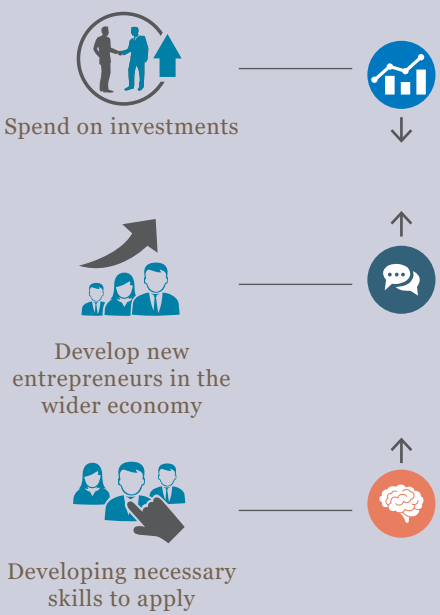
We encourage responsible consumption and production through our robust procurement process

Contribute towards building sustainable communities by supporting infrastructure development in the Nation

Contribute towards reducing poverty and inequalities by driving financial inclusion

Promote literacy and education through the '*Hapan*' scholarship programme, "English is Simple" project and providing concessionary financial assistance to pursue higher education at NSBM

- **Building up business partnerships**



↑ Increase ↓ Decrease

Outputs

- Retain social license to operate
- Customer-centric and reliable service delivery
- Fair and equitable tender process
- Collective agreements with organised labour unions
- Fair, transparent and ethical management

Building a loyal customer base – Customer capital

Why customer capital is important to us

Over 20 million accounts we possess attest to the fact that we have the most diversified customer base in our Nation. In order to meet the needs of our customers effectively, and to improve their financial well-being, we have identified service quality and customer experience as our primary material issue and to be customer driven as our primary strategic objective. Keeping customer at the heart of everything we do, we remain relevant by offering appropriate and innovative cost effective products and solutions to retain our existing customers and acquire new ones.

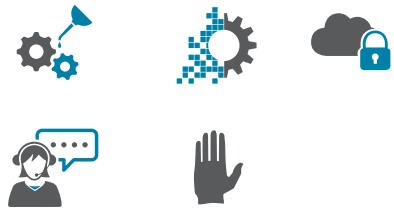
Our approach

Adopting an integrated approach, we provide a superior customer experience in all our interactions through multiple channels such as our extensive branch network, mobile and internet banking, and other platforms. To improve our customers' experience, we adopted the latest methods to measure customer satisfaction, speedily and effectively respond to customer queries and complaints, provide an extensive product portfolio catering to customers from every segment of society, and continue the multi-generational relationships we have built as a bank for all Sri Lankans.

Strategies to enhance the value of customer capital

- Transform the distribution network to offer greater value to customers
- Strengthen the digital customer service model
- Segmentation and focus on customer journeys

Material matters



Short to medium-term strategic priorities



Value creating drivers for building a loyal customer base

- Providing a superior customer experience
- Serving a diverse customer base
- Safeguarding customer data and privacy
- Improving customer satisfaction
- Resolving customer complaints
- Acting with responsibility towards customers
- Creating awareness among customers

Providing superior customer experience

We have the most diversified customer base in the nation, numbering over 20 million accounts. We make every effort to develop a close understanding of each category in order to improve the value we create for them. We strive to meet their diverse needs and deliver an exemplary customer experience by delivering relevant products through channels of their choice. Our extensive, customer-oriented product portfolio is aimed at all segments of the Sri Lankan society. Our high-quality service delivered across a wide branch network, postal network, mobile and internet banking, and other digital platforms provide our customers with simpler, seamless, direct engagement with the Bank.

Delivering a delightful customer experience through digitalisation

Customer experience is essential for sustained growth of our business. We strive to create memorable moments across every stage of customer journey through our channels, people and products. To take the hassle out of banking and deliver a delightful customer experience, we continued to improve customer convenience, enhance accessibility, improve efficiency, financial well-being and literacy and introduce new products to our customers.

In the digital era of banking, we recognised the importance of integrating all banking operations and we continue to maintain and improve our systems and processes. Accordingly, the Bank has commenced the implementation of internationally renowned Integrated T24 Core Banking Solution in the year under review along with the Treasury Management System and Human Resource Management System. Attesting to the Bank's initiatives to enhance the digital experience to the customers, the Corporate Website of National Savings Bank, www.nsb.lk received the Most Popular Corporate Website Award (Bronze) at the Bestweb.lk 2019 competition organised by LK Domain Registry.

To improve customer experience, we continued to make judicious and consistent investments in our digital capabilities – to enhance our products and services, drive innovation, enhance agility and increase the ability of our clients to self-serve their needs. To cater to the fast changing lifestyles of our customers, and enhance customer convenience to drive higher levels of engagement, we continued to establish NSB Connect zones equipped with ATMs, CRMs and IDMS facilitating 24/7 banking at their own convenience. Furthermore, we continued to automate our branch network and expand customer touch points focused on customer service. For further details, refer Manufactured Capital on page 112 and Intellectual Capital on page 120.

Digital engagement

During the year, we deepened our online engagement with our customers through social media.

www.nsb.lk

Average monthly visitors 51,000.
Received two awards during 2019.

613,000

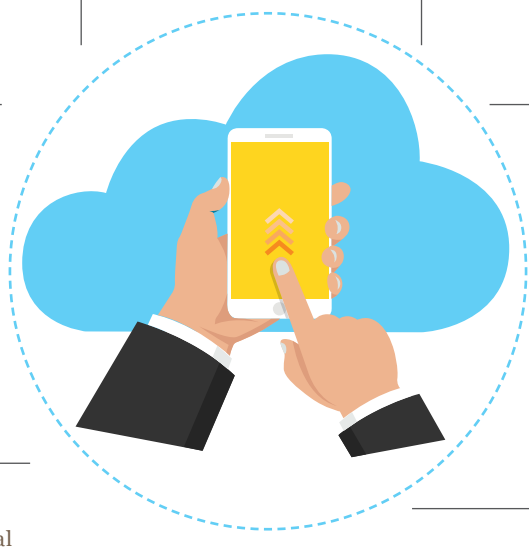
120.6% ▲

twitter.com/NSBSLOfficial

116 followers -
Purely organic growth

116

▲ **84%**



www.facebook.com/NSBSLOfficial

Fan Base 109,640.

109,640

27% ▲

www.youtube.com/c/NationalSavingsBankNSBSLOfficial

920 subscribers -
Purely organic growth

920

▲ **65%**

www.linkedin.com/company/nsbslofficial

512 followers -
Purely organic growth

512

33% ▲

www.instagram.com/NSBSLOfficial

908 followers –
Started on 1 March 2019

908

Augmenting our product offer

We offer personalised products and services to fulfil the requirements of diverse customer segments. In sync with the evolving customer needs, the following products and value added features were introduced to satisfying the varying needs of customers.

- ***Launch of e-connect***

Our internet banking platform was relauched under the tagline "NSB e-connect-connect anytime."

These services absolutely free of charge, enjoy the convenience of obtaining an array of banking services. The services includes balance inquiry, utility bill payment and fund transfers.

- ***Launch of NSB Instagram channel***

With the increasing number of social media users, we launched the NSB Instagram channel to create a high level of engagement with customers, especially the Millennials. This has enabled us to gain a high brand visibility, enhance our visual marketing and connect with a larger customer base more effectively.

- ***Prarthana + savings certificate***

This is an extended version of *Prarthana* Savings certificate, introduced targeting the World Thrift Day 2019. *Prarthana+* allows customers to select a maturity value ranging from Rs. 25,000/- to Rs. 10,000,000/- for a period ranging from one year to 20 years. The initial deposit varies depending on the maturity period and the maturity value. This product provides high returns for the customer whilst increasing the long-term deposit base of the Bank.

- Pre departure loan scheme for migrant workers to Korea
- Introduction of a 12 month – monthly interest payable Fixed Deposit Scheme in foreign currency (USD, GBP and AUD)
- Special housing loan scheme for Migrant workers "*Sihina Maliga*"

Simplifying banking

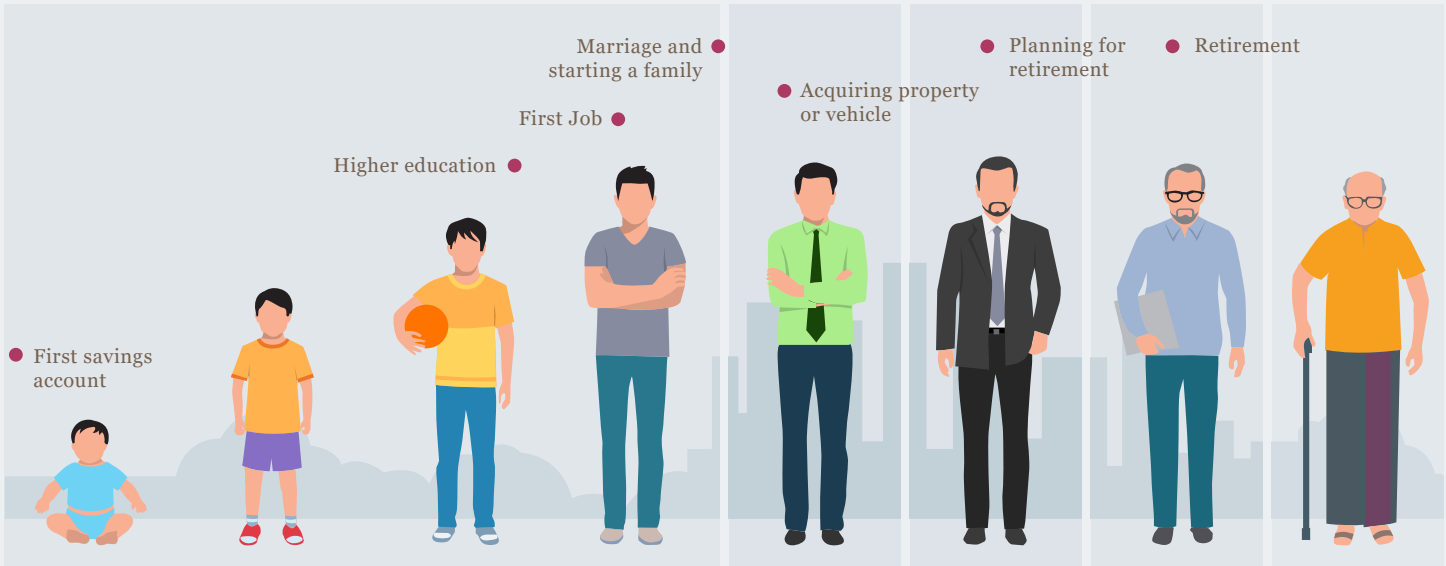
We continue to focus on becoming efficient with the flexibility to respond to fast-changing customer needs and to provide a flawless and faster customer service. During the year, we re-engineered and simplified processes in relation to savings accounts, credit and payments to customers and suppliers by removing non-value adding activities (See pages 126 to 127) and delegating authority levels which reduce waiting times and freeing up top level management to concentrate on what matters most. Furthermore, several projects have been commenced during the year to increase automation of end to end customer journeys through system enhancement and integration. (See pages 118 to 119).

Serving customers with special needs

Treating all the people who come to our Bank with individual respect and courtesy is at the heart of excellent customer service. Taking an active role in championing more inclusive society, we understand the special needs of customers and providing a smooth banking experience for them in our branches. We strive to establish our branches with facility of access for differently abled persons, which is mandatory for all new branches and relocations of existing branches. So far, 224 of our branches have access for differently abled people.

Serving a diverse customer base

As a leading financial institution in Sri Lanka, we serve customers from all segments of the society. Staying true to the "National" aspect of our brand name NSB, we serve all citizens of our nation including the unbanked and the underbanked. Through our wide range of innovative and affordable solutions, we meet the financial needs of customers at every life stage.


