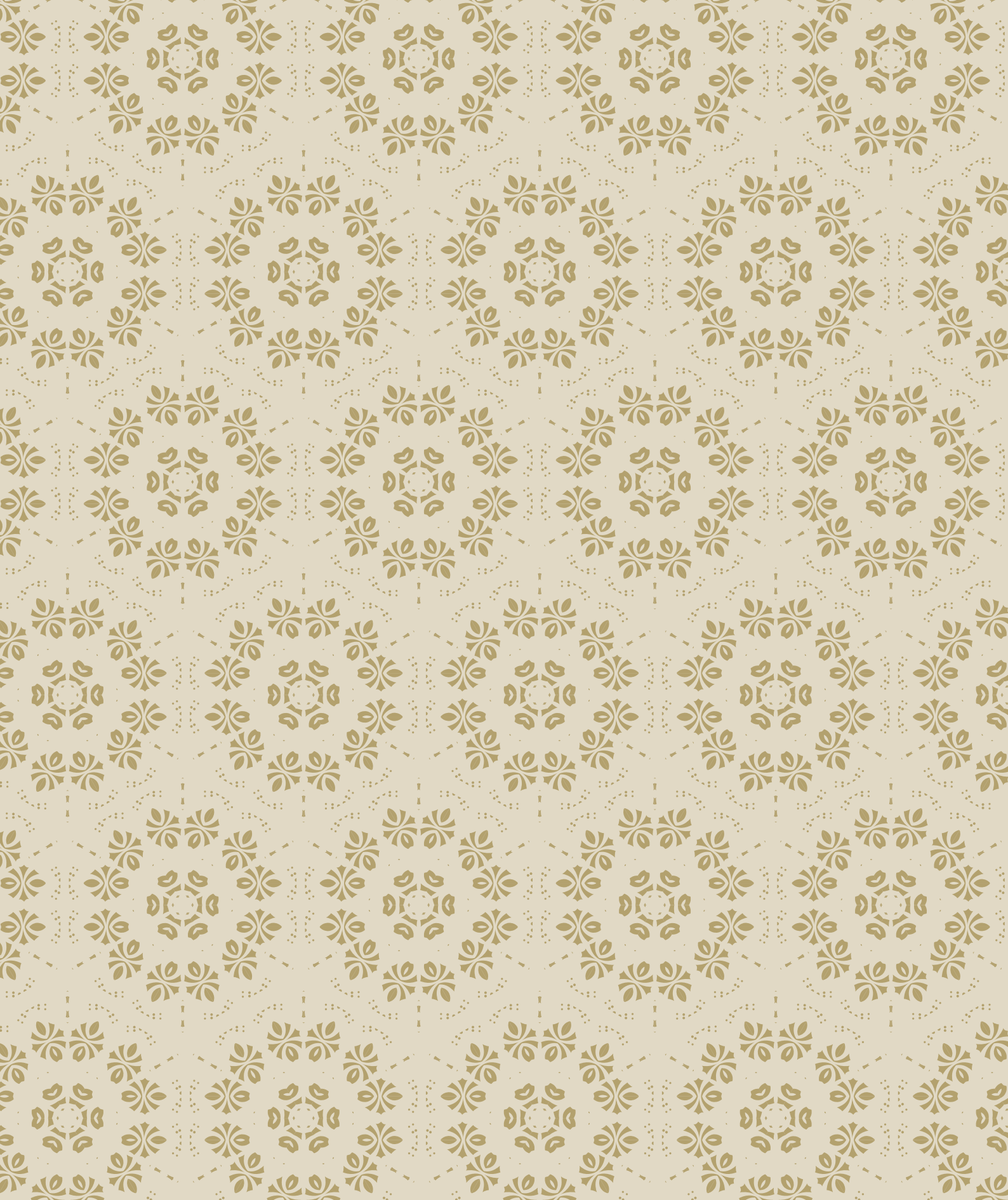




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ANNUAL REPORT 2012







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NATIONAL SAVINGS BANK | ANNUAL REPORT 2012

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NATIONAL SAVINGS BANK | ANNUAL REPORT 2012

*...a savings bank that is loved, trusted and
known everywhere, as the partner for
Inculcating savings habit among people.*



VISION

The most reliable and sought after choice for savings and investments solutions.





MISSION

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

VALUES

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



*"Today we are stronger than ever;
empowered by our strong roots to our
past and still holding the values and
traditions that have made us who we
are today:..."*



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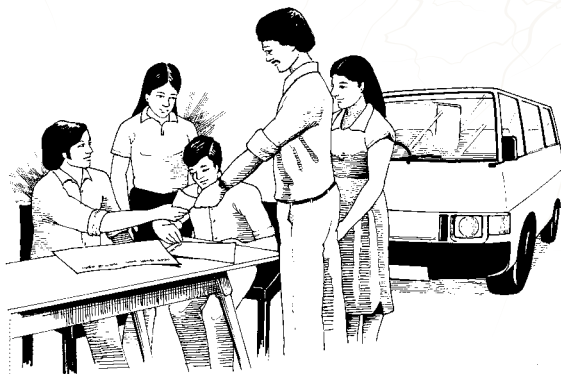
For over 40 years, the National Savings Bank has been a beacon of hope and reliable friend to thousands of Sri Lankans from all across the island. We have been at the forefront in creating and spreading the habit of savings to every citizen of our nation. Our heritage is unmatched: we were the first Post Office Savings Bank, that operates continuously through the islandwide network of national post offices - serving remote regions and people who have little or no access to a wide range of banking services.

1832 - 2012 THE LONG JOURNEY...CONTINUES



1972

Establishment of National Savings Bank, a single entity incorporating Ceylon Savings Bank (est 1832), Ceylon Post Office Savings Bank (est 1885), Savings Certificate Section of the Postmaster General's Department (est 1938) and National Savings Movement (est 1942).



1981

Implementation of Mobile Banking



PARLIAMENT OF THE DEMOCRATIC
SOCIALIST REPUBLIC OF
SRI LANKA

NATIONAL SAVINGS BANK
(AMENDMENT)
ACT, No. 28 OF 1995

1995

Business Diversification through
Amendment of NSB Act



1979

Introduction of Savings Certificates with a draw



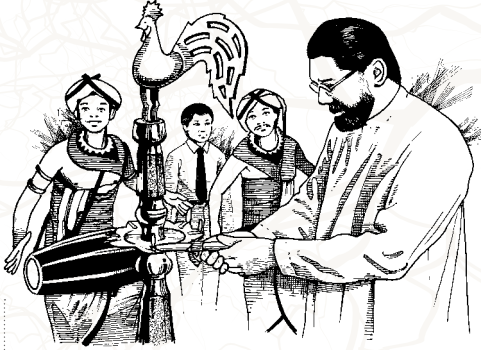
1994

Introduction of
Automated Teller
Machine



1998

Launch of Children's Savings Scheme "Hapan
& Punchi Hapan"



• **1999**

Opening of 100th Branch – Nittambuwa



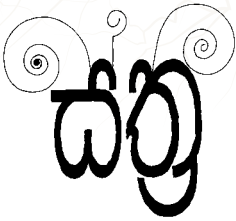
• **1999**

Introduction of Ithuru Mithuru savings scheme for youth

NSB
Fund Management
COMPANY LIMITED

• **2000**

Establishment of subsidiary company



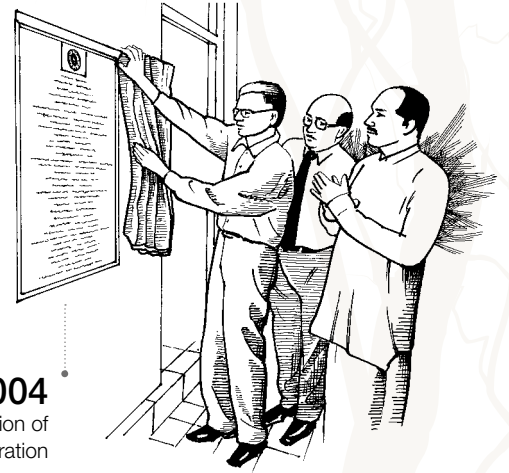
• **2002**

Launch of new products
"Sthree & Friends"

FitchRatings AAA (Sri)

• **2003**

Obtained AAA (Sri) Credit Rating from
Fitch Ratings



• **2004**

Inauguration of
IBU Operation



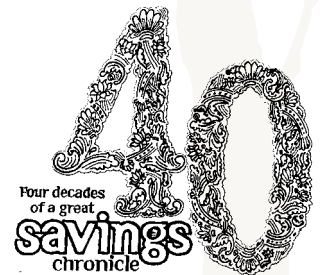
• **2008**

Establishment of NSB Call Centre which
functions 24 x 7



• **2011**

Opening of 200th Branch – Medawachchiya



• **2012**

Celebration of 40th Anniversary

HOW WE PERFORMED IN 2012

FINANCIAL HIGHLIGHTS

NET PROFIT

4.3b

CAPITAL ADEQUACY RATIO

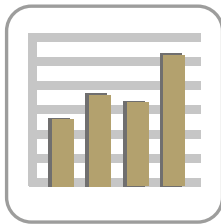
20.4%

NET ASSETS

24.3b

REVENUE

53b



Deposit Base
Reached 458 Billion



Long Term Credit Rating
by Fitch for the 10th
Consecutive Year



Asset Base
Surpassed 500 Billion

HOW WE PERFORMED IN 2012

FINANCIAL HIGHLIGHTS

	Bank			Group		
	2012	2011	%	2012	2011	%
	Rs.Million	Rs.Million	Growth	Rs.Million	Rs.Million	Growth
Results for the Year						
Gross Income	53,045	46,545	14	54,152	47,532	14
Net Interest Income	13,531	17,800	(24)	13,714	18,104	(24)
Net Profit Before Income Tax	6,169	9,255	(33)	6,221	9,411	(34)
Income Tax on Profit	1,838	3,193	(42)	1,881	3,307	(43)
Net Profit After Taxation	4,331	6,062	(29)	4,341	6,104	(29)
Contribution to the Government	5,900	7,970	(26)	5,952	8,103	(27)
At the Year End						
Total Assets	509,694	465,974	9	519,270	479,881	8
Loans & Investments	498,151	455,914	9	507,680	469,764	8
Deposits from Customers	457,650	421,849	8	457,650	421,849	8
Shareholders' Funds (Capital and Reserves)	24,336	23,052	6	25,586	24,293	5
Ratios						
Return on Average Shareholder's Funds (%)	18.3	26.6		17.4	25.4	
Return on Assets (%)	1.3	2.1		1.2	2.1	
Net Interest Margin (%)	2.8	4.1		2.7	4.0	
Liquidity Ratio (%)	69.5	74.4		-	-	
Tier I (%) (Statutory Minimum Ratio Required is 5%)	20.4	20.1		21.3	20.5	
Tier I & II (%) (Statutory Minimum Ratio Required is 10%)	19.1	17.7		21.2	18.2	
Cost: Income (%)	54.6	45.4		54.4	45.0	
Non-Financial Indicators						
Branches	219	210		-	-	
Agents (Post Offices & Sub-Post Offices) (No.)	4,053	4,058		-	-	
Accounts Holders (Million)	17.47	17.0		-	-	
Staff (No)	3,128	3,275		-	-	
School Bank Units (No.)	1,185	349		-	-	
ATMs (No.)	231	221		-	-	





CHAPTER 1

FIRMLY ANCHORED

STRATEGY AND VISION



A MESSAGE FROM MR SUNIL S. SIRISENA
CHAIRMAN

“Our relationship with customers must become a visible asset...”

“We need to forge our own path to achieve intended growth. We need to believe in what we do. We have already initiated this by working on our penetration and accessibility strategy, as we believe it is better to be highly visible in locales that will embrace us and complement us than to place ourselves in the same space and level as our competitors.”

A MESSAGE FROM MR SUNIL S. SIRISENA

CHAIRMAN

Four decades back, when we became a reality, our founder, Dr N M Perera had one vision in mind. A bank that would inculcate the virtue of saving among the public; a bank that would facilitate not only the rich and the privileged but also encourage the rural masses to save.

With my appointment as chairman of NSB, I took it upon my duty to analyse our past, the present and to envision our Bank's future in a national context.

There's an age - old adage which goes "Times change and we with time". Likewise, times have certainly changed since the days of our founding; our country has emerged into a new era where national development is an imperative. National Savings Bank too has transformed into a dynamic entity that has consistently returned superlative performances. While assuring you that this organisation will continue to pursue the principles of enterprise, I'm also a strong proponent of the Bank's founding principles of inculcating the savings habit. In fact, it is high time that we, National Savings Bank set a new benchmark as the savings leader of the country. It is time

we distinguished ourselves and stood out from the rest as opposed to being one of many. In this light, capitalising on the concept of school banking will be the key in moulding the future not only of our bank but also of our nation in the years to come.

I also believe it is important to reinforce our roots and the strong traditions, ethics and values of our past, that are intertwined with postal banking, in our journey forward.

Competitive playing field

One fact is crystal clear. With virtually limitless options out there, this is a great time to be a customer. We, on the other hand, while narrowed by our Act, must compete with the extensive product portfolios of other commercial banks, amidst formidable competition.

Hence, it is vital that we take advantage of our competitive strength being the one and only bank in Sri Lanka with government guarantee on deposits and interest liability, an assurance that depositors' hard earned savings will always be safe.

We need to meet the competition head on and forge our own path to achieve intended growth. We need to believe in what we do. We have already initiated this by working on our penetration and accessibility strategy, as we believe it is better to be highly visible in locales that will embrace us and complement us than to place ourselves in the same space and level as our competitors.

Reaching out to the underserved

Our focus for this year, as the National Savings Bank is to serve as a conduit in providing a secure saving and investment proposition to the rural masses in general, with a special focus on untapped segments in farming and fishing industries, the self-employed and the entrepreneurs.

NSB team members are being encouraged to interact with these prospective stakeholders, by reaching out to them, and becoming active participants in their local communities. We are a service entity and that entails going to our customers and would be customers, who have the means and desire to save but lack the opportunity for same. We intend to promote this culture

A MESSAGE FROM MR SUNIL S. SIRISENA
CHAIRMAN

“NSB team members are being encouraged to interact with these prospective stakeholders, by reaching out to them, and becoming active participants in their local communities.”

of seeking out customers, by mobilising branch teams to make extensive field visits and strategically deploying mobile units to rural areas, to be based in particular locations where the community gathers on designated days.

As I mentioned earlier, I’m also highly enthusiastic about promoting school banks because this not only inculcates the savings habit at a very young and formative age, but also creates opportunity for long term deposits, the funds of which could be channeled towards the larger macro – development canvas. With approximately 9,700 schools across the island, the opportunities are many.

A warm welcome

I’ve felt most welcomed by the Board of Directors, the CEO and the National Savings Bank Team. Their support has been immense and this has given me added impetus to ensure that I spearhead the Bank to newer heights.

Appreciations

Many people have contributed towards the NSB success story this year and it is my duty to extend them our appreciation for their support. I am grateful to His Excellency the President, the Deputy Minister of Finance and Planning and the Secretary to the Treasury for their constant guidance. The Governor of the Central Bank, the Auditor General, the Attorney General and their officials as well as heads of other statutory bodies must be thanked for their ready assistance. The Postmaster General and officials of Sri Lanka Post, Postmasters, Sub Postmasters, and other officials have extended vital assistance to us in our efforts to reach the grassroots-my sincere appreciations go out to them.

In a customer – centric market where so many attractive options are on offer, it is

the loyalty and trust of our customers that have driven our success – I thank each and every one of them.