First savings account
First Job
Higher education
Marriage and starting a family
Acquiring property or vehicle
Planning for retirement
Retirement


0
10
20
30
40
50
60
70+
Hapan
Prathana
I'm
Neo
Buddhi
Pension +
Auto loan
Diriya
Eco loan
Personal Loan (Individual)
Reach
Home Loans (Gedora, Alankara, and Vikasitha)
Charika
Ran Sahana
Sthree
Happy
Pas Avurudu
Gaurawa
Senior citizen

GRI 418-1

Safeguarding customer data and privacy

Protecting customer data and privacy is crucial to maintaining customers' trust. With the increase in digital banking, the risk of cyber crime has increased. That's why we have identified cybersecurity as a material issue at NSB. In our efforts to safeguard customer privacy, and protect our systems, we have invested in the latest technology. The security of our systems are further strengthened by the NSB Act, Customer Charter and our Information System Security Policy. Regular tests are conducted to assess and to ensure the security of our systems. The Bank's Information Security Officer (ISO) independently monitors and informs the Board on implementation and any exceptions if any with regard to cybersecurity risk management.

There were no complaints pertaining to the breach of customer privacy or loss of customer data, nor any fine or other sanction imposed on the Bank in 2019. To know more about the measurements taken by the Bank to secure the customer data and privacy, refer Intellectual Capital on page 127.

Improving customer satisfaction

We nurture customer relations by delivering an exceptional customer experience. We strive to ensure all our customers get the best experience out of our interactions. In our efforts to continually improve customer service, we remain dedicated to offering integrated, holistic solutions for all their financial needs.

In our efforts to improve customer service, we continue to invest in enhancing customer experience by accurately assessing customer satisfaction levels to deliver customer value propositions is in line with their expectations. The results of these surveys provide a vital input to formulating the overall strategy formulation. Through our designated customer service officers, we continue to offer a customised services at branch-level. We continued to drive customer loyalty by implementing loyalty programmes and reward schemes for Debit card holders. Several platforms have been established for customers to forward their queries, complaints, grievances, and other remarks.

Resolving customer concerns

The journey of experience begins with the customer's initial contact and extends to fulfilling their banking issues. We have implemented a robust system to address all customer complaints in an efficient manner. Numerous platforms including the Call centre, online channels and branches have been established to forward customer grievances.

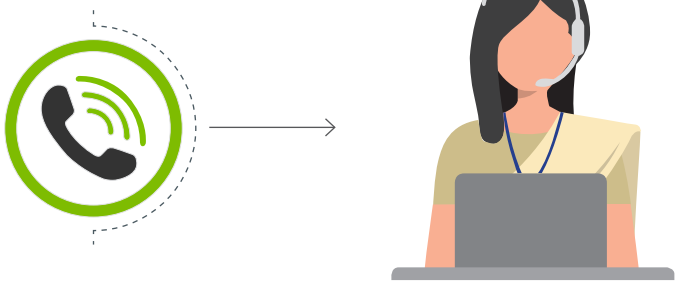
Customers can forward their queries, complaints, grievances, and other remarks to the NSB Call Centre which is operational 24/7, trained staff at our branches island-wide, suggestion boxes at branch premises, through social media, the website www.nsb.lk, and other digital methods such as email, skype, and web chat.

The primary mode of communication between the Bank and our customers, is our Call Centre which is dedicated to handling customer queries and grievances. All calls are handled by highly trained and skilled customer service representatives. A query is initially handled by the agent who directs it to the relevant department. A reference number is generated for each query, which is given to the customer to follow up on their query. A report on customer complaints and the actions taken to resolve them is compiled every month and is presented to the Management.

We continued to equip our employees through the "Across the Bank" training programme, with the necessary skills to attend to customer complaints, to resolve issues and to turn difficult situations around. A significant increase was evident in handling and resolving customer complaints with the ratio of resolved cases increasing to 84.7% in 2019.

Average time taken to answer a call

<30Sec



Number of customer complaints received

203
(2018 – 220)



Number of inquiries over email

4,759
(2018 – 2,539)

Number of inquiries received over the phone

348,904
(2018 – 248,977)

Number of customer complaints resolved

172
(2018 – 160)

Number of complaints to Central Bank of Sri Lanka – **Zero**

Number of complaints to Financial Ombudsman – **Zero**

Number of complaints related to cards – Point of Sale

2,706
(2018 – 1,588)

Number of complaints related to cards – Card queries

957
(2018 – 836)



GRI 417-2, 3

Acting with responsibility towards customers

Responsibility is deeply engrained in all aspects of our activities and relationship with customers from developing products and services to marketing and sales. We ensure responsibility through the following activities:

- Offering products and services that are suitable and safe for our customers
- Communicating clear, relevant and timely information to make informed decisions
- Dealing with feedback in an effective and prompt manner
- Building competency of our workforce to understand customers and provide quality service
- Displaying all relevant data on our loan and deposit products, such as interest rates, exchange rates, lending rates via displays at branches, electronic media and the corporate website.
- All terms and conditions applicable to products and services and the complaints handling procedures are properly communicated to customers according to the Customer Charter prepared in compliance with CBSL guidelines. The Bank's complaint redress process through the Financial Ombudsman is displayed at all branches in accordance with CBSL guidelines.

In compliance to the Right to Information Act, a public information officer has been appointed and we have set out the procedure to ensure the right to access the information for the public.

In compliance with the regulations all our advertisements carry the following information:

- Contact details of our call centre and corporate web address
- Credit rating of the Bank – ICRA Lanka Ltd
- Distinct feature for NSB - 100% Government guarantee, Bank logo and the slogan

There were no instances of non-compliance to any product and service labelling or marketing communication related regulations or other guidelines during the period under review.

Creating awareness among customers

Every year, we conduct marketing campaigns across our touch points island-wide for our customers to improve customer reach and satisfaction. Our marketing arm was strengthened during the year by the activation of 76 marketing officers and marketing assistants. They were deployed as field marketing officers to conduct promotional campaigns island-wide to increase customer awareness. The *Sthree* and *Hapan* deposit campaigns, in particular were successful campaigns that created much customer awareness.

A special gift scheme was organised for *Hapan* children's savings product targeting the new school entrants in the months of December and January. This resulted in an increase in the number of customers holding *Hapan* accounts, which is a noteworthy achievement.

The *Sthree* promotional campaign conducted during the month of March in commemoration of the International Womens' day made the highest impact on the *Sthree* savings product, with many new *Sthree* account holder coming onboard enabling to record the highest mobilisation to date.

GRI 102-9

Business Partner Capital - Building strong relationships with business partners

Why business partner capital is important to us

As a trusted financial services provider in Sri Lanka, we have built strong, productive and long-term relationships with our business partners including correspondent banks, exchange houses, suppliers, outsource service providers, and other business partners. These relationships form an integral aspect of our value creation process in delivering a smooth and seamless service to our customers and helps to run a business in a smooth way without any interruptions.

Our approach

We see our business partners as an extension of our business and key in helping us become the Bank of Choice. As a State bank we set the bar through systematic, transparent, ethical corporate policies in our engagement with our local and international business partners. We strive to build up these long term sustainable business relationships deriving mutual value in terms of operational synergies, market access and new business opportunities.

Strategies to enhance the value of business partner capital

- Regular engagement
- Ensuring transparent and sustainable procurement practices

Material matters




Short to medium-term strategic priorities




Value creating drivers for building strong relationship with business partners

- Responsible procurement
- Delivering value to outsource service providers
- Responsible communication
- Strengthening our strategic alliances
- Industry memberships

Our business partner profile



Financial Service Providers

- Banks and other financial institutions
- Correspondent banks
- Exchange houses
- EuroGiro companies



Outsource Service Providers

- Security
- Food and drinking water
- Sanitary and cleaning services
- Transport and other
- Construction and maintenance services



IT Related Services

- IT Hardware suppliers
- IT Software developers and suppliers
- Network service security



Professional Services

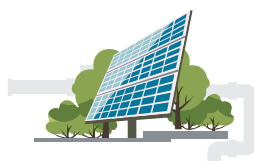
- Auditors
- Consultancy service providers



Fixed Assets and Materials

- Vehicles
- Furniture
- Land and Property
- Office Equipment
- Stationery
- Other materials





Utility Providers

- Electricity/Water/Energy

GRI 204-1

Responsible procurement

Our suppliers are considered strategic partners and in return, we expect adherence to highest standards of quality, service and ethics. Total procurement spend amounted to Rs. 2.2 Bn. in 2019 and 100% of our goods and services are procured from local suppliers by working closely with the local communities. We ensure that all our suppliers are adhered to National Procurement Guidelines set by the GOSL.

We have in place a transparent supplier selection process. Our procurement process revolves around non-discrimination and equality treatment, confidentiality, fairness, openness and accountability. To generate value in a balanced manner we have a diversified supply chain. The key features of our robust procurement process:

- Maximise economic value and efficiency in procurement
- Adhere to prescribed standards, specifications, rules, and regulations
- Maximise income in the disposal of acquired assets or in granting of rights, concessions, or exclusive benefits
- Provide fair and equal opportunity for interested parties to participate in procurement
- Expeditious execution of delivery of goods and services
- Compliance with local and international laws and regulations
- Ensure transparency and uniformity in the evaluation and selection procedure
- Retain confidentiality of information provided by bidder

We update our procurement plan annually in tandem with the changing needs. The services of outside suppliers are obtained for the purchase of fixed assets, consumable items, gift items, printing, marketing and promotional activities, maintenance and construction services, and consultancy assistance in special cases.

The policy of the Bank clearly stipulates the various procedures for different procurements. While Supply Division of the Bank carries out the procurements, the procurement procedures are overseen by the respective procurement committees, Technical Evaluation Committee, and Bid Opening Committee appointed by Board of Directors, General Manager/ CEO or delegated authority. The Procurement Division is responsible for monitoring and ensuring Initial Environment Examinations (IEE), Environmental Impact Assessments (EIA) and obtaining necessary approvals from authorities when required. We have integrated sustainability into our procurement process by integrating economic, social, and environmental impacts into the process. The common selection criteria include the quality of services or products, competitive prices, experience and competence, financial soundness, flexibility and capacity and compliance with legal requirements.

Delivering value to outsources service providers

During the year, we paid Rs. 398.7 Mn. to our outsourced service providers comprising employees on contract basis within the Bank. Our outsourcing policy which provides the guidelines on outsourcing and specifies the criteria to assess the need of an outsourced activity, service, process, or function and its implementation. It is formulated in accordance to the Banking Act Direction No. 2 of 2012, the exercise of the powers conferred by Sections 46 (1) and 76 (J) (1) of the Banking Act No. 30 of 1988, last amended by the Banking (Amendment) Act No. 46 of 2006, on outsourcing of Business Operations of a Licensed Commercial Bank and a Licensed Specialised Bank, respectively.

Responsible communication

All internal and external communications outlined by our communication policy are handled with utmost responsibility, accountability, consistency, and transparency. Our communication policy has proved to be an effective framework that facilitate timely dissemination of information with accountability to enhance our brand image, customer loyalty, and stakeholder awareness.

Strengthening our strategic alliances

With the objective of sharing resources and expertise and to achieve shared business objectives, we have formed strategic alliances with several international bodies. These partnerships have enabled us to obtain a competitive edge whilst generating opportunities for profit growth and driving enterprise value.

We have established vital links with global money transferring companies to facilitate secure remittances from anywhere in the world. We are a member of SWIFT and we serve Sri Lankan expatriates and migrant workers through NSB U-Trust, our remittance service. The Bank has entered into remittance business relationships and correspondent arrangements with a number of International Money Transfer Services and overseas banks for channelling remittances to Sri Lankan beneficiaries reliably and conveniently. The Bank also provides facilities to remit money via Eurogiro Postal Member Organisations from several countries through their service locations at a lower cost to the remitters.

Our global money transfer services are facilitated via our connection with 35 exchange houses and 14 correspondent banks. The details of exchange houses/banks engaged in International Money Transfer Services and Eurogiro member

organisations tied up with the Bank, correspondent banks of NSB and a list of Bank's Representatives overseas are provided on pages 458 to 461.

The initiatives taken to strengthen business partnerships in 2019:

- NSB expanded its remittances arm by forging new relationships with correspondence banks: Emirates NBD Bank PJSC and Erste Group Bank AG, Exchange Houses: Gmoney Trans Co Ltd and Remittance channels of Israel Postal Company Ltd and Korea Post as Eurogiro members.
- Continued to build strong ties with exchange houses for money transfer services, remittances, and corresponding banks agreements to increase coverage of markets of Middle East, Italy, Cyprus, South Korea, Australia.
- In view of providing an efficient remittances service to Sri Lankan migrant workers, Business Promotion Officers have been deployed by the Bank to promote business and acquire new customers
- 56 MoUs were signed with Government and private-sector establishments to improve the housing and personal loan portfolios.