The NSB Staff, who I have just begun to get to know, have struck me as a professional and motivated group of people who truly believe in the values of this organisation. My thanks to all of them and I look forward to working closely with them to achieve our vision.

I’m enthusiastic about the journey we have embarked on, knowing full well that we will face challenges along the way. But when we place our age old fundamentals side by side with our pragmatic strategies for the future, I’m certain we are on the right track.



Sunil S Sirisena
Chairman

Colombo
28 March 2013



A REVIEW BY
MR. HENNAYAKE BANDARA
GENERAL MANAGER / CEO

“Today we reaffirm our vision on being the most reliable savings bank in the country.”

Sustainable economies are built on sustainable savings. Whether rural or urban, the concept of savings must be part of the process of development. In the bigger picture of national development, this is a responsibility we have been mandated.

A REVIEW BY MR HENNAYAKE BANDARA
GENERAL MANAGER / CEO

“The five thousand customer access points that now constitute the largest individual banking network in the country mean we have the ability to be in touch with the people of this nation anywhere, at any time.”

The National Savings Bank has a formidable legacy of over 180 years as the nation’s premier savings bank.

This means that we have been steering the course of Sri Lanka’s savings culture for nearly two centuries: evidence of how firmly we are rooted in this land, its past, its transformational chapters and its progress into the future.

Our long history informs our future, showing just how inextricably the Bank’s operations are intertwined with the traditions, conventions and values that are a vital part of the nation’s heritage; that our firm roots in those fundamentals have made us integral to this country’s developmental journey.

Today we reaffirm our vision and focus on being the most reliable and sought after savings and investment solution option for the people of this land. We do so by bringing the values and practices of long term corporate social responsibility into every transaction we undertake, by looking to our roots in the nation’s history, of being the original, most trusted National Savings Bank. This is our vision and we will never lose sight of it .

To achieve these ambitions we have reached out to the people wherever they are, in the remotest regions of the island. The five thousand customer access points that now constitute the largest individual banking network in the country mean we have the ability to be in touch with the people of this nation anywhere, at any time.

Sustainable economies are built on sustainable savings. Whether rural or urban, the concept of savings must be part of the process of development. In the bigger picture of national development, this is a responsibility we have been given or mandated perhaps, to develop a strong

savings base that offers the people of Sri Lanka the assurance that their savings are guaranteed by the Government of Sri Lanka and therefore safe with us and that their savings make them key players in the country’s developmental agenda.

A new chapter is written

Our Board was changed in mid 2012 and as it did so, we once again reflected on our roots. Questions were asked and the answers brought us back to our core purpose of being a savings bank. I’m most excited that our Board, led by the Chairman Mr Sunil Sirisena envisions our future in a business context that will surely be ambitious. I am most appreciative of the fact that the eminent individuals who form our Board bring great expertise and experience to the table and continue to give me leadership and guidance to lead the Bank forward.

My team is the foundation upon which we plan to grow. They are unique as they not only believe that they can achieve the impossible, but also they can drive the Bank forward on this journey. Working together we can surely triumph in whatever we set out to do.

A REVIEW BY MR HENNAYAKE BANDARA
GENERAL MANAGER / CEO

The challenges however were many

However, everything was certainly not rosy. We were hurt, quite a number of times in fact. The negative publicity that ensued as a result of the The Finance Co. Plc share transaction by the NSB in late April 2012 did not reflect well on us. The year under review therefore presented us with numerous challenges that affected the smooth operation of our day to day activities.

We have now turned the corner and put that chapter behind us. We believe we have regained any confidence that we may have lost due to this issue, emphasizing more than ever that our deep roots and excellent reputation will continue to be our strength and anchor in the years ahead. Even though we have always strived for the best practice in governance, ethics, transparency and accountability, this episode made us even more aware of our responsibilities towards our many stakeholders. We went back to the drawing board and re-analysed our corporate governance and best management practices. We placed on record the lessons we learned and established even more stringent

governance and regulation in order to guard against the recurrence of such transgressions. We are very conscious that good governance must be maintained at all costs.

So what were our achievements in 2012?

We took our ambitious objective of reaching the people any time, anywhere, further this year by adding nine branches to the existing network. This expansion is part of our strategic plan founded on customer aspirations and the need for us to be accessible in identified locations.

Our partnership with the people must be nurtured from the beginning. Our name “National Savings Bank” must be etched in young minds. While we do have dedicated products for infants, youth and even senior citizens, it is to the schools that we have now turned our attention.

The school banking operation we began 40 years ago has been one of the best strategies we have put into action. It has succeeded in bringing thousands of students into the savings net. This success combined with the pro-active educational programmes we conduct in the schools

and our offering of scholarships for high achievers, makes us confident that we have successfully created a savings culture among students. We believe that we have steered them towards a firm belief in the value of long-term savings - one that will persist into their adult years.

This large accrual of savings gives us the flexibility to prudently invest in the many national development programs designed to safeguard the future of these very stakeholders: our youth - the adults of tomorrow.

Another essential feature in our strategy is our conviction that every Sri Lankan must have their primary needs met. Good housing is one of these needs - one that is aligned to the Mahinda Chinthana Goals that dictate shelter for all. Our products – the Mihindu Sevana Housing Loan and Ithurum Nivasa Housing Loan both did exceptionally well this year, due in part to the fact that we have brought added flexibility and speed into the approval process.

There was immense competition in the deposit mobilization arena within the banking industry. Given that our mandate precludes us from pursuing

A REVIEW BY MR HENNAYAKE BANDARA

GENERAL MANAGER / CEO

some opportunity areas, growing deposits is certainly a challenge, especially since we compete with other commercial banks. The challenge led us to rethink our strategies in more innovative ways in order to meet our targets in deposit mobilization.

One of our strategic routes is the restructuring of our branch operations in 2013. As part of this plan, we reorganised our team to be ‘field people’ who would have face-to-face contact with our stakeholders. In this way, NSB would be represented by more than simply our bold orange signage; our customers would now meet caring, responsive service people who would always be accessible to them. The branch office network became the base upon which we would grow our business and with this came expanded branch autonomy as well.

The restructuring will be based on a Regional Management System and is designed to improve the overall efficiency of the branch network which we plan to expand exponentially in the next few years. The branches will be headed by Regional Managers who will be fully responsible for branch performance and

for turning them into independent profit centers. The managers will be identified leaders who will have total discretionary power and authority, supported by a trained team that will focus on capitalizing on market opportunities.

An uphill task

You will see a more detailed review of our performance in the Financial Statements but I would like to give you a synopsis of our activities, in light of the fact that the Bank achieved these results in a very competitive and challenging environment.

As a state bank, we are very aware that the contribution we make to the Treasury through taxes and transfers is also one we make to the country’s economy - its infrastructure and development projects. This year, the sum paid by NSB as tax was Rs.3,077 million. Deposit mobilisation also plays a major role in contributing towards the national economy and NSB deposits to the value of Rs.457,650 million (an increase of 8.5%), went towards national development as well.

While our asset base surpassed Rs. 500,000 million milestone, recording a

growth of 9% to Rs.509,694 million, there are a few other notable achievements in our financial performance. One is that the Bank’s Tier I and Tier I & II capital have been maintained well above the regulatory minimum of 5% and 10% as was the statutory liquid assets ratio, which also demonstrates our relentless drive to take our performance and operations beyond the requirements of compliance. Secondly, our NPL ratio is below the industry ratio, sitting at 2.71%.

The need for change

Our vision is very ambitious and so are the proposals we have written into our Strategic Plan. We will continue to review our overall operations to introduce the necessary transformations for a fast evolving business landscape. We must not forget that the nation is currently accelerating a very ambitious development plan while retaining strong economic fundamentals.

We are well aligned to our vision, mission and the Strategic Plan we now have. We know that we will definitely be able to achieve our vision within a reasonable timeline. I strongly believe that our present team is a powerfully

A REVIEW BY MR HENNAYAKE BANDARA
GENERAL MANAGER / CEO

“We must not forget that the nation is currently accelerating a very ambitious development plan while retaining strong economic fundamentals.”

united and motivated one that can certainly overcome the numerous challenges emerging in this competitive environment. We are very service oriented and we have great confidence in our efficiency, our innovation and productivity and our capability to think differently, in ways that would benefit our bank and add value to the industry as a whole.

We give our team the competitive edge by continuing to upgrade our knowledge. We will also seek to acquire specialized expertise in diverse areas of our industry that will help manage change.

The future beckons

South Asia's economic hub - that's what Sri Lanka aspires to be. We are an extraordinary country. Despite a chequered history, we are resilient. Our economic indicators have for the most part been consistent and in the last three years, the dividends of peace have been in evidence. Our growth is above world average and among the fastest in South Asia. The world indices showcase Sri Lanka for performing better than most regional nations, which means we have been getting things

right. The Government's Ten Year Vision is now well on track with the accelerated development agenda already in operation.

In this larger canvas, I observe the banking industry as a key driver. We cannot forget that NSB is firmly aligned with this larger national vision - to develop the habits of financial empowerment and saving and to add impetus to the rural economy.

We are seeing new business areas emerging, especially in financial innovation and real estate development. We also see the rural economy burgeoning to become a significant contributor to the nation's economy. And we know that we can drive these business areas.

Right now, our Strategic Business Plan 2011 to 2013 has proved to be a good

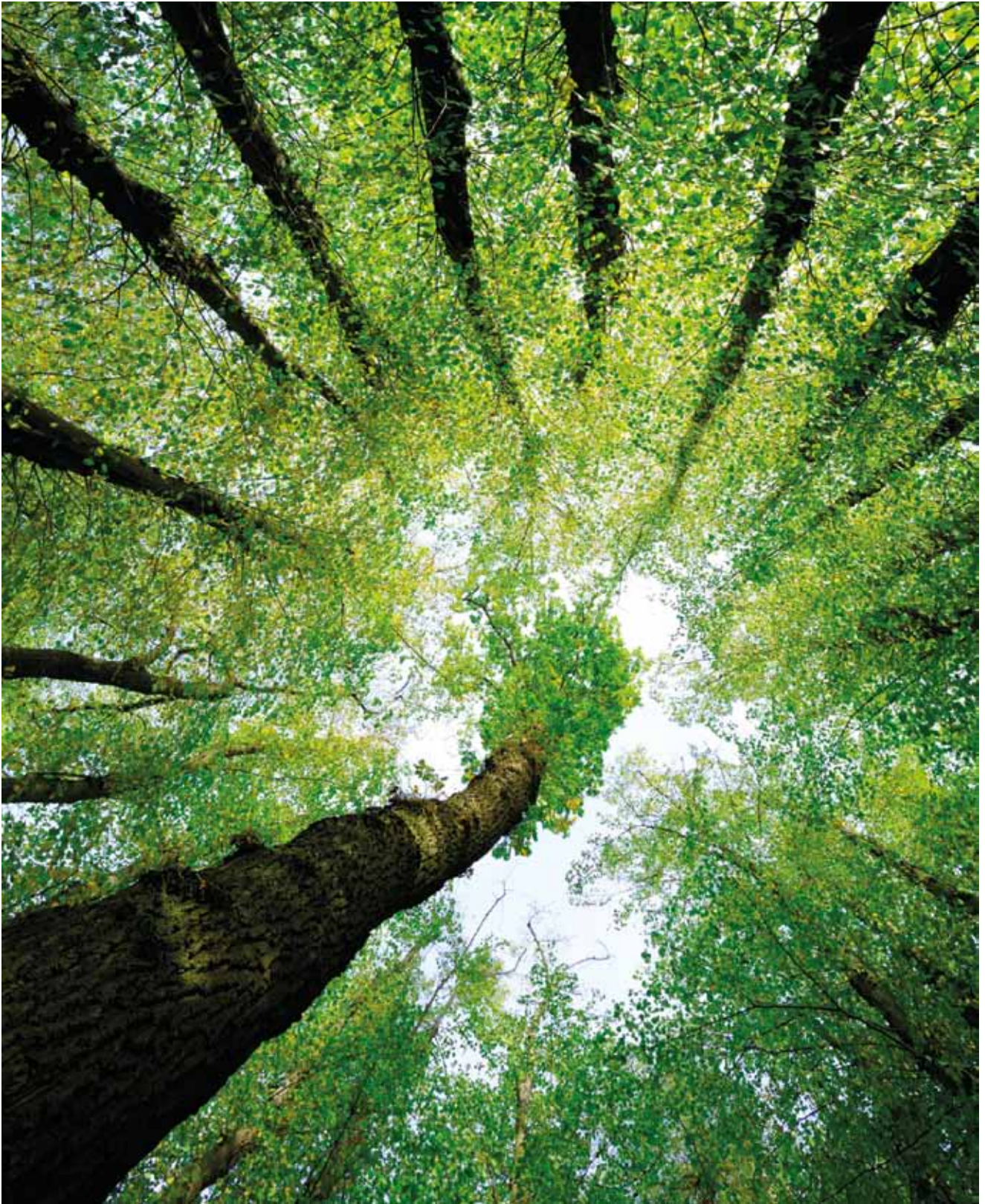
base. We have met our targets and have absolute confidence that we can complete our Strategic Plan as planned. In support of this, our Action Plan for 2013 maps out our short term strategy (post a comprehensive SWOT analysis), designed to move us towards our new Strategic Plan of 2014 to 2016.

Rooted we are and rooted we shall be. But these roots also harbour the budding of newer and better prospects for us. Our origins in savings will always be the core around which we operate, but in a fast paced world we are now broadening our focus. We know there are opportunities out there for us and we intend to take full advantage of every one of them. And that vision is what will chart our course into the future.



H M Hennayake Bandara
General Manager / CEO

Colombo
28 March 2013





CHAPTER 2

HOW WE PERFORMED IN 2012

MANAGEMENT DISCUSSION AND ANALYSIS

HOW WE PERFORMED IN 2012

FINANCIAL REVIEW

Most of Sri Lankans have come to an NSB branch at some point in their lives. NSB is no ordinary financial institution, it is a social institution with direct and indirect impacts on the lives of a majority of people in Sri Lanka. This is why the financial welfare and stability of NSB is so important. So many generations of Sri Lankans have put their trust in us for the past 40 years and it becomes a social responsibility on our part to ensure a strong financial performance that would in turn ensure returns for the people of this country.

However, we, as a National Bank, cannot lose sight of the larger picture of overall national development and growth. We cannot be hemmed in by a narrow profit focus. Instead, our business operations have always had a wider developmental approach, where we use our expertise to support the national development drive. Whether this is done by supporting the government finance large development projects, or by supporting a small farmer in rural Sri Lanka through a small loan, we have always maintained the integrity of

“So many generations of Sri Lankans have put their trust in us for the past 40 years and it becomes a social responsibility on our part to ensure a strong financial performance that would in turn ensure returns for the people of this country.”

our operations by ensuring the financial viability of our involvement.

In 2012, we faced some unexpected challenges that, in some cases, affected our targets for the year. For instance, policy changes, such as the credit ceiling on bank lending and rising interest rates on deposits, had an impact on our top and bottom lines. However, we have continued to sustain growth and extend

our support to our customers and the national economy as a whole.

Changes to Financial Reporting Standards

The Bank adopted new Accounting Standards (SLFRS/LKAS) from 1st January 2012. The Consolidated Financial Statements for the year ended 31 December 2012 is the first financial statements prepared in accordance with SLFRS/LKAS.

The Financial Statements for the previous year were prepared in accordance with the Sri Lanka Accounting Standards (SLAS). As per the requirements of SLFRS/LKAS, the new standards have to be applied retrospectively. Therefore the Income Statement for the year ended 31 December 2011 and the assets and liabilities as at 31 December 2011 and 1 January 2011 were restated as per new accounting standards and are presented as comparatives in Financial Statements of 2012.