GRI 102-13

Industry memberships

As a key player in the financial services industry in Sri Lanka, we performed an important role in contributing to the progress of our nation's financial sector through our engagement with industry peers. We hold memberships in the following organisations to resolve industry challenges and create a conducive operating environment:

- The National Chamber of Commerce
- Lanka Clear Private Limited
- Employers' Federation of Ceylon
- Society for World-wide Interbank Financial Telecommunication (SWIFT).
- The Sri Lanka SWIFT User Group
- EuroGiro Global Payment Community
- The World Savings Banking Institute

Strengthening regulatory compliance – regulatory capital

Why regulatory capital is important to us

The Government and regulatory bodies facilitate a sound and stable banking system and healthy functioning of the economy. As a State-owned licensed specialised bank, NSB is incorporated by the National Savings Bank Act No. 30 of 1971 and its amendments and the Banking Act No. 30 of 1988 and its amendments. We are deeply committed to complying with regulatory requirements and following sound governance practices to strengthen the public trust in our institution and the economy as a whole.

Complying with applicable regulations enable us to continue our operating license and strengthen our reputation. The taxes we pay to the Government contribute towards economic and social development of the country.

Our approach

we work towards reinforcing our risk culture by being compliant with regulations and following required standards and international best practices in ethical and responsible business in all our operations. We have aligned our strategies, and operations along with a robust business model to prudently manage and respond to uncertainties and risks.

Strategies to enhance the value of regulatory capital

- Maintain a coordinated, comprehensive and timely approach to identify, assess, and respond to regulatory changes
- Strengthen operational resilience, improve stress testing standards, review impact tolerances and refine performance metrics
- Participate in industry regulatory initiatives (consultative papers)

Material matters



Short to medium-term strategic priorities



Value creating drivers for strengthening regulatory compliance

- Compliance with regulations
- Anti-money laundering, bribery and corruption
- Strong governance and prudent risk management
- Contributing to Government

Compliance with regulations

In a dynamic banking environment with increased digitalisation of financial services, it is essential for banks and regulatory bodies to evolve to meet emerging challenges and increasing risks. Being a State-owned bank which is highly regulated, we have nurtured a culture of compliance at NSB. We adhere to the provisions of the Banking Act, Finance Act, Financial Transactions Reporting Act, Exchange Control Act, NSB

Act, and other regulations issued by the Central Bank of Sri Lanka (CBSL). In addition, we maintain close relationships with the Ministry of Finance, the Department of Inland Revenue, Auditor General's Department, Attorney General's Department, Sri Lanka Accounting and Auditing Standards Monitoring Board, and the Parliament and comply with the necessary regulatory requirements. Following the directives issued by the CBSL, we submit periodic information related to the Bank's operations in a timely manner.

GRI 205-2, 3 & 206-1

Anti-money laundering, bribery and corruption

Being aware of the escalating concern of cybersecurity with increased digitisation, we have identified cybersecurity, fraud prevention, and anti-money laundering as one of the principal material issues.
We have a robust risk management system in place to protect our customers from fraud and we continue to assist regulators to prevent cyber crime, money laundering, and funding of terrorism by identifying and reporting suspicious activities. There were no fines or non-monitory sanctions imposed due to non-compliance with laws and regulations relating to corruption, anti-competitive behaviour, anti-trust, monopoly practices and use of product and services during the period under review.

Strong governance and prudent risk management

We have implemented a stringent risk management policy and a governance system to monitor the effectiveness of the Bank's risk management system.

Reinforcing a risk culture as a short to medium-term strategic priority of our Bank, we have developed a strong risk culture that effectively anticipate, manage, and mitigate risks arising from the internal and external environment. Bank's governance framework supports risk management, providing a systematic approach risk management oversight. More details are given on pages 248 to 274 of the Report under the Risk Management section.

Contributing to Government

As a leading State-owned bank, we set an example by paying and collecting taxes on behalf of the Government. We pay all relevant taxes payable on-behalf of and in respect of our employees, and all applicable statutory dues to the Government and the other relevant regulatory and statutory authorities.

Building thriving communities – community capital

Why community capital is important to us

As a State-owned bank, we are mandated to create a thriving local community by give back to the communities where our people and our customers build their lives. Therefore, we continue to play an essential role in the community that we operate in.

Our approach

Investment in community development projects which creates the positive impact on the economy Addressing key priority issues outlined in the national development agenda and UN SDGs

Strategies to enhance the value of community capital

- Investments considering social, economic and environmental concerns
- Volunteering in the community
- Supporting local people and businesses

Material matters



Short to medium-term strategic priorities



GRI 203-1

Value creating drivers for building thriving communities

- Contributing to national development
- Driving financial inclusion
- Giving back to communities
- Strategic alliances to drive community development

Contributing to national development

As part of our sustainable business approach, we drive investment growth which improves the living standards of all citizens through long-term economic growth and empowering of local communities. By supporting the large-scale infrastructure development projects of the Government, we drive national development and uplift local communities. Our focus is to invest in sectors which deliver long-term progress and prosperity. We supported the following projects during the year:

- During the year, we provided Rs. 7.5 Bn. for the infrastructure development interms of water and electricity
- For the development of agriculture and SME sectors, we disbursed Rs. 10.0 Bn. indirectly through other financial institutions.

Driving financial inclusion

We continue to focus on promoting financial inclusion by providing convenient access to financial services through digital and non-digital channels to all citizens of our nation, especially the underprivileged or unbanked customers. We have effectively inculcated a savings culture amongst unbanked customers especially in remote areas of our country through our postal and sub-postal network. The postal deposits comprise 1.5% of our total deposit base. Additionally, we provide door to door cash deposit facility through NSB Reach using POS machines and Palm Top Machines for customers who are unable to visit a branch during the regular business hours.

Through NSB iSaver, customers are provided 24 hour access to banking services through Mobitel outlets free of charge. This service has further inculcated the savings habit amongst the people contributing to wealth creation and mobility of funds for investment.

Whilst offering products and services that meet customer needs, we empower customer through financial literacy. At every branch activation programme and promotion conducted by branches and the Marketing Division, we convey the importance of thrift and savings to customers. In particular, the iSaver and NSB Reach promotional campaigns emphasise the importance of daily savings.

Grama Shakthi People's Movement (GSP), launched in 2017, is especially designed to support the eradication of poverty by year 2030. Under the initial phase of the GSP Movement, *Grama Shakthi* People's Societies was setup in 1000 selected *Grama Niladari* Divisions and they were registered under the Department of Registrar of Companies. Partnering with the Government, each *Grama Shakthi* People's Society is expected to open an account with an initial deposit of Rs. 10,000.00 at a State bank.

The following financial literacy campaigns were conducted in 2019.

Campaign	Target market	Period of promotion	Mode of campaign
Hapan Grade 1 accounts opening campaign	Parents of Grade 1 and Pre-school entrants	January 2019	TV, radio, press, social media, promotional campaigns organised at branch level.
Women's day campaign	Women above the age of 16 years	March 2019	TV, radio, press, social media, sms marketing, branch TV screens, ATM screens, activation programmes organised at branch level.
U Trust	Sri Lankan migrants and their families	January and April to September 2019	TV, radio, press, social media, distribution of leaflets, TV screens at branches, ATM screens, branch activation programs
Loans under Enterprise Sri Lanka	Middle income earners, SMEs, entrepreneurs	Throughout the year	Press, digital media, loan fairs
Ran Sahana	Adults above 18 years	Throughout the year	TV, radio, press, social media, corrugated boards, and promotional campaigns organised at branch level.
Happy Savings	Sri Lanka citizens above the age of 16years	March to September 2019	TV, radio, press, social media

Campaign	Target market	Period of promotion	Mode of campaign
Buddhi Loan campaign	Adults above the age of 18 years	Throughout the year	social media, e-flyers, promotional programmes at educational institutes, branch level promotions, educational exhibitions
Prarthana	Parents	October 2019 onwards	TV, radio, press, social media, leaflet distribution, branch TV screens, ATM screens
Prarthana +	Individuals above 16 years	October 2019 onwards	TV, radio, press, social media, leaflet distribution, branch TV screens, ATM screens
Digital Marketing campaign for Sinhala and Hindu New Year – "*Neketh Seettuwa*", "*Amathaka Unu Awurudu*" and "food preparation" video clip series	Social media followers	05 April – 14 April 2019	Social media and website
Back 2 Colombo - Virtual step challenge with Ayubo.life	NSB customers	18 March – 12 April 2019	Social media
World Thrift day – Photography competition	Facebook followers	1 August – 31 October 2019	Facebook

GRI 413-1

Giving back to the communities

In our efforts to strengthen and social fabric give back to the communities in which we operate, we continued to design, and implement community development programmes to deliver balanced and sustainable outcomes for the communities. We support a range of community organisations and community building programmes focused on improving the social well-being, uplifting education, supporting healthcare and social, cultural and religious development. Additionally, we support community initiatives through sponsorships, donations and scholarships and funds raised by our people.

Special events and sponsorships

To commemorate the World Thrift Day held on 31 October 2019, 700 customers in the Western Province were invited to a special event at the BMICH and were awarded valuable gifts.

Promoting education

Recognising the high achievers of the Grade Five Scholarship Examination, the 15th edition of the *Hapan* Scholarship Awards was held at BMICH on 31 October 2019. Continuing to support children with learning difficulties and applauding their courage and determination to succeed, we felicitated 25 students under this category for the fifth consecutive year.

Connecting through arts

To spur creativity and artistic talent in children, we conducted the *Paata Paata Hapankam* competition for the 4th consecutive year in partnership with the Aesthetic Division of Ministry of Education in 2019. Twenty five winners were selected and awarded at the Grand Finale held at the BMICH.

Participation in exhibitions

We marked our presence in several exhibitions in 2019 to promote our products and enhance our brand image. Some of the exhibitions we participated during the year, included, *Kedella*, Future Minds, *Kedella* Mid-year, Infotel and Enterprise Sri Lanka exhibition in Matara, Anuradhapura, Dambulla, Hambantota, Kalutara, Kirindiwela, Kandy/Gampola and Embilipitiya.

Sponsorships

We sponsored many events with a National significance such as the *Bauddhaloka Vesak* Festival, National Pensioner's Day, International Elders Day, HelpAge Sri Lanka Medical Camps, Ministry of Defence Scholarship Awards, University of Colombo Sinhala Hindu *Aurudu* Festival, Siyane *Bak Maha Ulela*, 25th National Civilian Bravery

Awards Ceremony 2019 by Sri Lanka Parliament, APB Annual Session, Signis Sri Lanka, SL Army Dance, SL Airforce Welfare, Ceylon College of Physicians Annual Session and the CMA Annual Conference to name a few.

Strategic alliances to drive community development

We partnered government ministries to deliver social value in terms of building a healthy and educated society. In doing so we contribute towards achieving the UN Sustainable Development Goals in our Nation.

I'm Fit programme



A memorandum of understanding (MOU) was signed with Ministry of Education and the Ministry of Health to conduct the "I'M Fit" programme. The Project which will be conducted in year 2020 aims to address the SDGs of "Good Health and Well-being". The project targets 10 schools in the Colombo District to enhance the health and nutrition status of grades 6,7 and 8 students in these selected schools.

The project is expected to create a positive impact to the society and generate a positive brand image to the Bank.

English education project under the UN SDGs



To contribute to the SDGs, a MOU was signed with the Ministry of Education in 2020 to conduct the "English is Simple" programme is selected schools. Our aim is to develop English Literacy of the students of grades 8,9,10 and 11 through this project which is to be conducted by the English and Foreign Languages Unit of the Ministry of Education. Eight National Schools have been selected based on the English results at the 2017 GCE Ordinary Level Examination. The objective of the project is to increase the O/L English pass rates of the selected schools. We aim to address the UN sustainability Goal of "Quality Education" through this CSR project.

Future priorities

Short term	Medium term	Long term
Relaunch existing products with value and conduct branch level programmes to increase the customer engagement towards key products with a particular emphasis on acquiring youth Create thoughtful communication campaigns and branding strategies to create a positive brand image	Implement a fully-fledged Digital Banking Solution to enable customers to conduct banking from anywhere, anytime using a smartphone or a digital device Enable financial inclusion for unbanked and underbanked people in the economy Adopt sustainable finance practices and achieving progress towards the target set for the selected UNSDGs	Enabling safe and stable financial eco system Positive impact on the thriving society



Natural Capital

Building natural capital helps to contribute towards a low-carbon economy and thereby protect our planet for current and future generations and ensure long-term sustainable value creation of the Bank.

What it includes

Natural capital includes the stock of natural capital and ecosystem services on which we depend to make our operations possible. This includes, air, water, energy and the natural environment.

Inputs

- Air
- Water
- Land
- Minerals
- Forests
- Biodiversity and ecosystems health

How it adds value

Building natural capital helps to reduce our environmental footprint and thereby contribute towards a low-carbon economy. This helps to protect our planet for current and future generations and ensure long-term sustainable value creation of the Bank.

Our approach

Our focus is on reducing our carbon footprint, driving green operations, promoting sustainable finance, and supporting green initiatives to conserve the environment. Having identified environmental footprint as a material issue affecting the Bank we have formulated strategies to address the matter and ensure sustainability of the Bank whilst generating financial returns. We strive to continually improve corporate policies, procedures and practices in environmental management and to ingrain environmental consciousness into our core business processes.

Key challenges and opportunities for 2019

Key challenges

- Require higher investment for green initiatives
- Measuring the impact on the environment caused by Bank
- Lowering the carbon footprint across the Bank
- Creating awareness among the stakeholders on the importance of managing natural capital and green projects
- Enabling customers and employees to use digital technologies to reduce the paper usage
- Undesirable outcomes caused by the natural disasters

Opportunities

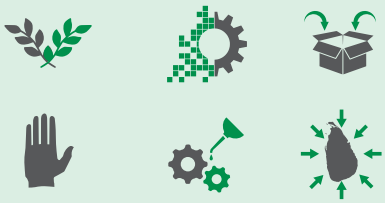
- Reducing environmental footprint ensures the long-term sustainability of the Bank
- Promoting innovation on green initiatives (Green products, Green finance, Green buildings)
- Ability to mitigate impacts on environment arising from operations
- Enabling efficient usage of resources, reduce costs and positively impacts financial sustainability



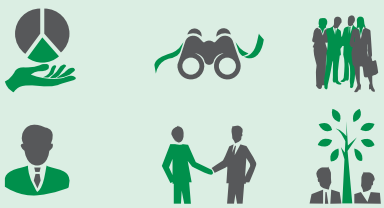
Strategies to enhance the value of natural capital

- Improve energy efficiency over the long-term through specific initiatives and increase use of renewable energy
- Continue to focus on expanding our value-added product range through investments in digitalisation and product development
- Drive down the consumption of natural resources/resources that affects the environments used by the Bank (E.g. Energy, water, paper, and waste management)

Material matters



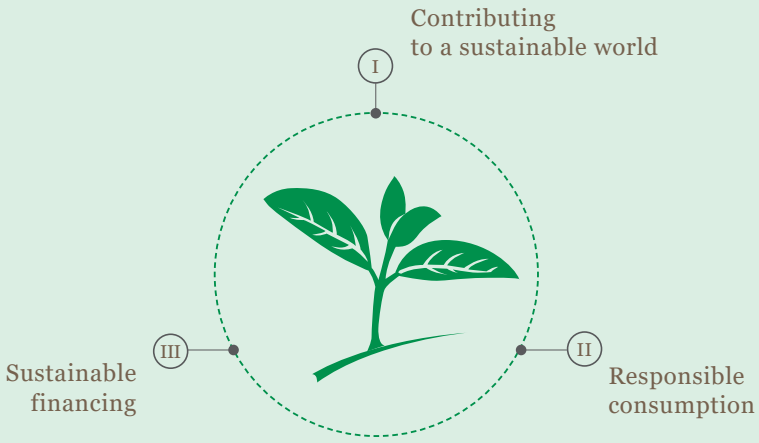
Related stakeholders



Short to medium-term strategic priorities



Drivers of value creation



Highlights



222 Number
of Eco loans granted



Rs. 193.2 Mn.
Eco loans granted in 2019



26
Net Metering connected branches



40,210
Units transferred to the National Grid



35,696 GJ
Energy consumption



79,368 M³
Water consumption



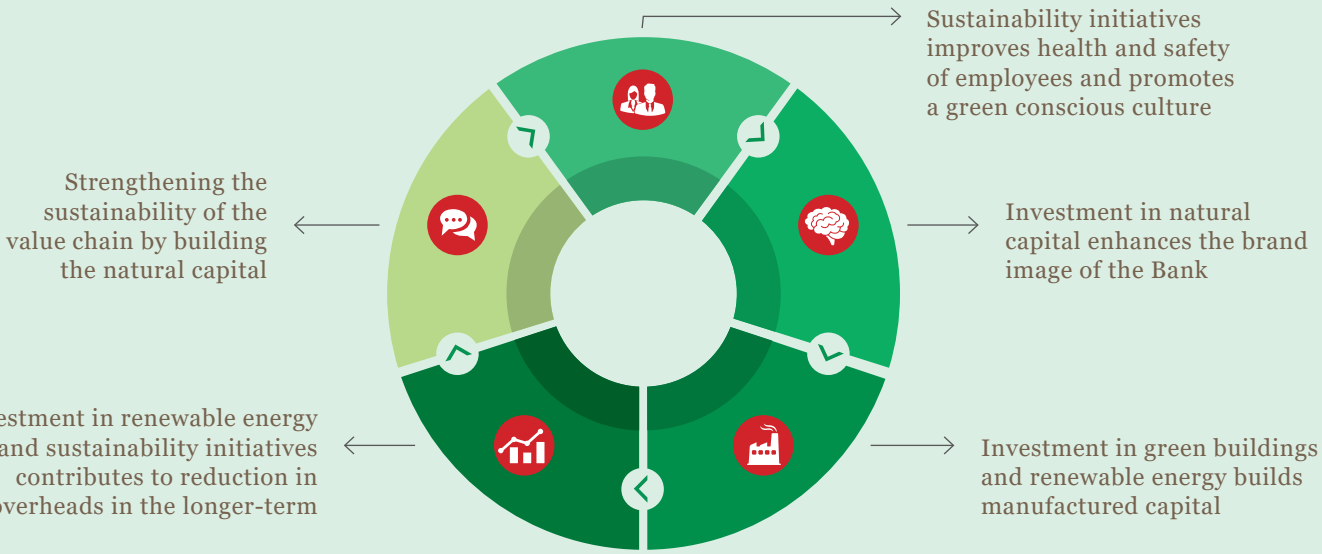
42
Solar panels installed in branches

Scorecard

	Increase/ decrease	2019	2018
Number of branches connected to net metering	13	**26**	13
Number of eco loans granted	(559)	**222**	781
Value of eco loans granted (Rs. Mn.)	(463.4)	**193.2**	656.6
Per employee energy consumption (GJ)	0.16	**7.57**	7.41
Energy consumption per branch (GJ)	8.39	**139.44**	131.05
Water consumption (M³)	3,207	**79,368**	76,161

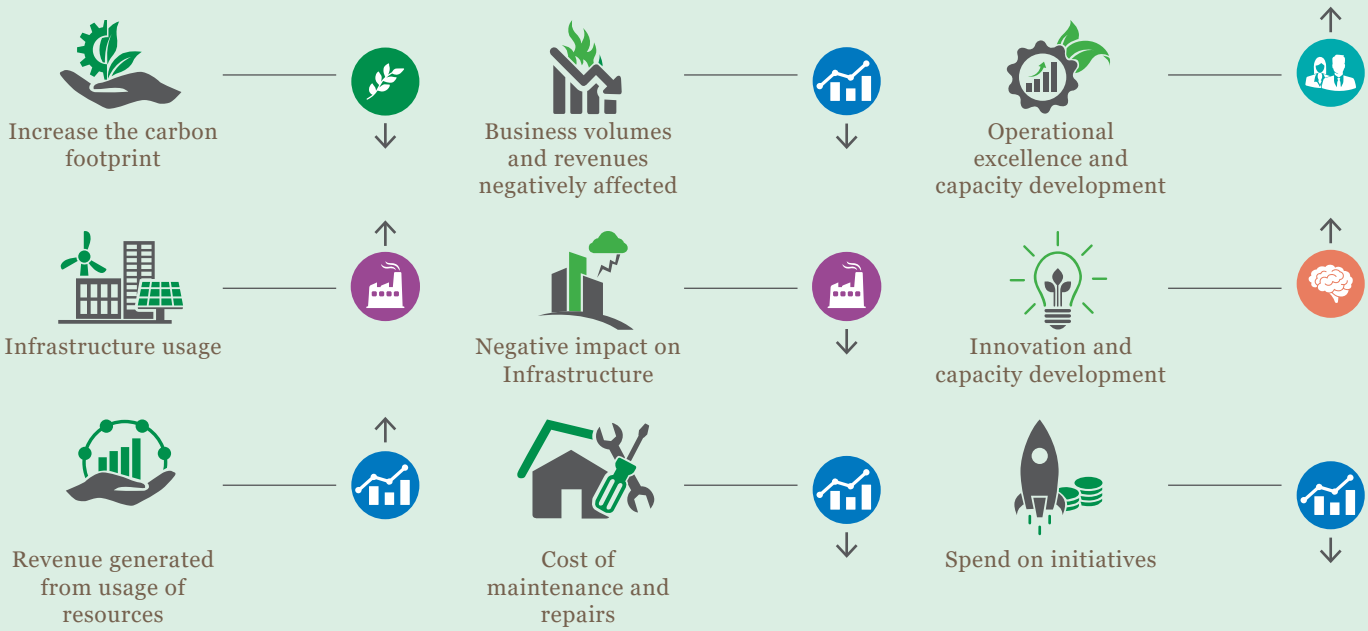
Linkage to other capitals

Natural capital is impacted by and impacts each capital of the Bank.



Trade-offs

- **Natural resources used in operations**
- **Changes in the climate and natural disasters**
- **Investment on green initiatives**



Contribution to SDGs

Promote clean water and sanitation by implementing water saving and responsible consumption measures across the Bank

Contribute towards affordable and clean energy by building green branches and converting branches to solar energy

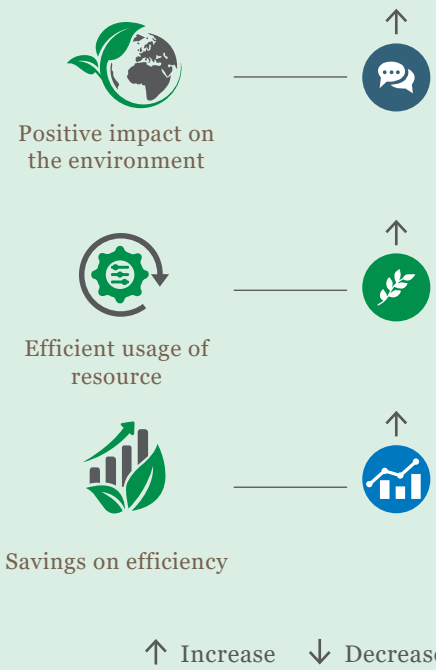
Build sustainable cities and communities through the NSB Agroforestry programme

Through responsible consumption of resources, and contributing to paper reduction through digitalization we promote responsible consumptions and production

Contribute towards reducing the carbon footprint by investing in green buildings, disgitalisation of operations, responsible lending and responsible management of resources

Contributing to a sustainable world





Outputs

- Energy efficiency initiatives
- Responsible consumption
- Lending towards renewable energy
- Green initiatives
- Driving towards digitalisation

Green buildings

In our efforts to address climate change, create sustainable and thriving communities, and drive economic growth, we have embraced the Green building concept that save energy, water, and natural resources and maintain well-being and quality of life for people. We have gradually converted 3% of our exiting branches to use renewable energy by installing solar power systems as an alternative source of power. Accordingly, 13 solar panel installed branches were connected to net metering during the year, increasing the total to 26.