HOW WE PERFORMED IN 2012

FINANCIAL REVIEW

Impact on adoption of new Accounting Standards

The transition from SLASs to LKASs/SLFRS affected its previously reported financial position as of 31 December 2011 and financial performance for 2011. The net assets as of 31 December 2011 were reduced by Rs.1,152 Million due to increase of liabilities by Rs.491 Million and decrease of total assets by Rs.661 Million. The net profit for year 2011 was reduced by Rs.936 Million. The main reason was recognition of Rs.2,025 Millions of liability for the difference between present value of Bank's Pension Fund and the asset value of the fund, to the opening retained earnings.

Adhering to the statutory requirements, the current year quarterly performance and financial position have been prepared and published in accordance with SLASs along with the disclosure note for the impact of LKASs/SLFRSs adjustments.

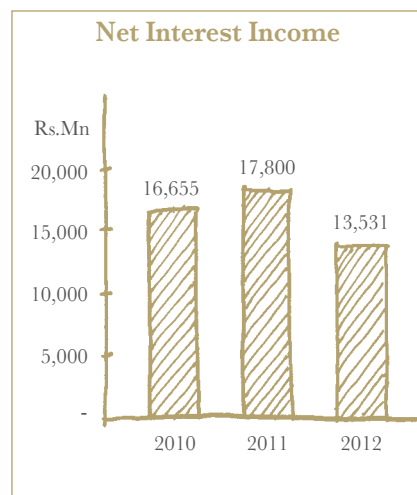
The Bank prepared a reconciliation to disclose the movement from the Financial Statements 2011 which have

been prepared in line with earlier Accounting Standards (SLAS) to Restated Financial Statements 2011 which have been prepared as per LKAS/SLFRS. This is a requirement under Sri Lanka Financial Reporting Standards 1 (SLFRS – 1) first time adoption of Sri Lanka Accounting Standards.

Income

Net Interest Income

The Interest Income mostly included Rs.34,289 Million of interest on government securities portfolio and Rs.18,384 Million of interest income



on retail lending and other investment portfolio. During the year, the policy rates were increased and the tight market competition also put pressure on the interest rates offered to the customers. Market interest rates continued to rise and the interest costs increased over and above the increase in interest income. The interest income increased by Rs.5,577 Million to Rs.52,673 Million from Rs.47,096 Million in 2011 while the interest cost echoed the increase in interest rates with an increase of Rs.9,846 Million in 2012.

As a result, Net Interest Income has dropped by Rs.4,269 Million (24%) making the net interest margin 2.8% compared to 4.1% in 2011.

Net Gain Losses from Trading

Net gain losses from trading consisted of the gain/ (losses) on financial instruments held for trading which is a Rs.70 Million gain in 2012, against a Rs.860 Million loss recorded in 2011. The interest rates have increased during the year, which in turn reduced the capital gains on treasury bills/bonds in

HOW WE PERFORMED IN 2012

FINANCIAL REVIEW

the trading account. Though the bearish sentiments at the Colombo Stock Exchange continued during the year, the price indices have recovered their value compared to those of year 2011. As a result, there was positive change in fair value of equity investments of the Bank to the trading income of the year.

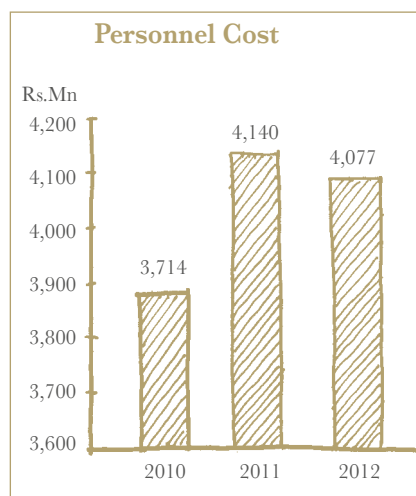
Impairment and Loan Loss Provision

The implementation of SLFRS/ LKAS changed the Bank's method of provisioning for loans and advances from specific and general provision to individual and collective impairment. The Bank has made Rs.131 Million of provision for impairment losses. The impairment of loans and advances portfolio is based on the collective impairment of all retail loan categories and 0.5% judgmental provision on total loan capital made for probability of performing loans becoming non performing loans. Our tests for individual impairment on project finance loans did not reveal any impairment losses.

The decrease in impairment loss from Rs.143 Million in 2011 was reflected by the improvement in NPL ratio from 3.03% to 2.71%.

Expenses

The network expansion was limited to 9 branches compared to 24 branches opened in 2011, changing the direction from channel expansion to channel optimisation by productivity improvements. The total personnel cost for the year 2012 showed a decrease from previous year despite the salary increase made by the revision of collective agreements with employee's unions.



The actuarial valuation was carried out for the pension fund retirement benefits as at 31 December 2012, resulting in a reduction to the retirement benefit liability. As a result the adjustments also reduced the retirement benefit expenses during the year.

The increase in other expenses was by inflationary effects and the all-embracing action plans which were made to increase the productivity. As a result the cost to income ratio was managed at 45.7% from 36.4% in 2011 despite the percentage drop in net interest income by 24% of the Bank.

Service Charge to Postmaster General (PMG)

Service charge for the year 2012 on postal agency network of the Bank amounted to Rs.111 Million (2011 - Rs.103 Million) calculated on the same basis used for 2011.

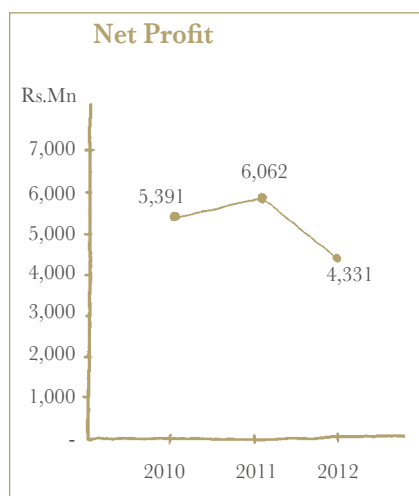
Profitability

The Bank had maintained its long term stability at the expense of the higher

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“The market competition was intense for mobilisation and put pressure on our interest margins. But we continued to build up skill competencies of our staff and enrich the customer care.”



profits during a precarious year in which our internal strengths were tested. The market competition was intense for mobilisation and put pressure on our interest margins. But we continued to build up skill competencies of our staff and enrich customer care. Therefore, the Bank's profit of Rs.4,331 Million which although was 29% less than the post tax profit of 2011, was encouraging in light of the many challenges we faced during the year.

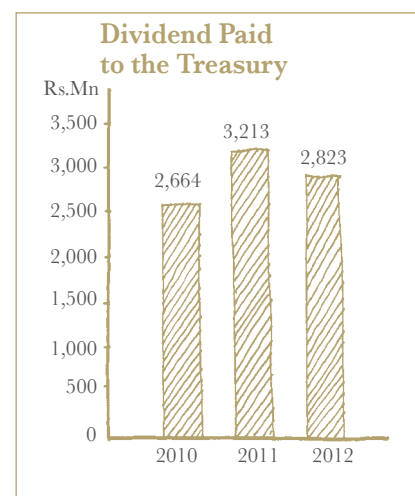
The Return on Assets (ROA) and Return on Shareholders Equity (ROE)

also dropped to 1.3% and 18.3% respectively.

Contribution to State Funds

The Bank contributed Rs.5,900 Million to the Government by way of taxes and transfers, of which the details are as follows:

	Rs.Mn	Rs.Mn
	2012	2011
Value Added Tax	1,239	1,564
Income Tax	1,838	3,193
Dividend paid	2,823	3,213
Total contribution	5,900	7,970



In addition the treasury portfolio and financial facilities extended to the Government increased by Rs.16,533 Million.

Investment Fund Account (IFA)

The amount lying to the Credit of Investment Fund Account which was created as per the CBSL Directive was Rs.2.8 Billion (2011 - Rs.1.6 Billion). A sum of Rs.384 Million was given to the RDA infrastructure development projects, a sum of Rs.3.3 Million was given as agricultural loans and the

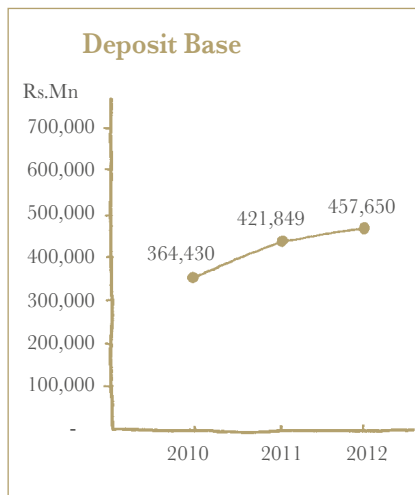
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remaining amount of IFA is invested in Government Securities.

Deposit Mobilisation

The Bank mobilised Rs.31,126 Million deposits compared to the Rs.55,648 Million deposits in 2011 and recorded 8.5% growth over its deposit base as at 31 December 2011 against 18% deposit growth of banking sector in 2012.



Deposit growth for the year was adversely impacted by rising competition that saw attractive negotiable rates being

“NSB also raised awareness among the public about having greater security for their deposits at NSB, highlighting our advantage of having ‘100% Government Guarantee’.”

offered in the market for fixed deposits. As a result, customers were negotiating higher rates and shifting their funds to other financial institutions that offered more attractive rates.

In response to these developments, NSB encouraged 1-month and 2-months fixed deposits with special rates and conducted a special ‘Savings Fortnight’ programme that offers gift schemes to attract savings customers. NSB also raised awareness among the public about having greater security for their deposits at NSB, highlighting our advantage of having ‘100% Government Guarantee’.

Foreign Currency Mobilisation

NSB mobilised Rs.705 Million through NRFC and RFC accounts, which is an increase of 14.4% compared to 2011. Inflows to RFC and NRFC accounts increased during the year due to the fluctuation of foreign exchange rates. However, the year saw high amounts of withdrawals of USD, GBP, AUD and EUR, due to higher exchange rates and higher interest rates for local currency deposits.

The total value of remittances received during the year increased by 61% compared to 2011, of which 36.9% was received through exchange houses and 10.3% through Correspondent Banks. Meanwhile, NSB representatives overseas directly canvassed remittances, which were channelled into NSB LKR FD/Savings accounts.

Postal Banking Mobilisation

The Post Office sector mobilised Rs.352 Million compared to Rs.718 Million in 2011. The slower results are due to the declining trend in the postal sector savings. A number of reasons

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can be cited for this declining trend. Consumers are transferring their postal savings to Fixed Deposits at NSB and other financial institutions, to gain higher returns. Postal customers have also been pulled away by competitors offering convenient micro credit schemes for deposits.

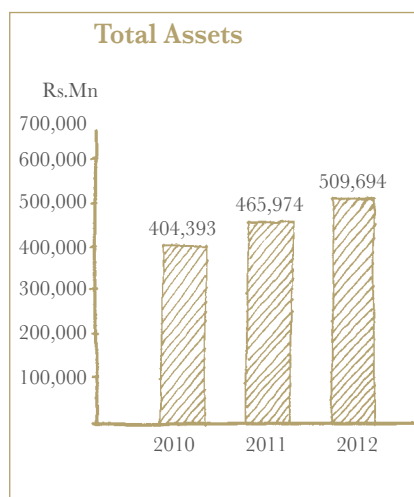
NSB has responded to the change in the postal sector by conducting mega savings campaigns in Anuradhapura, Matale, Gampaha, Jaffna, Mullaitivu and Trincomalee Districts covering 497 Post/Sub Post Offices and pocket campaigns in selected 23 Sub Post Offices.

Assets

With the adoption of SLFRS/LKAS the Bank's investments which were previously classified as investment portfolio and trading portfolio were categorised as assets held for trading, assets held to maturity, loans and receivables and assets available for sale.

Government securities and equity securities held for trading purposes are designated as Financial Assets

Held for Trading. Unquoted long term investments in equity capital and strategic investments in quoted equity are reflected in Financial Investments Available for Sale. Investment in Government securities which are held till maturity, are reflected in Financial Investments Held to Maturity.



Investments Held for Trading and Investments Held to Maturity

NSB's total investment portfolio was valued at Rs.339,598 Million as at end December 2012, which has seen a

growth of 3.6% over the previous year. Of this, 95% is in government securities, while 2% was in equity investment and the balance in alternative investments.

The Bank's assets grew by 9.4%, reaching Rs.509,694 Million from Rs.465,974 Million in 2011 against the Banking sector asset growth of 18% in 2012. Sixty percent (60%) (2011 - 64%) of the Bank's assets are invested in financial instruments held to maturity, 2.1% (2011 - 2.5%) was invested in assets held for trading and 33% (2011 - 29%) was given as loans and receivables.

The fair value of the equity portfolio which was held for trading was Rs.4,453 Million, as at 31st December 2012. Due to the downturn seen in the Colombo Stock Market, the market value of NSB's equity portfolio further declined by 9%. This decline has necessitated adjustment to the value of Rs.119 Million, in order to compensate for the fall in value of market prices.

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Loans and Receivables

The Bank's loan portfolio is the total of loans and receivables to banks and loans and receivables to other customers, which amounted to Rs.168,619 Million as of 31 December 2012.

During the year, retail lending increased to Rs.114,226 Million as at 31st December 2012, representing 82% of the Bank's loan portfolio. In its role as a wholesale lender, NSB had Rs.13,374 Million of loans to banks and financial institutions as at 31 December 2012. The Bank had extended loans amounting to Rs.1,226 Million for agricultural purposes and Rs.10,386 Million for housing, again taking care of national interests.

The NPL ratio was improved from 3.03% to 2.71% with sound credit evaluation process. The credit ceiling imposed by the Central Bank of Sri Lanka did not stop us from building a credit portfolio of national interest. We provided 9,535 of loans for housing purposes which was a 23% growth. The growth of development project loans was 15% more than the previous year.

Stability

The Bank's Tier I and Tier I & II capital remained well above the regulatory minimum of 5% and 10%, notched at 20.4% and 19.1% respectively, as at 31st December 2012. The statutory liquid assets ratio stood at 69.5%, which too, is well above the regulatory requirement of 20%.

Group Performance and Performance of Subsidiary

The NSB Group comprises NSB and its subsidiary, NSB Fund Management Co. Ltd. As at end December 2012, the Group profit before tax stood at Rs.6,221 Million from Rs.9,411 Million in 2011. Profit after tax decreased by 29% to Rs.4,341 Million from Rs.6,104 Million in 2011.

NSB Fund Management

Our fund management subsidiary, one of eight dedicated primary dealers in Government Securities appointed by the Central Bank, commenced operations in 2000, with an initial capital of Rs.150 Million. NSB Fund

Management is active in the primary market and the secondary market. It is also an officially designated issuer of Sri Lanka Development Bonds, which are denominated in US dollars.

The NSB Fund Management Company acts jointly with NSB as a lead manager for the issue of Government Securities to Sri Lankans abroad, managing its customers' investments under this scheme as an agent of the Central Bank.

The Company recorded a profit after tax of Rs.9.3 Million. This is a decrease in profitability of 78% compared to 2011. The net assets value stood at Rs.1,400 Million on 31st December 2012, compared to Rs.1,390 Million in 2011. The Company paid Rs.9 Million by way of VAT and provided Rs.43 Million as liability on income tax for 2012. Net interest income for the year was Rs.183.6 Million, down by 39% compared to 2011. The Company incurred a trading loss of Rs.139 Million compared to Rs.136 Million loss made in 2011 from financial instruments designated at fair value through profit or loss.