We have enhanced our branch premises to be energy efficient workspaces. They are designed with glazed windows that creates thermal insulation reducing the flow of incoming and outgoing heat that lower energy consumption due to less energy used in cooling down spaces and creating naturally beautiful interiors making office premises a happy place. Our new branches are constructed following the green buildings concept where spaces are designed to maximise the usage of natural air and light. Our most recent circuit bungalow opened in Kataragama was designed and built to optimise natural light and air by reducing the consumption of electricity for lighting and cooling facility.

We have taken steps to install lightning arresters to secure electric appliances within branches. We have also installed energy efficient electrical appliances and implemented several energy saving measures in our buildings. A wastewater treatment plant will be installed to the proposed new building at Anuradhapura to manage wastewater and sewage in an environmental friendly manner.

NSB Agroforestry project – making a difference for generations to come

"Plant a tree" is a new tradition introduced for the Sinhala Tamil New Year in 2019. Aligned to this tradition, we continued with the NSB Agroforestry project that was launched in 2018. This project was launched to retain, protect and where possible improve the existing biodiversity, and to inculcate the habit of saving from one's very own garden. More than 6,500 plants were distributed among customers who visited the branches to engage in the transactions on Sinhala Tamil New Year in April 2019. New plants were distributed during the opening of our new branch at Makola as well. We continue to support a greener world through these initiatives.

Supporting a sustainable world through digitalisation

Through digitalisation of our operations we strive to reduce our ecological footprint which require minimal natural resources and support a sustainable world. We continue to encourage our customers to migrate to internet based or mobile banking channels to conduct their banking transactions using our extensive range of digital products to save time and resources. Customers subscribing to e-renewal letters instead of printed statements has reduced the usage of paper. Moving towards biodegradable promotional materials and increased use of digital and social media promotion have contributed towards environmental sustainability.

During the year we issued cards with EMV technology with the option of a issuing the PIN via SMS which supports green concepts by eliminating the use of paper based pin mailers. Further, this options enhances the security of customer credentials by using mobile phone-based card activation procedure.

External endorsements

We obtained the Carbon Neutral Certificate with 1,460tCO_2 presented by Sri Lanka Climate Fund in 2019 for the assessed period of 2018. We have already applied for the certification for 2019 which will be awarded in 2020.



Aligning with Government's the Kigali Amendment

We participated in a roundtable workshop on Kigali Amendment awareness and alternative technologies, conducted by the Ministry of Environment and Wildlife Resources. The workshop was to create awareness among corporates about the Amendment. The Kigali Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer entered into force on 1 January 2019, following ratification by 65 countries of which Sri Lanka was one. The Amendment seeks to reduce the production and consumption of hydrofluorocarbons (HFCs), potent greenhouse gases (GHGs), to avoid global warming by up to 0.4°C this century.

Responsible consumption

GRI 302-1

Energy consumption

We make every effort to responsibly manage our use of energy generated from non-renewable scarce sources such as electricity, diesel and petrol. Through responsible production and consumption of resources we remain committed to reducing our ecological footprint and protecting

such resources for future generations. Our primary source of energy is electricity through the national grid and electricity generated through solar panel system. Several initiatives are in place to ensure efficient consumption of energy throughout the Bank. Such activities include the following:

- Replacing Split AC units with energy-efficient inverter operated systems at head office and branches to reduce energy use.
- Replacing conventional bulbs with LED bulbs and CFL bulbs that consume less electricity.
- Nurturing a sustainability conscious culture in the Bank through continuous communication on the importance of saving energy and conserving resources to save electricity
- Promoting recycling of stationery items such as A4 papers, envelops and files
- Using only CFC-free air conditioning units that are environmental friendly
- Using energy-saving light bulbs and LED screen computer monitors that contribute to energy conservation
- Limiting the use of air conditioning to regular banking hours
- Discouraging employees to work on holidays

GRI 303-5

Water consumption

Even as access to quality drinking is increasingly challenging, we makes every effort to minimise our use of water by using lower volumes or harvesting water wherever possible. By identifying opportunities for prudent usage, we continuously improve current practices in managing water. Our water consumption during the year was 79,368 M^3 compared to 76,161 (M^3) in the previous year. Storm water is disposed through the public drainage system, and waste water is disposed through standard soakage pits inside the premises. Some of our newly constructed branches are equipped with rainwater harvesting which is key source of alternative water, which offsets the use of fresh water from surface and groundwater sources.

17 (M^3)
Per employee water consumption

310 (M^3)
Per branch water consumption

Waste management

Understanding the severity of irresponsible disposal of solid waste and its repercussions on the biodiversity and human health, we have implemented waste management practices for responsible disposal of waste. Through awareness programmes conducted across the branch network, our employees are well informed about waste management practices. We practice segregation of waste with the support of our employees, the respective municipal/urban councils and Central Environmental Authority endorsed third party recycling service providers. Waste paper handed over to the Paper Corporation for recycling and food and polythene wastes are collected and handed to municipal Solid Waste Management.

3000 kg Newspapers
recycled through a recycling company

Food waste and polythene
Collected by the Colombo Municipal Council

Material
Auctioned through the Supplies Division

Rs. 80 Mn.
Invested on installation of solar power in branches

42 Branches
solar panels installed

26 Branches
connected to the grid through net metering

7.57 GJ
Per employee energy consumption

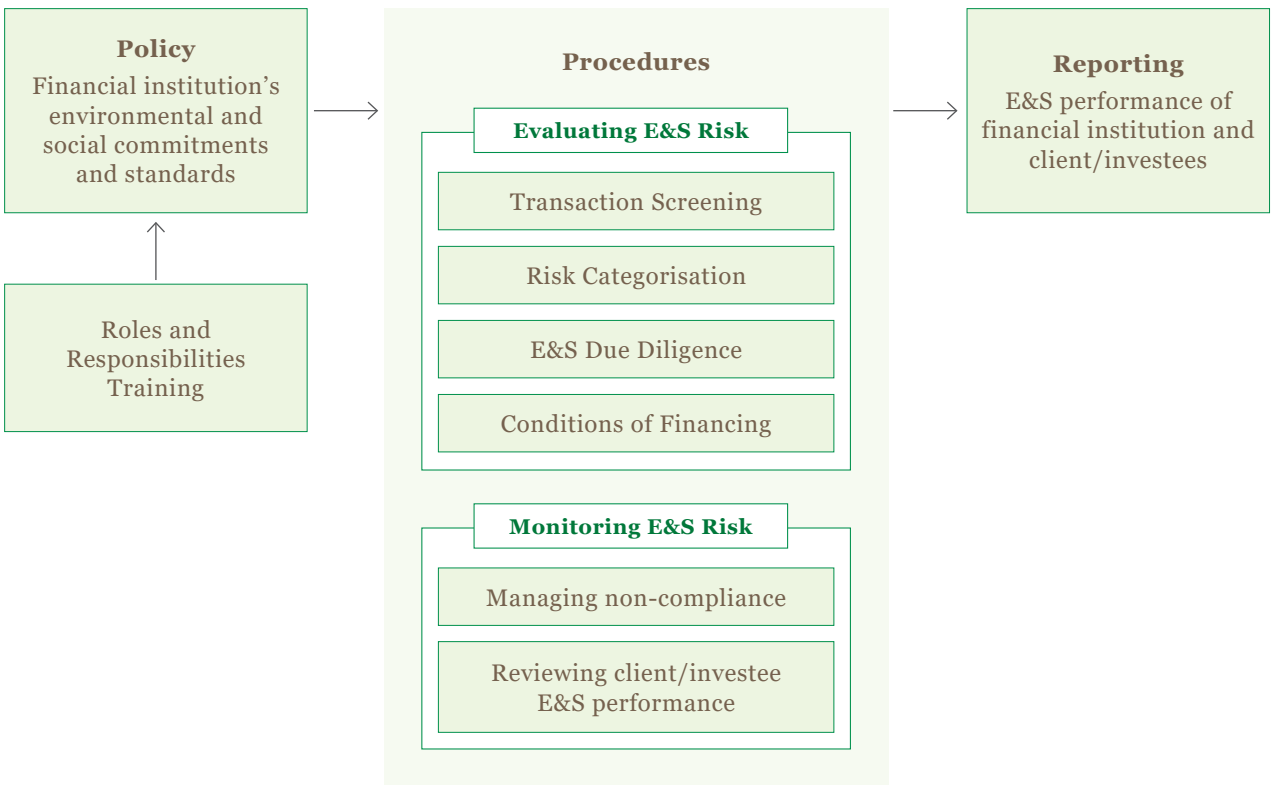
139.44 GJ
Energy consumption per branch

Sustainable financing

Responsible lending

We remain committed to advancing environmental and social progress and to conducting our business in a responsible manner. We understand that our lending activities can have a negative impact on the environment and promoting long-term sustainable development is fundamental to our continuing success. Therefore, we have embedded Environmental, Social and Governance (ESG) considerations to our credit and risk evaluation process for our lending practices. An exclusion list has been included to our Corporate Credit Policy indicating the activities the Bank should not lend. We will not engage in or knowingly finance any activity where there is clear evidence of an adverse impact to the environment, people or society. We expect our customers to meet all local ESG-related laws and regulations. It is mandatory for all potential borrowers to produce an environmental impact assessment to obtain loans. We seek to positively influence our customers to further adopt appropriate sustainable practices to meet higher ESG industry expectations over time. Transactions that carry high ESG risks are subject to enhanced evaluation and approval requirements. We have formulated an Extensive Environmental Social Risk Management (ESRM) Policy with clear guidelines and roles and responsibilities for due diligence as well as governance. During the year, there were no facilities or loans rejected due to adverse impacts on the environment.

ESRM Framework



Promoting a "Green" economy through "Green" loans

We continued our flagship product NSB Eco loan to support the community-based power generation project *Soorya Bala Sangramaya*. The programme which is a partnership with the Ministry of Power and Renewable Energy, Ceylon Electricity Board, and the Lanka Electricity Company Private Limited was launched in 2016 to promote the setting up of smaller solar power plants on the rooftops of households, religious places, hotels, commercial establishments, and industries. Through the concessionary loan scheme, we support the implementation and proliferation of renewable energy in the country by assisting customers to switch to renewable energy that save the planet while saving on their electricity bills. Customers can select one of several options including Net Metering Scheme, Net Accounting Scheme and Net Plus Scheme based on their electricity usage.

Year	Number of loans granted	Amount granted Rs. Mn.
2016	35	26.42
2017	902	685.58
2018	781	656.61
2019	222	193.2

Future priorities

Short term	Medium term	Long term
Encouraging customers to move to digital/self-service channels	Improve sustainable finance by strengthening environment and social criteria in lending facilities	Developing products and processes that are environmentally and socially responsible
Continue the installation of solar panels in branches	Reducing carbon emissions through green branches with solar panels	Investment in the preservation of the eco system
Invest in environmental initiatives	Reduction in energy, paper and water consumption	
	Moving towards paperless environment	
	Supporting the low-carbon economy through green lending	



GRI Content Index in Accordance with Core Criteria

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102-9	Supply chain	154-157	
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102-45	Entities included in the consolidated financial statements	4	
102-46	Defining report content and topic Boundaries	4	
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102-49	Changes in reporting	4	
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102-51	Date of most recent report	4	
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102-53	Contact point for questions regarding the report	6	
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GRI 103: Management approach			
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GRI Standard	Disclosures	Page Nos.	Remarks/Omission
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GRI 413: Local communities			
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Governance

An overview of the integrated system of corporate governance, compliance and the risk management framework of NSB. Corporate governance at NSB results in efficient operations, improved access to capital, risk mitigation and safeguarding of the stakeholders.

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Board of Directors



1. Ms Keasila Jayawardena

Chairperson
Non-Independent Non-Executive Director

Date of appointment

2 January 2020

Skills and experience

Mrs Jayawardena is an Academic/University Lecturer, who has served as a Lecturer in Political Science at the University of Peradeniya for 15 years. She holds a Bachelors (Honours) Degree and a Master's Degree in Political Science from the University of Peradeniya. She has served 7 years as a Chairperson of two Development Banks.

Other current appointments

Chairperson, NSB Fund Management Company Limited,
Chairperson, Sri Lanka Savings Bank

Previous key appointments

Chairperson, Kandurata Development Bank, Chairperson, Regional Development Bank and Provincial Council Member.

Membership of Board Committees

Chairperson of Board Human Resource Remuneration Committee (BHRRC) and the Board Credit Committee (BCC)

2. Mr U G R Ariyaratne

Ex-officio Director
Non-Independent Non-Executive Director

Date of appointment

31 August 2018

Skills and experience

Mr Ariyaratne is a Sri Lanka Administrative Service (SLAS) Class I Officer, who counts over 23 years of experience in the Sri Lanka Administrative Service. He holds Bachelor of Commerce, Master in Sociology and Postgraduate Diploma in Regional Planning from the University of Kelaniya. He has also completed a Postgraduate Diploma in Education from the University of Peradeniya. Mr. Ariyaratne has obtained a Certificate of Public Administration, Certificate of General Management and Capacity Building Programme for SLAS Class I Officer from Sri Lanka Institute of Development Administration (SLIDA).

Other current appointments

Postmaster General, Department of Posts, Director NSB Fund Management Company Limited

Previous key appointments

District Secretary, District Secretariat, Polonnaruwa, Additional Secretary (Social Development), Additional Secretary (Rural Development) at the Ministry of Social Empowerment and Welfare, Additional Government Printer (Administration) at Department of Government Printing, Director General of Coconut Development Authority, Senior Assistant Secretary (Land) at the Ministry of Lands, Executive Director/Deputy Director General (Administration and Finance) of Mahaweli Authority of Sri Lanka, Deputy Postmaster General (North Western Province and Central Province) of Department of Posts, Divisional Secretary at the Divisional Secretariat, Mawathagama, Assistant/Deputy Commissioner (Kurunegala) of Department of Agrarian Services, Secretary to the Corporative Employees Commission, North Western Province, Provincial Commissioner (North Central Province) of Department of Probation and Child Care Services, Assistant Divisional Secretary, Divisional Secretariat, Rajanganaya, Thirappane, Asst Commissioner of Land, Department of Land Commissioner.

Membership of Board Committees

Chairman of Board Nomination Committee (BNC)
Member of the Board Human Resource Remuneration Committee (BHRRC)

3. Ms Manohari Abeysekera

Director
Non-Independent Non-Executive Director

Date of appointment

14 January 2020

Skills and experience

Ms Abeysekera holds a Bachelor of Science Degree in Biological science (First Class Honours) and a Master of Business Administration (MBA) from the University of Colombo. She is also a Fellow of Chartered Institute of Management Accountants (CIMA – UK) and a Fellow of The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). Ms Abeysekara is an Alumnus of KPMG. She possesses 19 years post-qualifying experience. She has successfully completed the Postgraduate Diploma in International Relations conducted by the Bandaranaike International Diplomatic Training Institute. She has had Executive Education at Indian School of Business (ISB) Hyderabad, Asian Development Bank, Manila and BHF Bank, Germany. She had served as an Executive Committee Member in the International Chamber of Commerce Sri Lanka.

Other current appointments

Director Strategy and Business Development, Fentons Limited, Director, Hayleys Group Services (Pvt) Ltd, Chairperson Country Network Panel, CIMA Sri Lanka and President, MBA Alumni Association, Director, Sri Lanka Savings Bank, Director, NSB Fund/Management Company Limited

Previous key appointments

Accountant, Long Range Planning Unit at Hayleys PLC, Manager Strategic Business Development Unit and Head, Strategic Business Development, Hayleys PLC, Financial Controller, Oasis Hospitals (Pvt) Ltd.

Membership of Board Committees

Chairperson of the Board Audit Committee (BAC), Member of the Board Integrated Risk Management Committee (BIRMC), Board Credit Committee (BCC), and Board Information Technology Strategy Committee (BITSC)

4. Mr Eranga Jayewardene

Director
Independent Non-Executive Director

Date of appointment

23 January 2020

Skills and experience

Mr Jayewardene holds a Bachelor of Science Degree from Rensselaer Polytechnic Institute, USA and a Master of Science (MSc) from Stanford University, USA on Electrical Engineering.

Other current appointments

Chief Executive Officer (CEO) of Giga Foods Pvt Ltd.

Previous key appointments

Director, Digitalisation MAS Intimates (Pvt) Ltd., General Manager/Director, MAS Innovations, General Manager, Sourcing and Supply Chain, MAS Intimates (Pvt) Ltd. Chief Executive Officer, Silueta Pvt Limited (Subsidiary of MAS Intimates), Senior Manager MAS Innovations, Supply Chain, Planning and Procurement Apple Care, Apple Inc Cupertino, CA, USA and Demand Planning Manager, Cisco Systems San Jose, CA.

Membership of Board Committees

Member of the Board Credit Committee (BCC), Member of the Board Information Technology Strategy Committee (BITSC)

5. Brigadier (Retired) Dr Thiran De Silva

Director
Non-Independent Non-Executive Director

Date of appointment

17 January 2020

Skills and experience

Dr De Silva has set records as the youngest Brigadier in the Sri Lankan military history, youngest officer appointed as a Director of Sri Lanka Army and the youngest Director General at Ministry of Defence. He is the youngest Chief Information Officer (CIO) served in the Banking Sector in Sri Lanka. He had served in various positions both in public and private sectors which cover an array of experience. He holds a Doctor in Business Administration from Central Queensland University, Australia, Doctor in Philosophy from the University of Peradeniya, Master of Information Technology from Charles Sturt University, Australia and Bachelor of Information. Technology (Hons) from Swinburne University of Technology, Australia.

He is a Microsoft Certified Professional on Server Management (USA) and Certified Artificial Neural Networks Artificial Intelligence Sri Lanka.

Other current appointments

Chairman/CEO of Celata Tech (Pvt) Ltd., Director, NSB Fund Management Company Limited

Previous key appointments

Director, MBSL Savings Bank, MCSL Financial Services Ltd, City Housing and Real Estate PLC and Trillium Residencies (Pvt) Ltd.

Director General, Centre for Research and Development, Ministry of Defence, Founder and Head of, Defence Cyber Security Operation Centre, CIO/Head of IT, National Savings Bank, IT Advisor, MBSL Bank, IT Advisor, SMIB Bank, Director/IT, Sri Lanka Army, Head of IT/GIS, Centre for Research and Development, Ministry of Defence and Group General Manager/Tec Group of Companies.

Membership of Board Committees

Chairman of Board Information Technology Strategy Committee (BITSC), Member of the Board Nomination Committee (BNC), and Board Human Resource Remuneration Committee (BHRRC)

6. Dr M K C Senanayake

Ex Officio Director
Non-Independent Non-Executive Director

Date of appointment

22 January 2020

Skills and experience

Being an academic in addition to his career as a public servant, Dr Senanayke has contributed to many international and local publications relevant to his expertise. He has made presentations at international seminars and conferences held all over the world. He has gained teaching experience at the University of New South Wales, Australia. Dr Kapila Senanayake holds a PhD in Economics from University of New South Wales, Australia, Master of Public Policy from Graduate School of Business Strategy, Hitotsubashi University, Japan and Bachelor of Commerce (Special) Degree, with a 2nd Class (Upper Division) from University of Sri Jayewardenepura. He also holds an Advanced Diploma in Management and Administration from Sri Lanka Institute of Development Administration (SLIDA) and Sri Lanka Foundation Institute.

Other current appointments

Director General, Department of Fiscal Policy, Ministry of Finance, Economic and Policy Development

Previous key appointments

Deputy Director (Acting) and Assistant Director, Department of Fiscal Policy, and Assistant Director, Department of National Planning, Ministry of Finance and Planning.

Membership of Board Committees

Chairman of the Board Integrated Risk Management Committee (BIRMC), Member of the Board Audit Committee (BAC) and Board Nomination Committee (BNC)

Ms Damitha Rathnayake

Acting General Manager/CEO

Date of appointment

25 February 2020

Skills and experience

Ms Rathnayake holds a Bachelor of Science (Business Administration) from University of Sri Jayewardenepura. She also holds Master of Arts (Economic Development) from University of Colombo and a Master of Arts (Public Policy) from Australian National University.

Other current appointments

Director, NSB Fund Management Company Limited, Director, Department of Treasury Operations and Director, Ceylon Petroleum Corporation.

Previous key appointments

Assistant Director, Department of Public Finance, Deputy Director – Department of Public Enterprises. Director People's Bank, Director – Wayamba Development Bank and Chairperson – Agriculture and Agrarian 1nsurance Board.

Ms Anupama Muhandiram

Secretary to the Board

Date of appointment

16 November 2015

Skills and experience

Ms Anupama Muhandiram, an Attorney-at-Law holds Master of Laws Degree (LLM) from Cardiff Metropolitan University of UK, Master's in Business Administration (MBA) Degree from Manipal University and Post-Attorney Diploma in Banking and Insurance Law from the Incorporated Council of Legal Education of Sri Lanka.

Prior to her appointment as the Secretary to the Board of Directors of National Saving Bank on 6 December 2016, she has served as Assistant Secretary to the Board of Directors from November 2015 to December 2016. She has served as the Company Secretary of NSB Fund Management Company Ltd., from 2015 to 2017. Out of 23 years experience in Banking and Finance sector, she had served more than 18 years at People's Bank as a Legal Officer and an Assistant Secretary to the Board of Directors.

Ms Muhandiram is also a visiting Lecturer (Commercial Law) at the University of Sabaragamuwa, and she is the Founder Secretary of Association of Board/ Company Secretaries of Banks Sri Lanka.

Corporate Management

1
Mr K B Wijeyaratne
Senior DGM

2
Ms Damitha Rathnayake
Acting General Manager/CEO

3
Mr K Raveendran
Senior DGM

4
Mr K K V V L W Karunatilaka
DGM (Marketing)

5
Ms C S Jesudian
DGM (Credit)

6
Mr M Kiritharan
Consultant (Legal)

7
Ms G V A D D Silva
DGM (Treasury)

8
Mr M P A W Peiris
DGM (Operations)

9
Ms B P J Gunasekera
DGM (International)

10
Mr G W E Jayaweera
DGM (Audit)




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Executive Management




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1
Mr J H T Chandraratne
AGM (Engineering)

2
Ms M N A Fernando
AGM (Human Resource Development)

3
Mr M T A J F Gomis
AGM (Operations II)

4
Mr K M W H Karunaratne
AGM (Engineering)

5
Ms K P D M De Silva
AGM (Opetations I)

6
Mr K S Weerasena
AGM (Human Resource Development)

7
Ms R A N N Wijesinghe
AGM (Operations III)

8
Mr M C Rajapaksha
AGM (Information Technology)

9
Ms C W Pathirana
AGM (Support Services)

10
Ms M A P Muhandiram
Secretary to the Board

11
Mr W M R B Weerakoon
AGM (Branch Development)

12
Ms I K L Sasi Mahendran
Compliance Officer

13
Mr A L A Haleem
AGM (Branch Inspection)

14
Ms W P U A de Silva
AGM (Recoveries)

15
Mr M D Suranjana
AGM (Audit)

16
Ms D D Wickramasinghe
AGM (Branch Credit)

17
Mr L C Senanayake
AGM (Information Technology)

18
Ms R P A M P Rajanayake
Chief Risk Officer

19
Mr A K L Illesinghe
Chief Information Officer

20
Ms R C Samarasinghe
AGM (Credit)

21
Ms M A Gomes
AGM (Planning)

22
Mr T H S Athapattu
AGM (Finance)

23
Ms S W A Weerasinghe
AGM (Treasury)

24
Ms H M S L Fernando
AGM (International)

Chief Managers

Ms H R Karunamuni
Regional Office (Western 2)
Regional Manager

Mr D C Olaboduwa
Regional Office (North Western)
Regional Manager

Ms C N Ekanayake
Regional Office(Western 1)
Regional Manager

Ms A M C Attanayaka
Regional Office (Sabaragamuwa)
Regional Manager

Mr S Sivasorupan
Regional Office (Eastern)
Regional Manager

Mr N Baheerathan
Regional Office (Northern)
Regional Manager

Mr S B Suranga
Regional Office (Southern)
Regional Manager

Mr R P Jayathilake
Regional Office (Central)
Acting Regional Manager

Mr H M G P J Herath
Treasury Division
Chief Manager

Mr A B C R Wijayapala
Branch Management Division
Chief Manager – Pawning

Mr M V G Susil Kumara
International Banking Division
Chief Manager

Mr K T S S Gunawardena
Security Division
Chief Manager

Mr D L P Abayasinghe
NSB Fund Management Co. Ltd
Chief Executive Officer

Mr M W K C De Silva
Branch Management Division
Chief Manager (Operations)