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The World Remains Challenged

It hasn't exactly been the year we hoped would ensue. There were very optimistic predictions of an economic turnaround which would naturally cascade to countries performing better at the beginning of 2012. But this was not to be. What did happen was that the world continued to wallow in the depths of its economic woes, while the US and the Eurozone fought its own economic battles. Recovery was excruciatingly slow, if at all, but that's not to say that the rest of the world did not feel its effects.

The Arab Spring continued to cascade its fallout across the world, seen most in the volatile oil prices, while natural disasters including floods, fires, earthquakes and droughts stifled growth across continents and the 'Chindian masters' India and China, which somehow did not remain clear of the morass unfolding, were hence forced to re-forecast growth targets. Meanwhile, Europe saw countries like Greece being tipped for bankruptcy, while others desperately sought bailouts.

The passing of the American Taxpayer Relief Act of 2012, on the 31st of December 2012, saw an increase in revenue and an incline in spending projected for the coming fiscal year. The optimistic feature is that there will definitely be positive permeation across Africa, Asia and Europe, as the US continues to have significant trading influence on these geographic areas.

Developed economies continued to be harbingers of continuing problems, remaining at the core of the world's worries. There was a renewed escalation in the Euro debt crisis and this was reflected in the meager growth seen in the global economy, which was just 3% compared to 3.6% in 2011. Economists predict a growth of 3.25% in 2013, as the world is now looking towards emerging markets, such as India and China, for growth leadership. It must be noted however, that these emerging markets are not yet cut away enough from the world to stand independently, and thus remain vulnerable to the world's economic paradigms.

Emerging economies are dependent on developed economies for exports and the fragile export demand was one of the reasons that saw a slowing growth in Emerging Asia. This prompted the bloc to introduce initiatives that would reduce trade dependence on the US and Europe, by encouraging greater regional integration and intra regional trade. Hence, Emerging Asia did see a pick up in growth to 6.3% in 2012, which is believed to be bettered in 2013.

Heralding Transformations in the Sri Lankan Economy

The path to progress has been etched, the map for development chartered; Sri Lanka is ready for the transformation. Three years after an end to one of the most debilitating chapters in Sri Lanka's history, peace dividends are clearly visible and the process of reconciliation, reconstruction and nation building is seeing fruition. The Ten Year National Vision, the Mahinda Chinthana, is meeting its targets, based on a strong clear foundation of ensuring that this country becomes a US \$100 Billion

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economy with a Per Capita income of US \$4,000 targeted for 2016.

All key sectors of the economy have performed admirably in 2012; macro-economic fundamentals have been firmly established, business confidence seeing a palpable increase and global indices and rankings giving the country a positive nod. The fact that the International Monetary Fund concluded its US \$2.6 Billion Standby Arrangement by presenting Sri Lanka with the final tranche is ample evidence that the country is on the right path to progress. In an year when countries the world over had their sovereign credit ratings downgraded, Sri Lanka maintained its ratings, which is indicative that the country has its fundamentals in place. Fitch Ratings kept Sri Lanka at BB- Stable, Standard & Poors rated Sri Lanka at B+ Stable and Moody's also maintained Sri Lanka at B+ Positive.

From a growth perspective, Sri Lanka achieved her target of 6.5%, but not before implementing a re-forecast

strategy mid-year, due to the heightened global and domestic challenges which prompted a more realistic target. Although the beginning of 2012 did bring with it much promise and a high growth anticipated at 8.3%, Sri Lanka's pragmatic stance came to the fore.

Internally, the country battled the natural vagaries of the weather including droughts and floods, which affected agricultural output and hydropower generating capacities, excessive credit demand and high imports, lessening demand for exports due to less global spending power, an interest rate regime that began an upward curve and oil prices becoming prohibitive. Externally of course, the Eurozone and US problems and geo-political uncertainties added to the need to input more sustainable strategies. This prompted a more focused application in key fiscal strategy and management being infused this year.

Having always possessed resilient characteristics even through the most challenging times, Sri Lanka proved that

the panacea was in its progressive policy decisions. Monetary, exchange rate, fiscal and administered pricing policies were brought in. This encouraged a 29.9% increase in investment of GDP, unemployment reaching unprecedented lows of 3.9%, a decrease in the budget deficit and government debt to GDP ratio being the lowest in 30 years.

Inflation was maintained at single digit levels although having to face its fair share of challenges. Core inflation was curbed at 7.6% YOY, while annual average was 5.8% in December 2012. Since June 2012, the Sri Lankan Rupee appreciated 5.3% with expectations of stabilising over the medium term, although in an overall context, the rupee depreciated 10.4% against the US dollar, reflecting increased demand for foreign exchange in the market, primarily due to oil imports.

Also, the fiscal management initiatives saw cumulative expenditure on imports curtailed at 31.5% of GDP, a decline of 4.5%, although the country did have to contend with a decline in export

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earnings due to weakening global demand which showed at 16.5% of GDP. The trade deficit was 14.4% of GDP by end 2012, and the current account deficit too, was slated to reduce to 5.5% of GDP compared to 7.8% in 2011. This is all reflective of the prevailing economic accelerants, namely tourism, worker remittances and BPO and KPO services gathering momentum.

Sri Lanka's vision to become South Asia's Economic Hub by 2015 is going according to plan. The accelerated focus on mega infrastructure development aligned to the Economic Hub vision in the road, power, ports, airports and rural infrastructure sectors continued on target.

Sri Lanka's ten year plan now rests on the shoulders of the nation. We are a Middle Income Country that has performed exceptionally well in extraordinary circumstances. However, achieving our ambitious plans must be well thought out, with applicable goals and targets that will assuredly form

the foundation for a well equipped prosperous nation.

National mileposts targeted for 2016 therefore, is to ensure the country's poverty be brought down to less than 2%, unemployment below 3% and acute malnutrition among children under five years to decrease to less than 5%. Public investment must be 6% of GDP and national savings/investment gap should be targeted for 0.5% of GDP. There is also a concerted imperative to aggressively grow the equity market which, by 2016, is aimed at seeing stock market capitalisation of US \$ 70 Billion and a Corporate Bond Market of US \$10 Billion. Bank assets it is believed can reach Rs.10 Trillion.

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ACHIEVEMENTS AGAINST STRATEGIC OBJECTIVES FOR THE YEAR 2012

Attaining Objectives; Realising Targets

Strengthening roots and spreading our reach, point to fundamentals being in place; these fundamentals lead NSB to analysing emerging trends and planning strategies for the year ahead, where paradigms would lead to solidifying our roots in the context of quantifiably realising our targets. However, as was characteristic of the instability displayed in the global economic environment, some mandates introduced to the financial services industry and NSB also looking inward prudently to ensure consistent sustainability in a transforming environment, some planned activities were either not achieved, deferred or changed accordingly.

Having planted our roots firmly, we planned the spreading of our branches strategically at the beginning of the year. This involved channel optimisation encompassing the addition of forty branches to our branch network, strategic relocation and forging and nurturing global relationships. However,

in observing the external environment, it became necessary to maintain this focus albeit on a smaller scale. There was immense competition prevailing in the market especially in the deposits arena, which saw NSB change emphasis on mobilisation instead of expansion. By end 2012, NSB nevertheless maintained its core focus working on a strategy that would be aligned to the transforming milieu, opening nine branches, while relocating thirteen others. NSB also established five new arrangements that would gain more access to the foreign remittance market in France, while enhancing accessibility into Bahrain and Korea and collaborating with a global exchange company as well.

Research and Development form the fertile ground upon which our roots prosper and hence, there was added momentum into this scope when a dedicated team was identified within NSB, conducting far reaching market research studies to add value to the Bank's operations.

This focus on R&D also gave impetus to our plans for re-launching existing products and enhancing product promotion, while also focusing on the core-products that were re-launched in 2011. The forty year celebrations formed the core of the special promotional campaigns conducted during the year including the launch of a two year Fixed Deposit. Adding to this, product focus was further augmented with post re-launch reviews for the products launched in 2011 where continuous promotional campaigns added the necessary impulsion and top of mind recall among our customers.

The plans to establish a Technology Management Work Group while benchmarking technology began taking shape with the IT strategic planning process integrating various kinetics into the planned agenda. These included strengthening Disaster Recovery infrastructure, implementation of an IT Security Policy, a comprehensive review of the SMS Banking System and the upgrading of both card and POS banking solutions. Other areas

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ACHIEVEMENTS AGAINST STRATEGIC OBJECTIVES FOR THE YEAR 2012

that required additional intervention were risk management, controls and compliance. The imperatives were put in place for the implementation of a sound internal control system, where through branch, system and follow up audits, a sound and comprehensive system of internal controls was established. Into this equation, a fully integrated risk management system was entrenched by introducing and modifying policies and reviewing charters and existing risk monitoring mechanisms. Strategies to ensure full compliance with laws and regulations were also influenced by initially monitoring the existing compliance steps by review and then revising the compliance policy, conducting compliance audits and implementing compliance standards.

A blueprint was also in the pipeline to automate connectivity with Sri Lanka Post, to further strengthen our very strong postal banking network at the beginning of 2012. This involved the installation of an IT system that would facilitate online transactions through post offices. However, this system

could not be implemented with the Postal Department due to challenges encountered in developing a software system that would be applicable and aligned to the postal sector of Sri Lanka Post.

The focus we have always maintained in creating and nurturing our team also gained epochal consideration, rooted as we are in the annals of customer service, innovation, governance, ethics and sustainability, all driven by the motivated dynamism of teamwork. We were most emphatic on developing business and work ethic competencies, having focused at the beginning of 2012 on the evolving and transforming macro operating environment. The training we thus infused is affirmed as an investment to our long term sustainability and success, given the direct impact it has on our service quality and quality of our product portfolio. The Training Plan thus reflected this burgeoning emphasis on the business and work ethic, which aligned to developing individual competencies, would in turn compliment the Bank's end goals and vision.

The ethos of sustainability remained the overarching concentration in ensuring economic sustainability as well, where maximising return on investment through astute and visionary diversification of investments and the loans and advances portfolio was planned. However, the equity market investment portfolio remained restricted due to the prior mentioned TFC transaction and the Loans and Advances Portfolio was also confined due to the CBSL credit ceiling diktat. Hence, it was here that NSB's prudent perspicacity in maintaining a strong and consistent investment growth paradigm firmly rooted itself. Investment in the corporate sector including in debentures, securitisation and corporate lending heralded remarkable growth. The loan portfolio too was diversified by extending project loan facilities to diverse industries and granting small scale loans to rural areas through Ithurum Ayojana Kawa, which also added fillip to the micro and SME sectors around the country.

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We are forty years. Young, you may say, but not quite, because our founding ethos was one of being a savings bank. We retain that ethos, the vision of our founders, because that is fundamental to the way we do business. But, with this forty year heritage also comes the fact that we must remain with the people; that we espouse those age old values within the roots we have strongly put down in this country. We put down our roots as a savings bank, wanting Sri Lankans to save not only to develop themselves but to develop the nation.

Today, NSB's roots have spread far and wide. Our entire persona is about spreading this ethos of being strongly rooted, with a vision that is overarching to ensure overall development. We have moved beyond being simply a savings bank, to one that is a leading corporate steward observing trends and challenges to transform and innovate accordingly.

For forty years, these roots ensured that from the savings we harnessed, a majority was invested in national development projects, whether it be

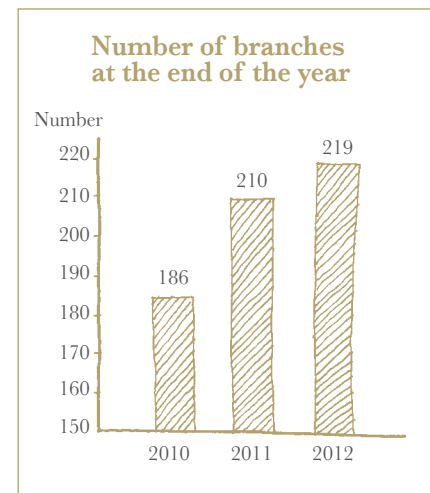
in mega infrastructure projects for the betterment of all or in investing in smaller communities to uplift their lifestyles. While this formed a majority of the savings mobilised, we also concentrated on enabling Sri Lankans to meet their primary need, shelter. This meant that our reach, through the extensive branch network and the numerous touch points, is able to permeate our concept of being rooted, into every Sri Lankan's mindset, giving them shelter, uplifting lifestyles and developing the nation.

Being rooted to our fundamentals is crucial in this journey and what you read in the next few pages, will surely tell you that we are true to our philosophy; empowering the people in a nation where geographic, economic and social demographics can be challenging.

Accessibility and Reach Enhanced

We must ensure that we are strategically located in geographic areas that will serve our customers better. It is imperative therefore that we spread

our roots enabling our stakeholders to access our products and services better. For this, we have brought in a two pronged approach. Firstly, to add more branches to our network, thus spreading our roots astutely to reach all stakeholder segments and secondly, to infuse the imperatives of modernity and technology into existing branches, which will help us to be strongly rooted in everything we do. We do the latter by refurbishing, relocating and rehabilitating them, all aligned to what our stakeholders have told us they want to see in us. We also continue to



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improve our customer service levels through constant training and strategic additions and developments into our product and service portfolio.

NSB opened a total of 9 branches during the year, while 13 branches were relocated to better access points and 2 branches were refurbished to reflect the benchmarked features of the Head Office. 675 Ayojana Kawa and 793 school banking units, the latter holding a total of 1,185 units around the country were established. This was done primarily to create top of the mind recall and a sense of uniformity in design, concept and corporate branding. An accelerated expansion of the branch network was envisaged at the beginning of the year. But Corporate Management very prudently decided to slow down the process and re-strategise the envisaged network expansion plan, concentrating more on managing the change in market condition to ensure that targets were met, and our roots are nurtured.

“We also continue to improve our customer service levels through constant training and strategic additions and developments into our product and service portfolio.”

The emphasis on mobilisation arose, during mid 2012, both time and savings mobilisation fell short of targeted amounts. This was due to the intense competition & encountered issue of TFC transaction, the industry being very competitive in the interest rate arena, rapid expansion of networks and massive penetrative promotional drives across the industry. It was time then to change course and focus on a plan to accelerate the process. This strategy bore fruition when savings deposits amounted to Rs.1,269 Million and time deposits was notched at Rs.29,857 Million by the end of 2012.

Countering Competition

We analysed the trends and introduced initiatives to counter and overcome challenges emanating from competition, as our team, as is habitual, rose to the rising challenges. They began to charter a course that was innovative and different, mapping focus areas that would increase yields, while preserving the core values of remaining rooted to our savings concept. This led to the launch of new features to products and campaigns to infuse the necessary positive results. A 24 month Fixed Deposit scheme on a very competitive interest rate, a savings promotional campaign that ran in tandem with the Bank's 40th anniversary celebrations, Win Win Thegi Warusa with attractive prizes and bonus interest scheme and the introduction of branch savings promotional teams. While the already established competitions had their draws for Sthree, SMILE, Ridee Rekha and Prarthana, the branches also added further momentum to their mobilisation features in the month of October which was declared Thrift Month, with myriad

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programmes aimed at inculcating a savings culture in our stakeholders.

Beyond Conventional Initiatives

It is imperative that customer service continues to improve, as this is an integral facet that remains fundamental to our roots. Taking banking to the doorstep using technology infused with human intervention has always been a part of our service process. This year, we increased the number of POS machines which naturally cascaded to an incline in the volume and value of transactions with a value added service of bill payments through POS being facilitated as well. We also launched value added services into our service portfolio by tying in business agreements with Union Assurance, Ceylinco Insurance and Dialog Axiata.

Customer engagement is a valuable facet in our continuous improvement process. To further fortify this, we visited identified customer entities and segments and expressly brought in processes that would validate customer comments and suggestions, making it

easier for us to respond more efficiently. A Call Center Contact Programme is also being implemented, with the number being displayed at all ATMs and branch offices as well. Our Call Center continues to be a vital conduit in communicating with our customers, fueling continuous dialogue and feedback which is an imperative in the continuous improvement required for better customer service.

Despite 2012 being a year of consolidation for the IT functions within the Bank, we nevertheless had a busy year. The product portfolio was added to with the launch of a new card, IT systems were enhanced to improve efficiencies and we were conferred an accolade at the 10th anniversary celebrations of Lanka Clear. We won the 'Best T+O Contributor in SLIPS', an award that is considered a unique achievement for the Bank, as we are a licensed specialised Bank, operating among 27 participatory commercial banks within the Sri Lanka Inter Bank Payment (SLIP) System.

NSB launched Visa Debit Cards in affiliation with Sampath Bank, giving our customers the opportunity of enjoying the benefits and advantages of two global card payment systems, namely Mastercard and Visa. Plans are also underway to launch an International Student Card in affiliation with Mastercard and the World Savings Bank Institute (WSBI).

Feasibility studies and analyses are currently being conducted to launch a customer loyalty programme, which would cascade numerous benefits and intangibly, a strengthening of stakeholder relationships.

The Postal Angle

Maintaining the founding ethos of the National Savings Bank which was to lay down our roots and build and strengthen a savings culture within the nation, our outreach possesses a unique dimension that no other bank in Sri Lanka has. This is the phenomenon of postal banking, which under the aegis of Sri Lanka Post has an extensive collation of 641 post offices, 3,412 sub post offices

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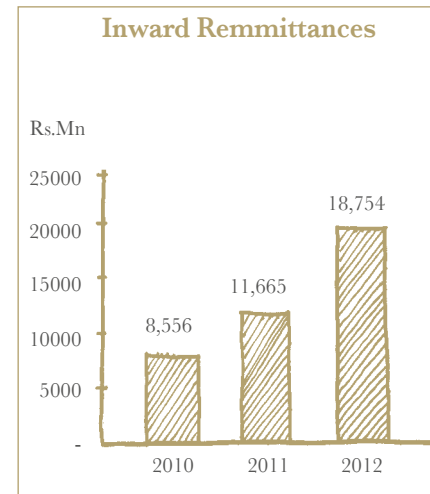
OPERATIONAL REVIEW

and 23 postal banking branches, built on the base of banking being truly taken to even the most remote geographical part of the country. With over two million customers comprising primarily those living in rural and difficult areas coming under the postal banking umbrella, this year the total savings mobilised through this facet of banking was Rs.352 Million.

The significant increase in deposit mobilisation was fueled by astute initiatives that were implemented throughout the year. An opportunity arose at the “Deyata Kirula” Programme, which is the government’s development drive to conduct a special savings promotional campaign in the Anuradhapura and Polonnaruwa districts, covering all post offices and sub post offices in those areas. In addition, new financial markets evolving in the northern province have fueled new savings demographics, especially in the Jaffna and Mullaitivu districts. These augmented the deposit mobilisation seen during the year.

“With over two million customers comprising primarily those living in rural and difficult areas coming under the postal banking umbrella, this year the total savings mobilised through this facet of banking was Rs.352 Million.”

However, there were some challenges that ensued during the year, for which solutions were implemented, ensuring that our market share in postal banking remains as per forecast targets. With competition emanating from rural financial institutions offering convenient credit facilities, NSB launched the micro-credit loan scheme “Ithurum Ayojana Kawa” to overcome that challenge, which gained a considerable following.

**Moving Beyond the Horizon**

Amplly evidencing our firmly rooted personality in all areas of business, having commenced foreign currency remittance business in 2005, we have enjoyed a significant market share in all these years. 2012 echoed similar paradigms. We have seen a sustaining annual growth in market share each year, due to the implementation of promotional campaigns, designed specifically for countries in which a large number of expatriate Sri Lankan migrant workers are employed. This year, we saw an increase of 61% in

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remittance values over last year, despite the remittance market encountering intense competition from other local banks, all of which showcase aggressive presence in those countries, posing further challenges to our remittance business growth.

Putting down our roots internationally, new markets were pursued by the Bank this year specifically in Asia, Europe and the Middle East, augmenting operations and implementing strategic marketing campaigns to fuel growth. The mutual relationship and the confidence placed between the Bank and overseas Exchange Houses has also resulted in further improving our services, which encompass excellent customer service. Coupled with this service excellence, low cost, speedy, convenient and secure fund transfer systems and processes have been introduced by NSB, prompting Sri Lankan expatriates to have immense confidence and assurance of their remittances reaching the recipients.

“We have seen a sustaining annual growth in market share each year, due to the implementation of promotional campaigns, designed specifically for countries in which a large number of expatriate Sri Lankan migrant workers are employed.”

The foreign currency deposit base increased by 14.4% this year, contributing 1.2% to the Bank’s total deposit base.

Proactively etching and expanding presence

Fifty Exchange Houses and Correspondent Banks are directly engaged in foreign remittances with NSB, with some of the Exchange Houses being renowned global players. We added another global Exchange House into our portfolio this year. We also penned five new arrangements in France, Korea and Bahrain, gaining a significant foothold in these markets and enhancing accessibility.

Over 2013, we intend increasing the number of NSB Agents deployed overseas to ensure that the customer oriented value added service, which is certainly a strong point for us, will be further augmented. This will be ably supported with penetrative communication and promotional campaigns, establishment of new strategic relationships and more initiatives being introduced to improve customer service.

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Making our migrants ‘overseas’ ready

NSB has also continued to nurture the relationship with the Sri Lanka Bureau of Foreign Employment (SLBFE) given the large number of migrant workers who are our customers. Over and above this reason, we also believe that our migrant workers must be made aware and be equipped with the necessary skills and knowledge to be a success in the countries they work in. We therefore partner the SLBFE in its awareness, orientation and training programmes, which are compulsory for those seeking employment overseas. These programmes are conducted islandwide, with the Bank also educating the migrant workers on the importance of money management, investment avenues and financial discipline.

Treasury Management

NSB primarily invests in Government Securities, Equity Market Investments, Alternative Investments and Investments in Loans and Advances. Given that our overarching ethos remains firmly in partnering the nation

in its development activities, we draw strength from our roots to keep to the statute that mandates the Bank to invest a minimum of 60% of its deposits in government securities.

The Government Securities Portfolio recorded a marginal growth during the period of 2012. However, due to the upward policy rates adjustment by the Central Bank and low liquidity levels in the market, interest rates increased in the first nine months of 2012. The policy rate reduction halted the issue of new Treasury Bonds and this low volume has created high demand pressure on Government Securities. Accordingly, interest rates began declining during the latter of 2012.

However it is pertinent to note, that NSB's total income generated through our Treasury Bill and Treasury Bond portfolio increased significantly in 2012 compared to 2011. The maturity profile of the Government Security portfolio shows that 57% of total maturities have a maturity period of one year or more at the year end 2012.

In Equity Investments, the market showed a positive movement during the third quarter of 2012. The performance during the period was not flourished. The stagnancy that prevailed otherwise was echoed in the Bank's equity portfolio as well. The Bank's primary investments are in the sectors of Bank, Finance & Insurance (BFI) for 39% and Diversified holdings (DIV) for 18%, which account for 57% of the total portfolio. Given these sectors' sensitivity to the macro socio-economic environment, performance is exceptional during favourable conditions, although, the general lacklustre milieu was quite pervasive this year, when the Power & Energy, Manufacturing and Banking, Finance & Insurance sectors were not doing too well during the year.

Alternative Investments represented by debentures, loans to financial institutions and investment in securitised papers, the Bank's Alternative Investment Portfolio focuses on investing in high credit quality financial institutions and grant funds to corporates to earn

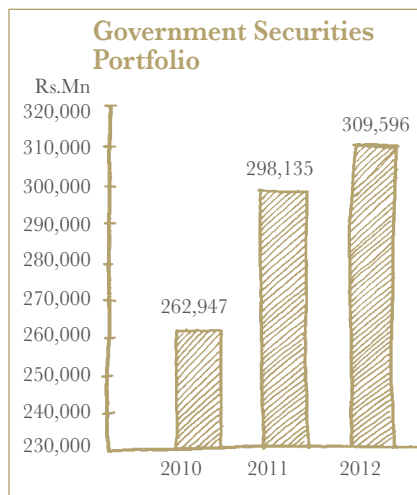
HOW WE PERFORMED IN 2012

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higher yields, augmented with a well diversified investment portfolio posing a moderate risk level. The portfolio, this year, saw a decline of 27%, with both the Debentures and Loans Portfolio and Trust Certificated portfolio decreasing by 27% and 13% respectively. This was primarily due to competitive debenture investments not being available in the market.

Changing Course

We began the year 2012 with the focus on retail lending. Our plans were to



invest 29% of our mobilisation target, that is Rs.16,820 Million during the year for lending. Branch managers were geared to invest more on retail lending products, which would permeate to improve branch profitability. However, our plans had to change. Since the CBSL imposed a credit ceiling in April 2012, which stipulated that total loan and advances cannot exceed the 118% total outstanding loans and advances as at 31st December 2011, we arranged our credit portfolio to fall in line with the stipulated limit and change course. Being firmly rooted in our fundamentals, we realised that the emerging trends required innovation.

Housing – a Priority

Housing certainly is very integral to our concept of being rooted. We urge our stakeholders to empower themselves and one avenue which we are most emphatic about is that our customers lay down their roots by meeting a primary need. We are very conscious that housing is a primary need. And so, we have taken the responsibility to ensure that Sri Lankans have access

to owning their own home where we also have a competitive edge due to comparatively lower interest rates and a speedy and efficient approvals process and service.

However, despite concentrating on the credit ceiling imposed by CBSL as well as considerable competition emanating from the marketplace, we had a good year. The housing loan portfolio increased by Rs.6,889 Million and exceeded the target by granting 9,535 loans. The total outstanding housing balance stands at Rs.44,274 Million end 2012.

We continued extending loans to the public sector at concessionary rates. We disbursed Rs.4,492.91 Million of loans. 18.45% of the loan portfolio was disbursed at 14% interest and 81.55% was disbursed at 12%. This indirectly contributed towards the upliftment of the public sector employees.

We also extended concessionary housing loans for university academic and non-academic staff. Loans in this segment was Rs.43.34 Million as

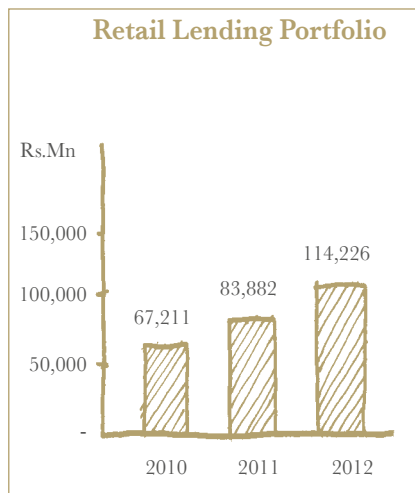
HOW WE PERFORMED IN 2012

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end of 2012. In collaboration with Standard Chartered Bank and the Road Development Authority, special housing loan arrangements were also entered into as well.

Expanding the loan compass

We continued to extend funding benefits to a host of diverse segments which we feel have potential and which will also permeate a wider growth paradigm overall. Personal loans for example is built on the formula of improving savings deposits, while assisting our customers to develop themselves.



“We continued extending loans to the public sector at concessionary rates. We disbursed Rs.4,492.91 Million of loans.”

Under the Auto Loans we extended the facility to senior media personnel and artistes under a government initiated programme, granting loans this year to a total of Rs.85.5 Million.

Ensuring the sustainability of our farmers and the country’s agricultural sector remains a priority. We have been a firm partner in the Government’s Paddy Purchasing programme, releasing Rs.1,226 Million.

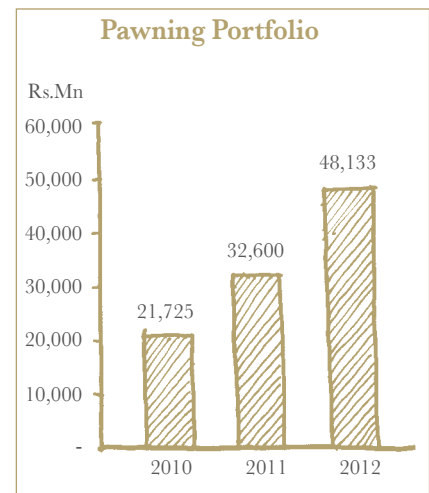
Pawning gains ground

We have faced intense competition in the pawning business due to the growing number of players in the market. However, given our reputation for a speedy and efficient service and

the fact that we now have an easy credit policy as an added incentive, growth was good. At the beginning of the year, our pawning advances were granted at a relatively competitive interest rate but due to external market conditions the rates were forced on an incline. However, despite these factors, we increased our portfolio significantly and earned a considerable interest income.

Upskilling

To remain rooted to our core objectives, our team has to retain and develop on the core vision and mindset. Therefore



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training and development initiatives of our branch teams also included the facet of maintaining discipline, code of conduct, operational and administrative procedures and marketing activities, communicated within the induction programme conducted for our new recruits to the branches.

The Branch Managers' Conferences held regularly during the year, included discussions and responses to challenges emanating in this competitive milieu, a very positive feature in infusing practical solutions in branch management. Given the new branch strategy being rolled out, NSB believes that branches are the key to taking on the mantle for the Bank's progress. Branches are now tasked with adding impetus for the future and to do this, we want our branch teams to be well equipped with the apt knowledge and skills.

Being Technology Driven

The Bank's In House developed IT Systems continued to add the necessary impetus to uplift customer service, taking the concept of 'Banking,

“We have been a firm partner in the Government's Paddy Purchasing programme, releasing Rs.1,226 Million.”

Anytime, Anywhere' that much further. The existing credit system was also improved, facilitating settlement from any branch, centralising strategic operations and adding better efficiencies into services. The pawning system was one such business area that was centralised. We also observe increased usage of our Internet banking and SMS banking services as well as our Bill Collection Services, which facilitates customers in paying utility bills or insurance premiums.

Communicating Our Ideas

Instilling the savings habit among the people of Sri Lanka remains a fundamental tenet that is buried deep into the roots of NSB. Therefore communicating this

message comprehensively and with clarity is imperative. Marketing and communications are competencies that are rooted to the fundamentals of the Bank, where values and tradition form the bedrock upon which we build and develop a modern technologically advanced banking culture that has over the years gained a reputation of being friendly, flexible, accessible and founded on good values.

Our marketing initiatives therefore are deep-rooted within these rudiments which are deemed very important to us. This is amply evidenced by the initiatives we continue to infuse, especially in ensuring that the depiction of our corporate identity is unambiguous, unvarying, consistent, clear and instills every feature the Bank is proud to boast of. This uniformity was extended to all advertising, marketing and promotional campaigns as well. We remain very cognizant of the need to infuse and comply with ethical banking concepts. NSB directed that all media advertising must communicate the web URL, Call Center Number and Credit Rating,

HOW WE PERFORMED IN 2012

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depicted clearly with the corporate logo and name of the Bank. The latter is depicted on affirmed brand guidelines which is communicated to all agencies responsible for creatives.