Mr K D K K Wijeyawardane
Card Centre
Chief Manager

Mr D M C P B Dissanayake
General Manager's Division
Chief Manager

Mr A P R De Zoysa
Information Tecnology Division
Chief Manager (IS Security)

Mr K A R Gunathilake
Welfare Division
Chief Manager

Ms S S J P S De Silva
Finance and Planning Division
Chief Manager

Mr H S P Ranaweera
Finance and Planning Division
Chief Manager

Ms S A M A C J S K Senarathne
Legal Division
Chief Manager

Mr S A A Batuwanthudawa
Credit Division
Chief Manager

Ms D A V Wijewantha
Kiribathgoda Branch
Branch Manager

Ms S H A S Kumari
Superannuation Division
Chief Manager

Ms N I Gunathilake
Credit Division
Chief Manager

Mr H D U Susantha Kumara
Badulla Branch
Branch Manager

Mr P A G L Hemal
Wennappuwa Branch
Branch Manager

Ms S Mishba
Kandy Postal Branch
Branch Manager

Ms G Hapuarachchi
Kandy Branch
Branch Manager

Ms J M A K Jayasinghe
City Branch
Branch Manager

Ms K B N C Kumari
Finance and Planning Division
Chief Manager

Ms M S E Halkewela
Galle Branch
Chief Manager (Legal)

Mr A M G Alahakoon Banda
Gampaha Branch
Branch Manager

Mr T D P Perera
HR Division
Chief Manager (Personnel)

Mr M T Hussain
Information Tecnology Division
Chief Manager – ICT Operations

Ms R R D S Dharmawickrama
Ja-Ela Branch
Branch Manager

Ms K C Thayaananthan
Chunnakam Branch
Branch Manager

Ms M D T Perera
Marketing Division
Chief Manager

Ms W E C Perera
Risk Management Division
Chief Manager

Mr J L P Manjula
Risk Management Division
Chief Manager

Ms O G W M Gaurawawansa
Treasury Back Office Unit
Chief Manager

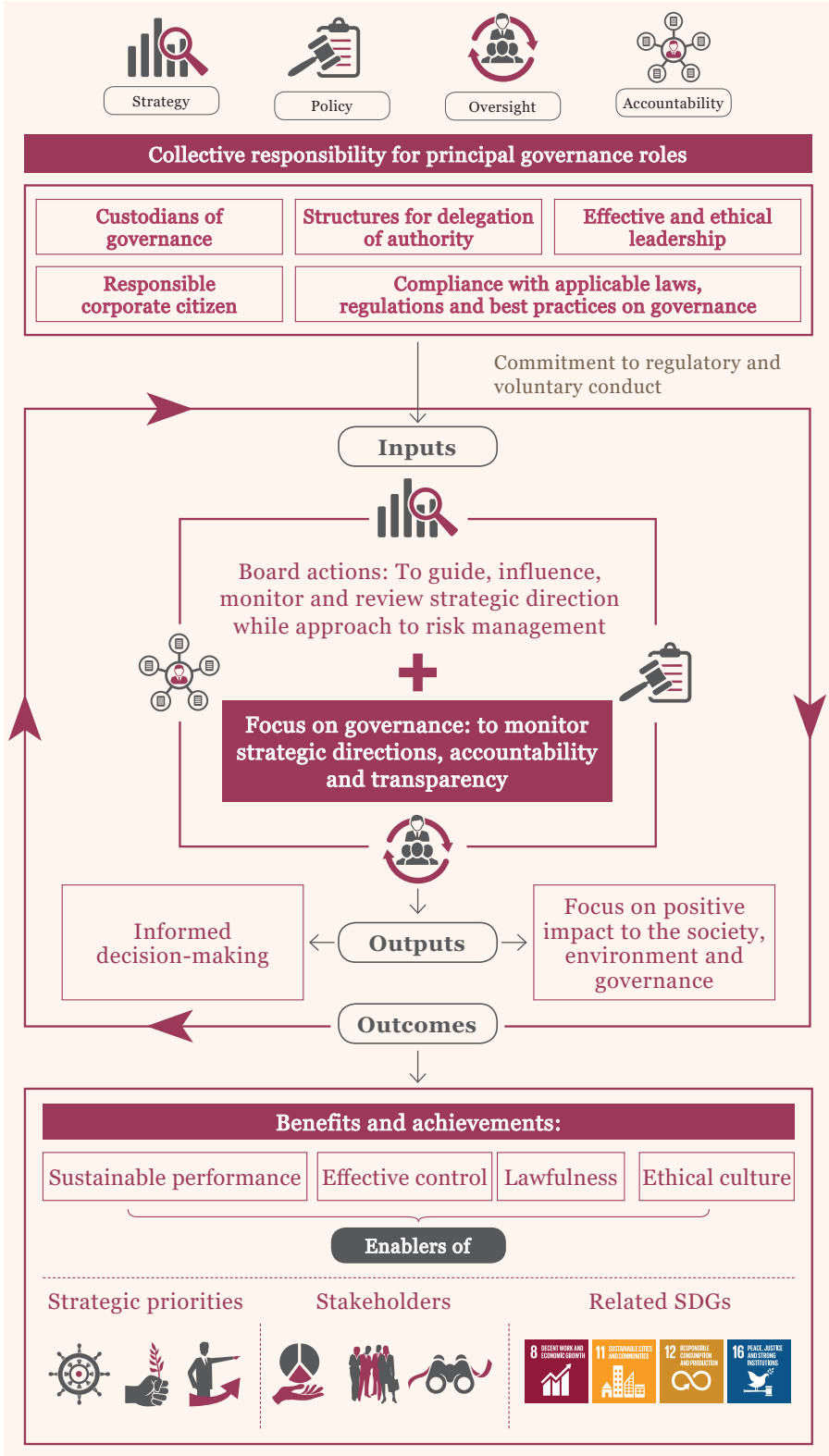
Statement on Corporate Governance

At NSB, we consider governance is not simply a matter of compliance. It is the golden thread that binds all the elements of our value creation story together. Governance is integrated into the way we think and thus the way we operate, ensuring we make choices which are aligned with our values and strategic objectives to enable long-term value creation, while being transparent and accountable for our actions.

Governance is underpinned by effective leadership, oversight and management accountability based on sound ethical foundation. The NSB mandate sets out the responsibilities of the Board and the Management. The Board is principally responsible for directing and overseeing the affairs of the Bank balancing the shareholder and of shareholder interests while ensuring the Bank's economic, social and environmental sustainability. The Board leads the Bank in its achievement of strategic objectives by directing and approving the Bank's overall strategy and associated operational objectives. The Board has delegated its powers to the Board Committees and the Corporate Management headed by the General Manager/CEO in execution of its strategies.

The Board is accountable for leading the Bank ethically and effectively. The qualities of integrity, competence, responsibility, fairness and transparency are cultivated and exhibited through compliance with legislation, applicable policies, rules, binding laws and codes, underscoring its responsibilities as a responsible corporate citizen. The Board therefore has considered Governance as a business enabler in achieving its strategic priorities and stakeholder objectives.

For detailed corporate governance of the Bank and the status of compliance refer **Book 02** Compendium.



Statement on Risk Management

Risk management is a central component of our business model and corporate strategy that are geared for sustainable value creation. We adopt an informed and transparent approach in managing risks. Our overall objective is to manage operations and the associated risks in prudent manner serving the interests of stakeholders. The risk management function of our Bank requires to identify, assess, measure, aggregate, and manage risks and to monitor optimum capital allocation among business operations. Any gaps in managing the impact from internal and external risks negatively affect our primary strategic objective of value creation as it would tarnish our reputation, affect financial performance, or lead to regulatory non-compliances.

The business strategy of our Bank is aligned with integrated risk management strategy and the risk appetite which is set at the Board level. The Board Integrated Risk Management Committee (BIRMC) which is a Board appointed subcommittee of the Bank, creates awareness about the effectiveness and appropriateness of the risk management strategies put in place by the Board. The scope of risk management extends beyond NSB to our fully-owned subsidiaries, NSB Fund Management and Sri Lanka Savings Bank.

Outlook

The integrated risk management framework will be strengthened further with the strategic changes in business operations due to upgrading of technological infrastructure. This will support continuous developments in the risk management framework in compliance with the international best practices and the CBSL regulatory framework.

Risk management at NSB

Withstanding the challenging operating context in 2019, our Bank remained resilient and stable adopting an effective and stringent risk management framework. Our risk management framework evolves with emerging risks arising from a dynamic and challenging operating environment. Our risk appetite is set through the convergence of top down and bottom up approach. The risk appetite is closely measured and monitored against the predetermined limits on a regular basis.

For detailed information on National Savings Bank's risk management refer to **Book 02** Compendium on pages 248 to 274.

Financial Reports

NSB's financial performance and position for the year 2019 as depicted by the Income Statement, Statement of Comprehensive Income and Statement of Financial Position. The Financial Statements along with the Notes to the Financial Statements are depicted in Book 2 Compendium under Financial Reports.

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Income Statement

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Statement of Comprehensive Income

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Statement of Financial Position



Income Statement

For the year ended 31 December	Note	Bank 2019 Rs. '000	Bank 2018 Rs. '000	Bank Change %	Group 2019 Rs. '000	Group 2018 Rs. '000	Group Change %
Gross income	3	**121,929,059**	111,902,078	9	**125,810,171**	112,760,454	12
Interest income		**118,729,784**	110,506,931	7	**120,351,774**	111,718,948	8
Less: Interest expenses		**89,897,770**	85,622,275	5	**90,868,139**	86,460,269	5
Net interest income	4	**28,832,014**	24,884,656	16	**29,483,635**	25,258,679	17
Fee and commission income		**1,261,268**	1,005,262	25	**1,269,521**	1,008,482	26
Less: Fee and commission expenses		**131,954**	141,196	(7)	**136,838**	144,685	(5)
Net fee and commission income	5	**1,129,314**	864,066	31	**1,132,683**	863,797	31
Net gain/(loss) from trading	6	**1,491,610**	(707,433)	311	**1,963,229**	(1,062,421)	285
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	7	**–**	–		**–**	–	
Net gains/(losses) from derecognition of financial assets	8	**22,021**	6,906	219	**22,021**	6,906	219
Net other operating income	9	**424,376**	1,090,412	(61)	**2,203,626**	1,088,539	102
Total operating income		**31,899,335**	26,138,607	22	**34,805,194**	26,155,500	33
Less: Impairment charges	10	**565,536**	871,049	(35)	**590,700**	870,994	(32)
Net operating income		**31,333,799**	25,267,558	24	**34,214,494**	25,284,506	35
Less: Expenses							
Personnel expenses	11	**10,157,926**	9,262,705	10	**10,217,978**	9,302,548	10
Depreciation and amortisation expenses		**1,042,933**	638,795	63	**1,048,095**	639,779	64
Other expenses	12	**4,474,053**	4,194,979	7	**4,461,457**	4,160,782	7
Operating profit before value added tax (VAT), nation building tax (NBT) and debt repayment levy (DRL) on financial services		**15,658,887**	11,171,079	40	**18,486,964**	11,181,397	65
Less: VAT on financial services		**3,045,921**	2,577,657	18	**3,208,584**	2,584,220	24
NBT on financial services		**366,157**	343,688	7	**383,614**	344,563	11
DRL on financial services		**1,785,171**	308,371	479	**1,803,225**	308,371	485
Operating profit after VAT, NBT and DRL on financial services		**10,461,638**	7,941,364	32	**13,091,541**	7,944,243	65
Share of profits of associates and joint ventures		**–**	–	–	**–**	–	–
Profit before income tax		**10,461,638**	7,941,364	32	**13,091,541**	7,944,243	65
Less: Income tax expenses	13	**3,763,405**	3,441,213	9	**4,061,569**	3,444,056	18
Profit for the year		**6,698,233**	4,500,151	49	**9,029,972**	4,500,187	101
Profit attributable to:							
Equity holders of the Bank		**6,698,233**	4,500,151	49	**9,029,972**	4,500,187	101
Non-controlling interests		**–**	–	–	**–**	–	–
Profit for the year		**6,698,233**	4,500,151	49	**9,029,972**	4,500,187	101
Earnings per share on profit							
Basic earnings per ordinary share (Rs.)	14	**7.13**	6.72	6	**9.61**	6.72	43
Diluted earnings per ordinary share (Rs.)		**7.13**	6.72	6	**9.61**	6.72	43
Profit for the year		**6,698,233**	4,500,151	49	**9,029,972**	4,500,187	101

Statement of Comprehensive Income

For the year ended 31 December	Bank			Group		
	2019 Rs. '000	2018 Rs. '000	Change %	**2019 Rs. '000**	2018 Rs. '000	Change %
Profit for the year	**6,698,233**	4,500,151	49	**9,029,972**	4,500,187	101
Items that will be reclassified to income statement						
Exchange differences on translation of foreign operations	–	–	–	–	–	–
Net gains/(losses) on cash flow hedges	–	(291,924)	(100)	–	(291,924)	(100)
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	–	–	–	–	–	–
Share of profits of associates and joint ventures	–	–	–	–	–	–
Debt instruments at fair value through other comprehensive income	**127,928**	(127,741)	200	**227,305**	(149,144)	252
Less: Fair value gains/(losses) transferred to income statement on disposal of debt instrument at fair value through other comprehensive income	**(13,717)**	1,370	(1,101)	**(13,717)**	1,370	(1,101)
Less: Tax expense relating to items that will be reclassified to income statement	–	–	–	–	–	–
Total items that will be reclassified to income statement	**114,211**	(418,295)	127	**213,588**	(439,698)	149
Items that will not be reclassified to income statement						
Change in fair value on investments in equity instruments designated at fair value through other comprehensive income	**(324,635)**	(690,435)	(53)	**(320,297)**	(690,435)	(54)
Change in fair value attributable to change in the Bank's own credit risk on financial liabilities designated at fair value through profit or loss	–	–	–	–	–	–
Remeasurement of post-employment benefit obligations	**(3,700,967)**	(210,861)	1,655	**(3,702,344)**	(211,258)	1,653
Changes in revaluation surplus	–	–	–	–	–	–
Share of profits of associates and joint ventures	–	–	–	–	–	–
Less: Tax expense relating to items that will not be reclassified to income statement	–	–	–	–	–	–
Total items that will not be reclassified to income statement	**(4,025,602)**	(901,296)	347	**(4,022,641)**	(901,694)	346
Other comprehensive income for the year, net of taxes	**(3,911,391)**	(1,319,591)	196	**(3,809,053)**	(1,341,392)	184
Total comprehensive income for the year	**2,786,842**	3,180,560	(12)	**5,220,919**	3,158,795	65
Attributable to:						
Equity holders of the Bank	**2,786,842**	3,180,560	(12)	**5,220,919**	3,158,795	65
Non-controlling interests	–	–	–	–	–	–
Total comprehensive income for the year	**2,786,842**	3,180,560	(12)	**5,220,919**	3,158,795	65

Statement of Financial Position

As at 31 December	Note	Bank 2019 Rs. '000	Bank 2018 Rs. '000	Bank Change %	Group 2019 Rs. '000	Group 2018 Rs. '000	Group Change %
Assets							
Cash and cash equivalents	16	**5,376,715**	3,434,524	57	**5,564,824**	3,436,929	62
Balances with central banks	17	**–**	–	–	**58**	177	(67)
Placements with banks	18	**12,364,469**	17,588,445	(30)	**15,745,184**	17,588,445	(10)
Derivative financial instruments	19	**11,622**	4,740,106	(100)	**11,622**	4,740,106	(100)
Financial assets recognised through profit or loss	20						
– measured at fair value		**11,459,882**	16,680,382	(31)	**22,130,273**	26,867,533	(18)
– designated at fair value		**–**	–	–	**–**	–	–
Financial assets at amortised cost							
– loans and advances	21	**454,394,957**	422,894,740	7	**456,636,285**	422,919,713	8
– debt and other instruments	22	**615,634,321**	518,947,969	19	**619,567,786**	522,973,159	18
Financial assets measured at fair value through other comprehensive income	23	**3,478,811**	6,184,430	(44)	**4,626,582**	7,788,560	(41)
Investments in subsidiaries	24	**4,811,000**	1,700,000	183	**–**	–	–
Investments in associates and joint ventures	25	**–**	–	–	**–**	–	–
Property, plant and equipment	26	**14,163,454**	13,465,755	5	**14,457,494**	13,468,776	7
Right of used assets	27	**1,073,507**	–	100	**1,130,868**	–	100
Investment properties	28	**–**	–	–	**333,315**	–	100
Goodwill and intangible assets	29	**–**	–	–	**–**	–	–
Deferred tax assets	30	**–**	–	–	**338**	73	363
Other assets	31	**35,197,923**	31,209,216	13	**35,370,115**	31,532,684	12
Total assets		**1,157,966,664**	1,036,845,567	12	**1,175,574,745**	1,051,316,155	12
Liabilities							
Due to banks	32	**35,045,251**	77,119,146	(55)	**36,139,122**	83,615,264	(57)
Derivative financial instruments	33	**–**	1,533	(100)	**–**	1,533	(100)
Financial liabilities recognised through profit or loss	34	**–**	–	–	**–**	–	–
Financial liabilities at amortised cost	35						
– due to depositors		**1,016,574,286**	839,574,411	21	**1,015,635,421**	839,574,411	21
– due to debt securities holders		**–**	–		**–**	–	–
– due to other borrowers		**21,203,242**	14,804,802	43	**32,808,023**	21,750,178	51
Lease liability	36	**1,066,882**	–	100	**1,121,441**	–	100
Debt securities issued	37	**26,691,711**	52,389,133	(49)	**26,955,697**	52,389,133	(49)
Retirement benefit obligations	38	**6,508,707**	3,830,795	70	**6,536,687**	3,832,777	71
Current tax liabilities	39	**–**	–	–	**565,704**	–	100
Deferred tax liabilities	30	**547,250**	582,463	(6)	**548,014**	582,463	(6)
Other provisions	40	**–**	–	–	**–**	–	–
Other liabilities	41	**5,951,464**	5,447,277	9	**7,430,415**	5,452,317	36
Due to subsidiaries	42	**547**	750	(27)	**–**	–	–
Total liabilities		**1,113,589,340**	993,750,308	12	**1,127,740,523**	1,007,198,076	12

As at 31 December	Note	Bank 2019 Rs. '000	Bank 2018 Rs. '000	Bank Change %	Group 2019 Rs. '000	Group 2018 Rs. '000	Group Change %
Equity							
Stated capital/assigned capital	43	**9,400,000**	9,400,000	–	**9,400,000**	9,400,000	–
Statutory reserve fund	44	**3,562,872**	3,227,960	10	**3,571,214**	3,227,960	11
Retained earnings	45	**4,464,442**	3,984,674	12	**7,233,981**	4,561,045	59
Other reserves	46	**26,950,010**	26,482,625	2	**27,629,027**	26,929,074	3
Total shareholders' equity		**44,377,324**	43,095,259	3	**47,834,222**	44,118,079	8
Non-controlling interests	47	**–**	–	–	**–**	–	–
Total equity		**44,377,324**	43,095,259	3	**47,834,222**	44,118,079	8
Total equity and liabilities		**1,157,966,664**	1,036,845,567	12	**1,175,574,745**	1,051,316,155	12
Contingent liabilities and commitments	48	**10,355,197**	4,481,397	131	**10,691,602**	4,481,397	139
Memorandum information							
Number of employees		**4,715**	4,512				
Number of branches		**256**	255				

Note: Amounts stated are net of impairment and depreciation.

The Notes to the Financial Statements disclosed on pages 306 to 424 are integral parts of these Financial Statements.

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 31 December 2019 and its profit for the year ended.

Kithsiri Wijeyaratne
Senior 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,

Ms Keasila Jayawardena
Chairperson

Dr Kapila Senanayake
Director

Damitha Rathnayake
Acting General Manager/CEO

24 March 2020

Colombo
Sri Lanka

Corporate Information

Name of the Bank
National Savings Bank

Legal Form
GRI 102-5
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
GRI 102-3
"Savings House",
No. 255, Galle Road, Colombo 03,
Sri Lanka.
Tel: +94 11 257 3008-15
Fax: +94 11 257 3178
E-mail: nsbgen@nsb.lk
Website: http://www.nsb.lk
Swift Code: NSBALKLX
Bank Code: 7719
Tax Payer Identification Number (TIN): 409046266

Service Outlets
256 Branches
334 ATMs/CRMs

Agency Network
653 Post Offices and 3,410 Sub-post Offices throughout the Island.

Local Ratings
[SL] AAA (Stable) credit rating by ICRA Lanka Limited

Global Ratings
Standard and Poor's international credit rating B- with Stable Outlook

Board of Directors*
Ms Keasila Jayawardena – (Chairperson)
Mr U G R Ariyaratne – Director (Ex Officio)
Dr M K C Senanayake – Director (Ex Officio)
Dr Thiran De Silva – Director
Ms Manohari Abeysekera – Director
Mr Eranga Jayewardene – Director

Acting General Manager/CEO
Ms Damitha Rathnayake

Board Secretary
Ms M A P Muhandiram

Board Audit Committee (BAC)*
Ms Manohari Abeysekera (Chairperson)
Dr M K C Senanayake

Board Integrated Risk Management Committee (BIRMC)*
Dr M K C Senanayake (Chairman)
Ms Manohari Abeysekera

Board Human Resource and Remuneration Committee* (BHRRC)
Ms Keasila Jayawardena (Chairperson)
Dr Thiran De Silva
Mr U G R Ariyaratne

Board Nomination Committee* (BNC)
Mr U G R Ariyaratne – (Chairman)
Dr Thiran De Silva
Dr M K C Senanayake

Board Credit Committee (BCC)*
Ms Keasila Jayawardena – (Chairperson)
Mr Eranga Jayewardene
Ms Manohari Abeysekera

Board IT Strategy Committee* (BITSC)
Dr Thiran De Silva – (Chairman)
Mr Eranga Jayewardene
Ms Manohari Abeysekera

Compliance Officer
Ms I K L Sasi Mahendran

Auditors
Auditor General

Accounting Year
31 December

Subsidiaries of National Savings Bank
Name of the Company
NSB Fund Management Co. Ltd.

Registered Office and Head Office
No. 400, Galle Road, Colombo 03,
Sri Lanka.
Tel: +94 11 2425010-12, 2565957
Fax: +94 11 2564706, 2574387
E mail: nsbfmc@nsb.lk
Website:
https://www.nsb.lk/fund-management
Swift Code: NSBFLKLXXXX
Tax Payer Identification Number (TIN): 134008512

Board of Directors
Ms Keasila Jayawardena – (Chairperson)
Mr U G R Ariyaratne – Director
Ms Manohari Abeysekera – Director
Dr Thiran De Silva – Director
Mr W O Rodrigo – Director
Ms Damitha Rathnayake – Director

Chief Executive Officer
Mr D L P Abayasinghe

Auditors
Auditor General

Company Secretary
Ms Farzana Aniff

Name of the Company
Sri Lanka Savings Bank Limited

Registered Office and Head Office
No. 265, Ward Place, Colombo 07,
Sri Lanka.
Tel: +94 11 267 4700-3, 2691721-2
Fax: +94 11 267 4705-7
E-mail: info@slsbl.lk
Tax Payer Identification Number (TIN): 134013370

Board of Directors
Ms Keasila Jayawardena – (Chairperson)
Mr Sunil Galagama – Director
Mr H D P Gamage – Director
Mr N P Imbulagoda – Director
Mr Janaka Arunashantha – Director

Auditors
Auditor General

Company Secretary
Ms A R Ramya Piyasekara

** Given information are of the present Board of Directors and Board Subcommittees. Refer page 201 to 205 in the section of Corporate Governance for details of the Board of Directors and Board Subcommittees during the year 2019.*



This Annual Report is Carbon Neutral

Produced by Smart Media (Pvt) Limited, a carbon neutral company that offsets its direct and indirect GHG emissions through verified sources.



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www.carbonfund.org

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