Promoting Our Branches

A comprehensive advertising campaign accompanied the opening of new branches during the year. There are targeted campaigns for school banking units which form the foundation for encouraging the savings habit among students. The success of these banking units, well supported by penetrative marketing campaigns has seen the launch of a further 793 units in schools across the country this year.

Innovations and Value Additions

Our extensive product portfolio is firmly rooted on building on innovation and are all ably supported by incisive marketing campaigns, promoting the products' value additions.

The Hapan Children's Savings Account is applicable for children upto 16 years

of age, giving account holders an interest rate of 1% more with rewards of an attractive gift scheme and scholarships for Year Five Achievers.

Sthree, an account conceptualised specifically for women, entitles account holders to an NSB Shopping Card with Master/VISA card facilities and interest above market rates.

Ithuru Mithuru aimed at empowering youth to those in their mid-30s to develop themselves and their families via loans, lucky draws and credit cards present numerous benefits aligned to the product fundamentals; and Prarthana Children's Savings Certificate, aimed at children, is a long term deposit scheme carrying an attractive interest. Certificates mature when the child turns sixteen and hold an assurance from NSB on the face value at time of maturity.

The value additions comprise higher interest rates, gifts, competitions and draws. These were well supported by mega media campaigns and below

the line advertising as well, seen in the Avurudu Wasana, Smile, Win Win Thegi Warusa and Hapan Year Five Scholarship promotions.

Value Additions to Our Corporate Brand

We also strengthened our corporate brand, communicating our brand image, promise and values at branch level, to convey NSB's contemporary mores which remain fundamentally intertwined and rooted with our heritage and tradition. These are avenues in which NSB ingratiates itself into the hearts and minds of the people.

Our participation in the Construction Expo and proactive stance taken at the Deyata Kirula Exhibition in Anuradhapura where the NSB brand and products were communicated through a comprehensive postal and marketing campaign are two examples in point. Given the platform of innovation, NSB also launches seasonal or milestone campaigns which this year encompassed New Year celebrations in April.

HOW WE PERFORMED IN 2012

OPERATIONAL REVIEW

Fueled by regional campaigns that added further impetus to the marketing and promotional drives, there was a tangible growth in both the quantitative and qualitative indicators, which evidences the success of these campaigns.

Using IT as a Marketing Tool

Social media and mobile telecommunication are constantly in use, promoting our products and services via SMS, e-flyers and news publications in all e-papers. Similarly, our technology based products also gain immense publicity through targeted media campaigns in complimentary publications or social media platforms.

Dialogue with Our Stakeholders

In addition, it is imperative that NSB remains fortified to its fundamentals of empowering people. This we did by organising seminars for our targeted customer segments, namely, holding thirty Hapan Scholarship seminars for Year Five scholarship examination prospects, 52, seminars GCE O/L

under the banner of Tharunayata Hetak and seminars held in partnership with the famed Nawayugaya magazine.

The Added Value of Research

Being a bank that has always drawn on our roots for lessons learned and for the way forward, we declared a strategic move this year in integrating the Research Division into the Marketing Division. This has proved undoubtedly that the analysis of various studies conducted has been a very helpful in ensuring that our marketing and promotional initiatives are targeted to the apt stakeholder group. The research is also valuable in analysing levels of customer service, which enables NSB to map a SWOT analysis, bridge gaps and take preventive or corrective action wherever necessary. A customer service survey, a product awareness survey encompassing Year Five students, research on withdrawal patterns and a product-wide analysis to measure NSB product performance were crucial studies conducted during the year.

NSB Marks its 40th Milestone

Our presence in the international arena was certainly well founded when NSB ingratiated its roots even more in the global savings arena. Our Bank was extremely honoured to host the World Savings Banks Institute's 18th Asia-Pacific Regional Group Conference in Colombo marking the significant milestone of the Bank's 40th anniversary celebrations.

Themed on 'The Competitiveness of Current Retail Banking of WSBI Members', the conference had more than forty delegates from WSBI member institutions with input from Chief Guest Senior Minister for International Monetary Cooperation, Dr Sarath Amunugama, Keynote Speaker Governor of Central Bank of Sri Lanka Ajith Nivard Cabraal, Chairman of WSBI Asia-Pacific Regional Group Adinan Maning and Director, Training and Consultancy, WSBI – ESBG Ian Radcliffe adding lustre to this global event.

HOW WE PERFORMED IN 2012

OPERATIONAL REVIEW

WSBI has 23 member institutions from 16 countries in the Asia-Pacific region within its membership and works on the platform of building relations with national, regional and international institutions to exchange experiences with peers from within and beyond the region.

Future Strategies for Branch Development

Intent on spreading our roots to optimise our reach, various strategies are currently being discussed and rudiments being implemented for 2013, which will assuredly reflect more intense competition but will also pose numerous opportunities. Some of these being worked to be set in motion next year is an acceleration of savings mobilisation through earmarked products and campaigns. We intend introducing a Student Card, channel optimisation through student banks and launching SME lending through Ayojana Kawa. It is aimed that further penetration into difficult rural areas using POS transactions, augmenting

“Our Bank was extremely honoured to host the World Savings Banks Institute’s 18th Asia-Pacific Regional Group Conference in Colombo marking the significant milestone of the Bank’s 40th anniversary celebrations.”

main branch services through the opening of supporting Savings Units and the most vital restructuring element within branch operations, the introduction of the regional system to the branch network, will also aid NSB’s future path.

The latter is billed to improve overall efficiency of the branch network, aligned to the earmarked expansion, while capitalising on

market opportunities, which will surely strengthen our roots. This should give us the ability to face challenges more effectively and efficiently in the arising competitive business environment. The new structure is aimed at minimising waste, optimising resources, imbuing teamwork, making timely business decisions that would be prudent and astute and extending autonomy to regional managers to perform their operations effectively. This empowerment is emblematic of the characteristics being permeated throughout the bank, to give identified leaders and team players the knowledge, skills and tools to ensure that an empowered knowledgeable and innovative team is formulated and nurtured for the long term sustainability of the Bank.

HOW WE PERFORMED IN 2012

FUTURE PLANS

Journeying Ahead into 2013

Using the Central Bank of Sri Lanka Roadmap 2013 as the blueprint, NSB has now developed plans for the next year, based on the 21 point 'To Do List' laid down by CBSL. The NSB Strategic Plan for 2011 to 2013 also forms part of the rooted focus we have in going forward.

In ensuring that our roots remain true to our values and core fundamentals, NSB's focus on the CBSL 'To Do List' brought forth the following to be integrated firmly into the way we do our business.

- Diligent compliance with all CBSL regulatory directives
- Maintain vigilance on the Bank's current capital adequacy and into the future
- Training and development to take precedence in ensuring the team is equipped both in skill and knowledge for emanating new developments

- IT to form an integral part of the business to add value to the envisaged new levels of business
- Improving Risk Management Systems, while being cognizant of local and international trends overall
- Develop a corporate planning culture which will be applied assiduously
- Remain alert to NSB's international links
- Consider new opportunities and introduce new services sagaciously
- Focus on productivity improvement
- Limit interest spreads and pursue avenues to improve profitability
- Diligently retain the SME focus and introduce effective initiatives for SMEs
- Grow foreign remittance business
- Support provinces, particularly the northern, eastern and uva provinces, that are lagging behind in development to develop and come on par with the rest of the country

Planning the Future

Our Strategic Business Plan 2011 - 2013 is very aligned to the external transformations both locally and globally in the economic sphere. This strategic plan sees our success, failures and deviations clearly marked and analysed, which enables us to now start formulating the blueprint for the Strategic Plan for 2014 to 2016. This new plan will form a wider and more in depth scope in adding value to our stakeholders, which will include a focused penetration to improving customer service levels as well.

Making Inroads

As detailed in both this review and the GM/CEO's Review of Operations, strategic changes are planned in 2013 in channel management. A more penetrative autonomous Regional Management System will replace the current Zonal Management System which will ensure that NSB retains its market share due to added emphasis on deposit mobilisation. This will also enable NSB to focus considerably on the deposit mobilisation in rural

HOW WE PERFORMED IN 2012

FUTURE PLANS

areas and thus, penetrate our roots of financial inclusivity to underprivileged segments of society.

Another positive envisaged from this change in structure would be in enabling the Bank to hone better inter-personal relationships with the younger generation, which will help us strengthen our roots at grassroot level. School banking units, Ithurum Ayojana Kawa and expanding our loan portfolio through these IAKs will add to the focus. POS mobilisation will form a primal driver in expanding our roots and thus, our branch expansion plan will have the value addition of having more devices in the field as well, to help us reach our stakeholders.

Strengthening the IT Backbone

Information Technology continues to be the fertile feature in ensuring that we remain firmly rooted in our presence, penetration, innovation and better service levels. In 2012, we already laid the groundwork for an IT enabled operational focus including the establishment of a

Technology Management Work Group, improving and development integrated IT solutions, while improving IT infrastructure and emphasising on quality assurance for our IT systems. These plans will be taken further in 2013.

Expanding Borders

We intend increasing NSB's market share in remittances as well as in NRFC and RFC foreign currency mobilisation. The processes planned will include establishing relationships with new exchange houses and banks and accessing new remittance markets.

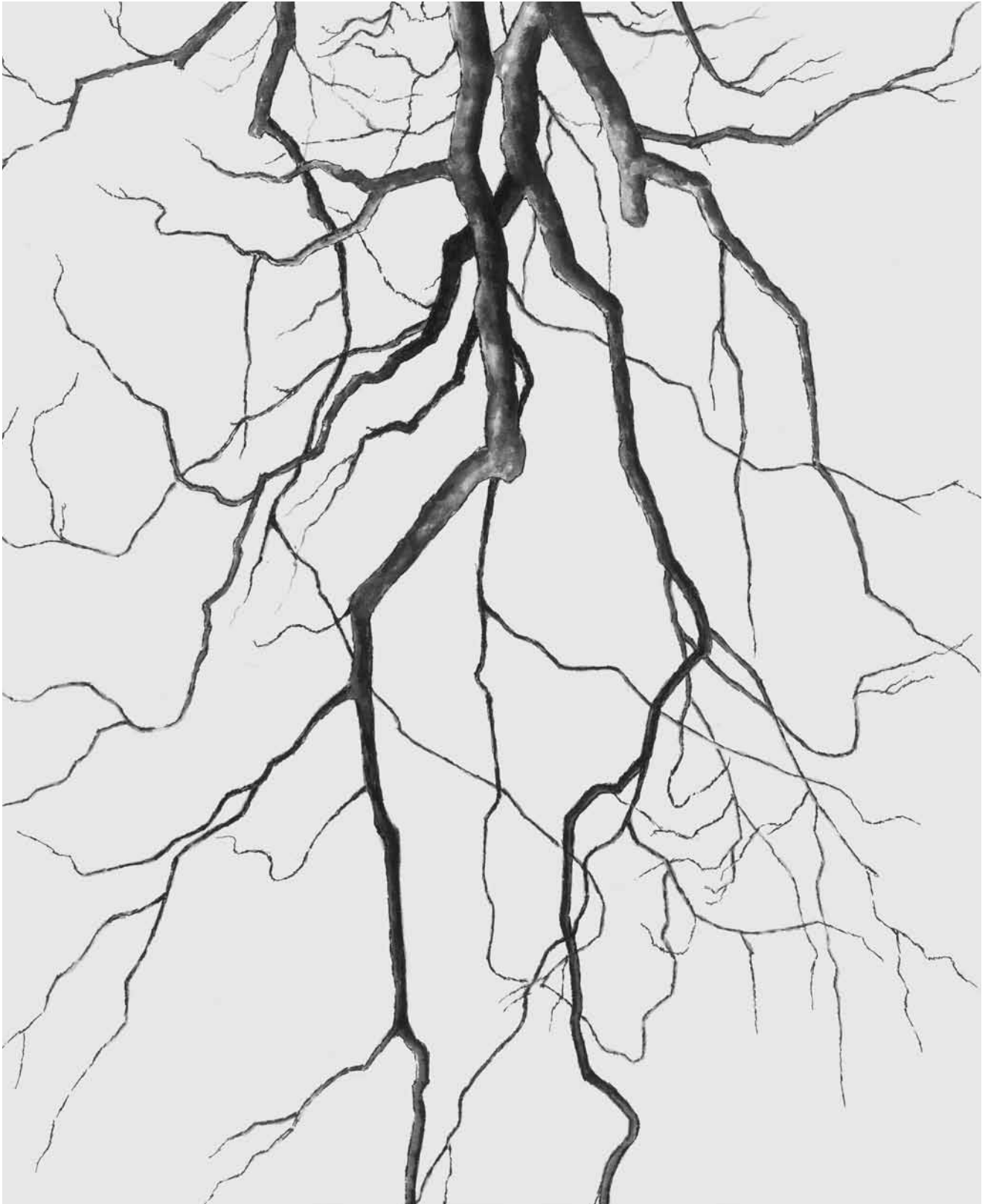
Honing Team Strengths

We consider training as an investment in our collective success as it has a direct impact on the quality of customer service. This remains at the core of the training calendar, which is very focused on the evolving needs of the external environment and the aspirations of our team. The Training Plan for the year is designed to develop our team's competencies and will encompass a host of knowledge gaining initiatives

in short term and long term training programmes, skills development and life long training as well as foreign training whenever applicable.

Widening Focus

NSB will surely be spreading its roots further when next year, we intend to pursue investment opportunities in strategic corporate entities. This will be further augmented through the facilitation of more project loans in diversified industries which would in turn give good rates of return. Another facet we intend working on is raising foreign funds which would enable us to expand our business activities.





CHAPTER 3

ROOTED IN OUR HERITAGE

GOVERNANCE

ROOTED IN OUR HERITAGE

GOVERNANCE REPORT

Corporate Governance is defined as the framework of rules and practices by which a Board of Directors ensure accountability, fairness, and transparency in an institution's relationship with all its stakeholders. Specifically, modern Corporate Governance practices provide directions on the responsibilities of the Board of Directors including that of Chairman, CEO or MD and the Senior Management along with the Board delegated Committees.

Over the last two decades, Corporate Governance advocates have also been emphasising the importance of transparency especially in light of many business giants falling prey to unethical business practices and behaviours of senior management and staff. Therefore, NSB takes transparency as a critical element of Corporate Governance where the practices ensure a strong and balanced economic development while ensuring that interests of stakeholders are safeguarded. It also ensures that stakeholders fully exercise their rights and that the organisation fully recognises their rights as stakeholders.

In essence, Corporate Governance includes not only rules and regulators, practices and procedures but also both social and institutional aspects and encourages a trustworthy, moral, as well as ethical environment that benefits the organisation in many ways including:

- Corporate success and economic growth,
- Investor confidence resulting in an institution's increased ability to raise capital efficiently and effectively,
- Lower capital cost,
- Provide proper inducement to the Board, Senior Management as well as managers to achieve objectives that are in the best interest of the stakeholders and the organisation,
- Minimise wastages, corruption, risks and mismanagement,
- Help in brand formation and development,
- Ensure the organisation is managed with the best interests of all stakeholders in mind and
- Minimise reputational risk.

Governance at NSB

NSB is built on basic, yet vitally important founding qualities and attributes such as honesty, fair play, morals and ethics, legal/regulatory compliance, transparency and optimal proficiencies.

In carrying out its activities, NSB places the value of Corporate Governance at its highest priority starting from the Board of Directors and Senior Management down to all operational levels staff members. The Board of Directors and all staff members at NSB are committed to the highest business integrity and ethical values and are dedicated to fully-complying with the best Corporate Governance Practices spelt in the NSB Act, Banking Act and Direction No. 12 of 2007 on Corporate Governance to Licensed Specialised Banks issued by the Central Bank of Sri Lanka (CBSL) and best business practices. The guidelines and their amendments/updates issued by the CBSL from time to time are well followed by NSB for its effective governance.

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The Bank is in compliance with all the applicable regulatory requirements of the CBSL including the “Know Your Customer (KYC)” requirements along with the Anti-Money Laundering provisions issued under the Financial Transaction Act and the Anti Money Laundering Act.

In addition, as a State owned Bank, NSB is governed by the provisions and the administrative regulations of the Ministry of Finance and Planning and the Government. The Bank tables its Financial Statements annually in the Parliament. This ensures that the public interest in the Bank’s affairs is secure. Financial Statements are audited by the Auditor General. Further the Compliance Division has a provision in its Action Plan to carry out a quarterly compliance audit review in selected branches. The Bank also publishes its financial statements and other disclosures as per the regulatory requirements thus increasing the transparency and reliability of the Bank’s policies and processes in discharging its duties.

We believe that all of the above enhances the Bank’s Corporate Governance structure and strengthens the good governance practices in the best interests of the Bank and all its stakeholders. The general supervision, control and administration of the affairs and the business of the Bank are vested with the Board of Directors which is appointed by the Ministry of Finance & Planning. The newly appointed Board of NSB comprises of seven Directors, six of whom including the Chairman are Non-Executive Directors. The positions of the Chairman and CEO are kept separate. The Directors of NSB are professionals and eminent persons from both the private and public sectors who are able to add value to the Corporate Governance process. The Board has also formulated appropriate checks and balances to ensure that the Corporate Governance process is upheld at all times. The annual audited Financial Statements along with the Annual Report are published ahead of the dates stipulated by the Finance Act.

The Governance Framework at NSB is foremostly based on the following principles:

- Assuming responsibility and accountability in respect of the management of affairs of NSB at all levels.
- Ensuring the oversight of specific responsibility assigned to them through Board appointed Sub-Committees.
- Determining the best structures of management for the Bank to achieve its business objectives and striking the balance between business and the true spirit of ‘National Savings’ and delegating Key Management Personnel appropriately.
- Evaluating business activity and prudent risk management policies of the Bank thus ensuring the safety and soundness of NSB.
- Infusing and accommodating new ideas and maintaining cordial relationships at Board and Senior Management levels.

ROOTED IN OUR HERITAGE

GOVERNANCE REPORT

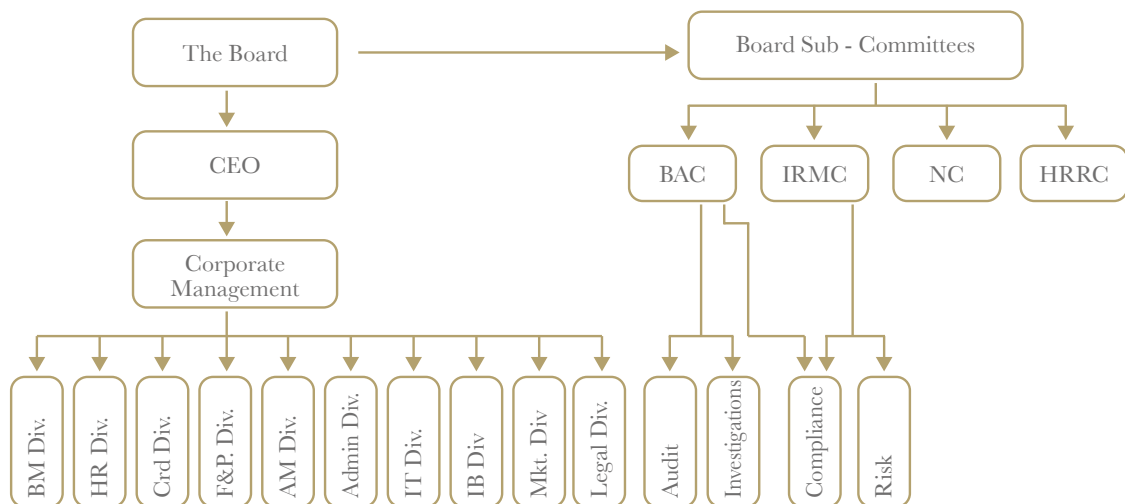
- Having an active role in discussing with relevant regulatory bodies on the implementation and complying with governance regulations.
- Overseeing of internal control systems including internal audit, compliance and risk management functions independent of the business lines.
- Adhering of all requirements of the NSB ACT, laws and directions of Regulators.
- Keeping social responsibility in mind when carrying out its core activities.

The Board has also delegated some of its functions to Board Subcommittees keeping in line with the Directions on Corporate Governance. These Sub-Committees are given the authority to make decisions and/or recommendations to the Board on matters under their purview. The Board Audit Committee (BAC) and Integrated Risk Management Committee (IRMC) assist the Board to review and make decisions on the adequacy and integrity of internal controls, review of financial information and their integrity, principal risk elements of the industry and precise risk factors and Corporate Governance of the Bank. The Board has also retained the critical areas of

operations under its purview without delegating it to operational levels as per Corporate Governance practices.

The Corporate Governance Organisational Chart

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



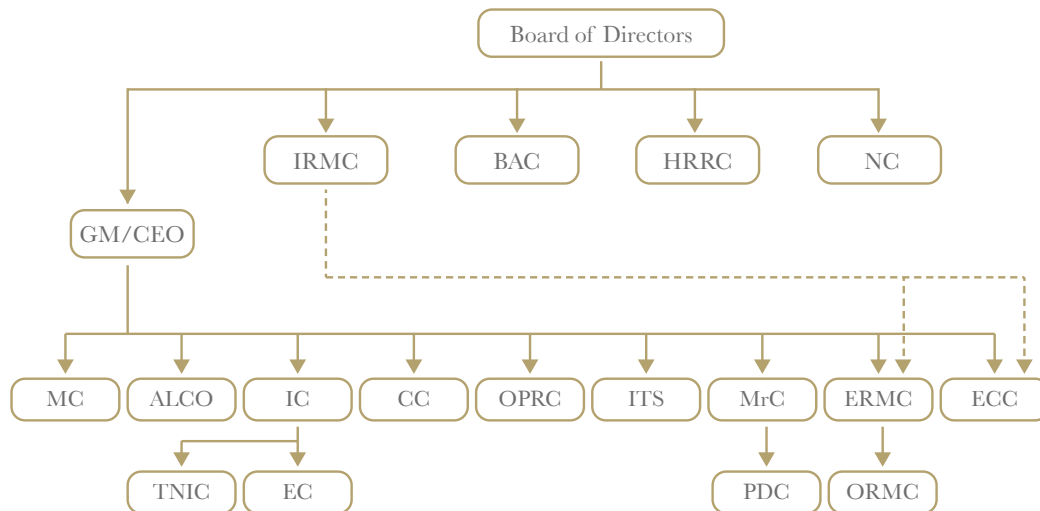
ROOTED IN OUR HERITAGE

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The Compliance framework of the Bank is guided by the Compliance Charter. The Compliance Charter was reviewed and approved by the IRMC in December 2012 (Board approved in January 2013). The salient features included at the review comprises of introduction of an Executive Compliance Committee (ECC), role and responsibilities of Head of Risk & Compliance, strengthened role of Compliance Officer, additional responsibilities of Senior Management etc.

The Management Committees

The Management Committee Structure of the Bank is given below.



IRMC	- Integrated Risk Management Committee
BAC	- Board Audit Committee
HRRC	- Human Resource Remuneration Committee
NC	- Nominations Committee
MC	- Management Committee
ALCO	- Asset and Liability Management Committee
IC	- Investment Committee
CC	- Credit Committee
OPRC	- Operational Performance Review Committee

MrC	- Marketing Committee
ERMC	- Executive Risk Management Committee
ECC	- Executive Compliance Committee
TNIC	- Tender and New Investment Committee
EC	- Equity Committee
PDC	- Product Development Committee
ORMC	- Operational Risk Management Committee
ITS	- IT Steering Committee

ROOTED IN OUR HERITAGE

GOVERNANCE REPORT

The Committees stated in the previous page provide effective management practices while complying with Corporate Governance procedures. The Board Sub Committees are headed by Board member approved and appointed Chairmen (enlisted) while the functions are carried out by the committee

approved Secretaries who are the Heads of the respective Divisions.

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

the respective Charters. All committees adhered to their delegated authorities during the year except for “The Finance Share Transaction” which took place without following the sound investment approval process functioning at the Bank. The impact of this incident was of reputational loss although there was no direct financial loss.

Attendance of the Board Members for Board Meetings during the Year 2012

Name of Director Present Directors	Date Appointed	Eligible to Attend	Attended
Mr. Sunil S. Sirisena - Chairman	06.08.2012	08	08
Mr. S.T. Abeygunawardana, Working Director	Re-appointed on 06.08.2012	08	08
Mr. P.A. Abeysekara	Re-appointed on 22.08.2012	06	06
Mr. D.L.P.R. Abeyaratne	09.02.2012 Acting Chairman from 23.05.2012 to 05.08.2012	08	07
Mr. Lionel P. Fernando	06.08.2012	08	08
Mr. Sumith Wijesinghe	06.08.2012	08	06
Mr. Priyantha Jayawardena	06.08.2012	08	07
Directors who were on the previous Board Name of Director	Date Resigned	Eligible to Attend	Attended
Mr. P.G.S. Kariyawasam - Chairman	21.05.2012	09	09
Mr. S.T. Abeygunawardana, Working Director	18.05.2012 Re-appointed on 06.08.2012	09	08
Mr. P.A. Abeysekara	Re-appointed on 22.08.2012	09	09
Mr. M.K.B. Dissanayake	08.02.2012	02	01
Mr. H. Madiwela	18.05.2012	09	09
Mr. R.A.P. Ranawake	10.08.2012	09	08
Mr. S. Shan. Shanmuganathen	10.08.2012	09	08

ROOTED IN OUR HERITAGE

GOVERNANCE REPORT

Board Sub Committees

Scope, functions and attendance of committee meetings during the year 2012 are given below for the Board appointed sub-committees in accordance with the Banking Act Direction No. 12 of 2007.

1. Board Audit Committee (BAC)

Scope of the Board Audit Committee (BAC)

The scope of the Board Audit Committee is principally to assist the Board of Directors in fulfilling its oversight responsibilities. To maintain the integrity of the Bank's Financial Statements, BAC reviews financial information of the Bank in its Annual Report, quarterly reports published reviews significant financial reporting judgments contained in them, and reviews all processes leading to them.

In reviewing the Bank's Annual Report and accounts and quarterly reports before submission to the Board, the Committee focuses their attention particularly on major judgmental areas, any changes in accounting policies and practices, significant adjustments arising

from the audit, the going concern assumption and the compliance with relevant accounting standards and other legal requirements.

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

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

The Board Audit Committee Report is given on page 96.

2. Human Resources and Remuneration Committee (HRRC)

Scope of the HRRC

The Human Resources and Remuneration Committee (HRRC)

formed under the Banking Act Direction No. 12 of 2007 is responsible for determining the remuneration policy including salaries, allowances and other financial payments relating to Directors, Chief Executive Officer and Key Management Personnel of the Bank, other than the remuneration determined by the Collective Agreement.

The Committee sets goals and targets for the Directors, CEO and the Key Management Personnel and evaluates the performance of same against the set targets and goals periodically and determines the basis for revising remuneration, benefits and other payments of performance based incentives. Developing and reviewing HR development strategies on behalf of the Bank and maintaining a consultative role with the other Board Sub-Committees and operational committees on all human resource issues, including matters relating to all staff, are among the primary responsibilities vested in the HRRC.

The Human Resources & Remuneration Committee Report is given on page 98.

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3. Nomination Committee (NC)

Scope of the Nomination Committee

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

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

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

The Nomination Committee Report is given on page 101.

4. Integrated Risk Management Committee (IRMC)

Scope of the Integrated Risk Management Committee

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

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

The IRMC reviews the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.

The committee takes prompt corrective action to mitigate the effects of specific risks when such risks are at levels beyond the prudent levels decided by the

committee on the basis of the Bank's policies and regulatory and supervisory requirements.

The committee also takes appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of Bank Supervision of CBSL.

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

The committee has established a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated Compliance Officer is selected from key management personnel to carry out the Compliance function and report to the committee periodically.

The Integrated Risk Management Committee Report is given on page 100.

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Board Appointed Committee Attendance

The number of meetings of the Board appointed committees and individual attendance out of the number of eligible meetings of each director for the year 2012 are shown below:

Names	Directorship Status	Board Audit Committee	Nomination Committee	Integrated Risk Management Committee	Human Resource Remuneration Committee
As per statutory requirements Total minimum Number of Meetings to be held during the year		04	02	04	04
Total No. of Meetings held during the year.		05	Not held	04	02
Mr. Sunil. S.Sirisena - Chairman (from 06.08.2012)	Chairman Non-Independent Non-Executive Chairman HRRC	N/A	N/A	N/A	01
Mr. S.T. Abeygunawardana (Re-appointed on 06-08-2012)	Working Director Non-Independent	N/A	-	N/A	01
Mr. P.A. Abeysekera (Re-appointed on 22-08-2012)	Independent Non-Executive Director Chairman NC	03	-	N/A	01
Mr. D.L.P.R. Abeyaratne (from 23-02-2012)	Non-Independent Non-Executive Director Chairman IRMC	N/A	N/A	04	N/A
Mr. Lionel P. Fernando (from 17-08-2012)	Non-Independent Non-Executive Director Chairman BAC	03	N/A	03	N/A
Mr. Sumith Wijesinghe (from 17-08-2012)	Independent Non-Executive Director	03	-	N/A	N/A
Mr. Priyantha Jaywardena (from 17-08-2012)	Independent Non-Executive Director	N/A	N/A	01	01
Mr. Pradeep Kariyawasam	Chairman Non-Independent Non-Executive	N/A	N/A	N/A	-
Mr. Hema Madiwela (Former Board) (upto 18-05-2012)	Independent Non-Executive Director	02	-	N/A	N/A
Mr. S. Shan Shanmuganathan (Former Board-Former Chairman BAC) (upto 10-08-2012)	Independent Non-Executive Director	02	N/A	01	N/A
Mr. R.A.P. Ranawake (Former Board) (upto 10-08-2012)	Non-Independent Non-Executive Director	02	N/A	01	N/A

NA = Not Applicable 0 = Required to be present but not attended - = Member but there were no meetings to attended

Not Held= The Nomination Committee was not held as per the direction in its charter.

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The Board of Directors for the period from 26th April 2012 to 16th August 2012 was not in place except Mr. D.L.P.R. Abeyratne (Director), who was appointed as Acting Chairman. Therefore there was no board meeting held during the above period.

Compliance at NSB

NSB has an effective process to ensure compliance with applicable laws and regulations pertaining to the banking industry, including Banking Act Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks. The Board of Directors approved the Compliance Policy of the Bank in 2010 where the salient features were aligned with the Basel Principles on compliance function and also identified the need of having an independent Internal Compliance Function. In 2012 the Bank reviewed the Compliance Policy and introduced new areas and updated existing areas according to the CBSL guidelines and directions which was approved by the IRMC and submitted to the Board of

Directors for its approval (approved on 10th January 2013).

The Head of Risk and Compliance reports to the Integrated Risk Management Committee and to the Board of Directors. Reports are also submitted to the Audit Committee confirming compliance with the Bank's Compliance requirements.

The Bank has obtained External Auditors' Report on Internal Control over Financial Reporting and a report on the Bank's compliance with the Corporate Governance Directions issued by the CBSL for the year 2012. This further strengthened the Bank's Corporate Governance approach.

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Annual Corporate Governance Report Published in terms of Banking Act Direction No. 12 of 2007 and Subsequent Amendments for Annual Report 2012.

3 (1)	The Responsibilities of the Board	
3 (1) (i)	The Board shall strengthen the safety and soundness of the Bank, by ensuring the following:	
3 (1) (i) (a)	Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank.	Complied with
3 (1) (i) (b)	Approve the overall business strategy of the Bank, the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years.	The Board approved three year strategic plan (2011-2013) is being implemented. This covers business strategy, directions and measurable goals. The Integrated Risk Management (IRM) Policy approved by the BOD outlines strategic, credit, market and operational risks measures for risk identification, measurement and mitigating procedure. Complied with
3 (1) (i) (c)	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	In addition to the IRM Policy, the policies for operations (Treasury, Investments, Outsourcing, HR, Compliance, Audit Charter etc), and other risk identification measures (Stress Tests, KPI&KRI, Risk Reports etc) introduced to ensure identification of principal risks and risks at operational levels. Complied with
3 (1) (i) (d)	Approve implementation of a policy of communication with all stakeholders, including depositors, borrowers, creditors and shareholders.	Customer charter is in place.
3 (1) (i) (e)	Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	Review of internal controls process has been commenced and is an ongoing process. The Bank during the year has examined controls in respect of POS and other activities. In addition the Bank has taken measures to improve IT controls. The Internal Audit Division reviews and monitors controls at operational levels. Complied with

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3 (1)	The Responsibilities of the Board	
3 (1) (i) (f)	Identify and designate Key Management Personnel, as defined in the International Accounting Standards.	Complied with
3 (1) (i) (g)	Define the areas of authority and key responsibilities for Directors themselves and for Key Management Personnel (KMP).	Area of authority and responsibility of the Directors are stated in the Act. By the Section 7 (1) of the NSB Act the Chairman and the Board of Directors are vested with general supervision, control and administration of the affairs and the business of the Bank. As per Section 7 (2) the Board may exercise all or any of the powers of the Bank. By Section 26 (A) (1) the Board may delegate to the General Manager or any other officer of the Bank any of its functions, activities. The Board approved job descriptions define the authority & responsibility of KMPs. Complied with
3 (1) (i) (h)	Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel (KMP) that is consistent with Board policy.	The affairs of the KMPs are overseen through introduction of policies, operational committee charters and regular review and reporting to the Board.
3 (1) (i) (i)	Periodically assess the effectiveness of the Board of Directors' own governance practices, including: the selection, nomination and election of Directors and Key Management Personnel; the management of conflicts of interests; and the determination of weaknesses and implementation of changes, where necessary.	The Bank is wholly owned by the Government of Sri Lanka and the Directors are appointed by the Minister in charge of Finance and Planning. Annual declarations in respect of related parties and their interests are obtained from Directors to monitor conflict, if any. This process is expected to be strengthened and applied to KMPs as well. Complied with
3 (1) (i) (j)	Ensure that the Bank has an appropriate succession plan for Key Management Personnel.	Complied with
3 (1) (i) (k)	Meet regularly, on a need basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	The Board meets KMPs on review of policies, progress review meetings, and important matters on case by case basis at Board meetings. Complied with

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3 (1)	The Responsibilities of the Board	
3 (1) (i) (l)	Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	Bank submits compliance reports and progress reports on annual reviews as specified by CBSL regularly. Complied with
3 (1) (i) (m)	Exercise due diligence in the hiring and oversight of External Auditors.	By law, the Auditor General is the External Auditor of the Bank. External Auditors attend all BAC meetings by invitation. Complied with
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3 (5) of these Directions.	The Chairman is appointed by the Finance Minister while the Chief Executive Officer is appointed by the Board. The functions of CEO were approved by the IRMC and then circulated to the Board for its approval.
3 (1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be Avoided as far as possible.	The Board has held 17 meetings during the year on the following basis. 8 meetings with the new Board appointed from 06-08-2012. 9 meeting from 1st January 2012 to 24th April 2012 (No Board meetings were held during the period of 26.04.2012-16.08.2012 due to resignation of all Directors except one Director).
3 (1) (iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	The procedures to include matters relating to the promotion of business and management of risk was approved by IRMC and circulated to the Board and was approved by the Board.
3 (1) (v)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given.	Complied with

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3 (1)	The Responsibilities of the Board	
3 (1) (vi)	The Board procedures shall ensure that a Director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director.	The NSB Act specifies the procedure for appointment and removal of a Director. During the year, however there has not been any such non-attendance as specified by the Direction. The Board Secretary maintains an attendance register to ensure compliance. Complied with
3 (1) (vii)	The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988.	The position of the Board Secretary was held by an Attorney-at-Law who was a senior legal officer within the permanent cadre of the Bank. The said officer was promoted to the Assistant General Manager-Board Secretary.
3 (1) (viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	The procedure for the Directors to have access to the Board Secretary for advice and services was approved by IRMC and circulated to the Board for its approval.
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	The Board Secretary maintains the minutes. The procedure for this was approved by IRMC and circulated to the Board for approval.
3 (1) (x)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board meetings.	Complied with

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3 (1)	The Responsibilities of the Board	
3 (1) (xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/ their duties to the Bank.	The procedure for this was approved by IRMC and circulated to the Board for approval. Complied with
3 (1) (xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties.	Complied with
3 (1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	Complied with
3 (1) (xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of CBSL of the situation of the Bank prior to taking any decision or action.	No such situation has arisen during the year.
3 (1) (xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied with
3 (1) (xvi)	The Board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Corporate Governance Report is given on page 54 in the Annual Report. Complied with
3 (1) (xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Complied with

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3 (2)	Board's Composition	
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied with
3 (2) (ii) (A)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years.	Complied with
3 (2) (ii) (B)	A Director who has completed nine years as at 1st January 2008, or who completes such term at any time prior to 31st December 2008, may continue for a further maximum period of 3 years commencing 1st January 2009.	Not applicable
3 (2) (iii)	An employee of a bank may be appointed, elected or nominated as a director of the Bank (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one third of the number of directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	As per the NSB Act, the Minister selects five out of seven Directors. The other two Directors according to the NSB Act are Treasury Secretary or his Nominee and Postmaster General or his Nominee. Therefore, no such situation arises. Complied with
3 (2) (iv)	The Board shall have at least three Independent Non-Executive Directors or one third of the total number of Directors, whichever is higher.	Directors are appointed by the Minister in terms of the NSB Act. Out of seven Directors, three are Independent and six are Non-Executive. Please refer to Directors details on page 190 of Annual Report of Board of Directors. Complied with
3 (2) (v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director.	The NSB Act does not refer provisions to appoint alternate Directors. Complied with
3 (2) (vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	All Directors appointed by the Minister are from various disciplines such as Accountancy, Law, Marketing and Business Administration and professionals with necessary experiences. Complied with

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3 (2)	Board's Composition	
3 (2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one-half of the number of Directors present at such meeting are Non-Executive Directors.	As per the NSB Act the quorum of the Board is 4 which is more than one-half of the Directors and 6 of the Directors are Non-Executive Directors. Complied with
3 (2) (viii)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank.	Please refer page 61.
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Appointments of Directors are done by the Minister of Finance as per the NSB Act. No provision in the NSB Act to appoint and fill casual vacancies in the Board.
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Appointments of Directors are done by the Minister of Finance as per the NSB Act.
3 (2) (xi)	If a director resigns or is removed from office, the Board shall: announce the Director's resignation or removal and the reasons for such removal or resignation; and issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Appointment and removal of Directors are done by the Minister of Finance as per the NSB Act.
3 (2) (xii)	A director or an employee of a bank shall not be appointed, elected or nominated as a director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank.	Senior Deputy General Manager, an employee of the Bank is a Director of RDB (Regional Development Bank) representing the shareholding of the NSB.

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3 (3)	Criteria to Assess the Fitness and Propriety of Directors	
3 (3) (i) A,&B	The age of a person who serves as a director shall not exceed 70 years.	All Directors are below the age of 70. Complied with
3 (3) (ii)	A person shall not hold office as a director of more than 20 companies/entities/institutions inclusive of Subsidiaries or associate companies of the Bank.	No Director holds such directorships Complied with
3 (4)	Management Functions Delegated by the Board	
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Please refer 3 (1) (i) g Complied with
3 (4) (ii)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	The Board has not delegated such authority which hinders or reduces the ability of the Board as a whole to discharge its functions. Complied with
3 (4) (iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Delegation arrangements currently in place and reviewed by the Board on a need basis/ on requests made by the management.
3 (5)	The Chairman and Chief Executive Officer	
3 (5) (i)	The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by the same individual.	The roles of Chairman and the CEO are performed by two separate individuals. Complied with
3 (5) (ii)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well.	Chairman is a Non-Executive Director. Chairman is not independent since Chairman is in the Board of the NSB Fund Management Ltd, a fully owned subsidiary of NSB.
3 (5) (iii)	The Board shall disclose in its corporate governance report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship	There is no any relationship between the Chairman and CEO and among members of the Board. Profile of the Board and CEO are available on pages 86 to 89. Complied with

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3 (5)	The Chairman and Chief Executive Officer	
3 (5) (iv)	The Chairman shall: provide leadership to the Board; ensure that the Board works effectively and discharges its responsibilities; and ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Evaluation of the role of the Chairman is incorporated in the Director's Self-evaluation Process. Complied with
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting,	The Secretary to the Board, under the guidance of Chairman draws up the agenda and the papers are submitted by the management through the General Manager/CEO. Complied with
3 (5) (vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at board meetings and also ensure that directors receive adequate information in a timely manner.	Complied with
3 (5) (vii)	The Chairman shall encourage all Directors through self evaluation process to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	Evaluation of the role of the Chairman and the overall assessment of the Board's performance are incorporated in the Director's Self-evaluation Process.
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	Evaluation of the role of the Chairman is incorporated in the Director's Self-evaluation Process. Complied with
3 (5) (ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Chairman is Non-Executive and does not directly supervise KMPs and is not engaged in executive functions. Complied with

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3 (5)	The Chairman and Chief Executive Officer	
3 (5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	The shareholder is being represented at the Board by the nominee of Treasury Secretary who is appointed as a director. The Chairman communicates with the share holders (Treasury) through discussion on policy matters, annual reviews and other important operational matters and brief the Board of Directors.
3 (5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Complied with
3 (6)	Board Appointed Committees	
3 (6) (i)	Each bank shall have at least four board committees as set out in Directions 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions. Each committee shall report directly to the Board. All committees shall appoint a secretary.	All four Committees are in place. Secretaries have been appointed. Board Audit Committee and the Integrated Risk Management Committee directly submit reports to the Board. Complied with
3 (6) (ii)	The following rules shall apply in relation to the Audit Committee:	Board Audit Committee Chairman is Non Executive but Non-Independent due to his appointment as a Director of the NSB Fund Management Company (Pvt) Ltd a fully owned subsidiary of the Bank. He is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka, who has experience in the banking sector.
(a)	The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	All members are Non-Executive Directors.
(b)	All members of the Committee shall be Non-Executive Directors.	

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3 (6)	Board Appointed Committees	
(c)	The Committee shall make recommendations on matters in connection with:	(i), (ii) and (iii) By statutes the Auditor General is the External Auditor of the Bank.
	(i).the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;	
	(ii) the implementation of the Central Bank guidelines issued to auditors from time to time;	
	(iii) the application of the relevant accounting standards; and	
	(iv) the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	(iv) Not Applicable.
(d)	The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Since the Auditor General is the External Auditor the independence and objectivity are maintained. Effectiveness of the audit process is discussed with the Superintendent of the Government Audit at the Board Audit Committee meetings.
(e)	The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services.	Not relevant as the Auditor General is appointed as per the Constitution. No such service has been obtained during the year.
(f)	The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit.	The Auditor General has a permanent office at the Bank and the Superintendent of the Government Audit attends Board Audit Committee meetings regularly and participates in deciding the scope of the Audit Committee. Complied with
(g)	The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein.	Complied with

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3 (6)	Board Appointed Committees	
(h)	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters.	The committee has met the representative of Auditor General in the absence of executive management. Complied with
(i)	The Committee shall review the External Auditor's management letter and the management's response thereto.	Reviewed the Auditor General's Report for the year 2011 issued under the section 13(7) (a) and the management response thereon. Complied with
(j)	The Committee shall take the following steps with regard to the internal audit function of the Bank:	
	i Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;	The Committee has reviewed the scope & functions under Audit Plan. Actions have been taken to increase staff strength and other resource requirement of the Audit division. Please refer the Committee Report on page 95.
	ii Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;	The Committee has reviewed audit program and results and actions on recommendations. Please refer the Committee Report on page 95.
	iii Review any appraisal or assessment of the performance of the Head and senior staff members of the internal audit department;	The performance of Head of Audit (DGM Audit) for the year 2011 and 2012 is to be carried out during the year 2013. Performance of the Senior Staff members of Audit Division is assessed by the Head of Internal Audit and reports to the BAC for review.
	iv Recommend any appointment or termination of the Head, senior staff members and outsourced service providers to the internal audit function;	No such situation has arisen during the year. No outsourced service providers
	v, Ensure that the committee is appraised of resignations of senior staff members of the Internal Audit Department;	No such situation has arisen during the year. Head of Internal Audit is a Fellow Member of ICASL and the staff is well-experienced and conversant with banking operations. Head of Internal Audit reports to the BAC directly.

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3 (6)	Board Appointed Committees	
	vi Ensure that the Internal Audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	During the year, the Internal Audit function independently performed impartial proficient and due professional care except, in the action relation to The Finance Share transaction matter.
(k)	The Committee shall consider the major findings of internal investigations and management's responses thereto;	The Committee has reviewed major findings and management responses thereto. Please refer the Committee Report on page 95.
(l)	The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings.	Complied with
(m)	The committee shall have: i Explicit authority to investigate into any matter within its terms of reference; ii The resources which it need to do so; iii Full access to information; and iv Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	As per the BAC Charter the committee has been empowered to investigate any matter; access to information, authority to obtain professional advice, resources to carry out its functions etc. Refer the Committee Report on page 95. Complied with
(n)	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities	Committee has met 5 times during the year and decisions are recorded. Complied with
(o)	The Board shall disclose in an informative way: i details of the activities of the Audit Committee; ii the number of audit committee meetings held in the year; and iii details of attendance of each individual director at such meetings.	Please refer, Scope of Board Audit Committee is given in page 95. Dates of meetings held during the year are given in page 95. Details of attendance of Directors are given in page 95. Complied with
(p)	The Secretary of the committee shall record and keep detailed minutes of the committee meetings	DGM Audit acts as Secretary and detailed minutes are maintained. Complied with

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

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3 (6)	Board Appointed Committees	
(a)	The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.	The directors are appointed by the subject Minister as per the NSB Act. Section 11 - The Minister shall nominate one of the Directors of the Board to be its Chairman. Section 26 - The Board shall appoint a fit and proper person to be the General Manager of the Bank who shall be the Chief Executive Officer of the Bank. Appointment of KMPs is made by the Board of Directors.
(b)	The Committee shall consider and recommend (or not recommend) the re-election of current Directors.	As per 3 (6) (iv) (a) above.
(c)	The Committee shall set the criteria for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.	The criteria eligibility to be considered for GM / CEO and KMPs are as per the approval of the Board of Directors. The Committee would set nominations in the process in the future.
(d)	The Committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the statutes.	Declaration from Directors, GM / CEO and KMPs has been submitted to Director Bank Supervision. The declarations will be obtained through the committee in the future.
(e)	The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	Directors are appointed by the subject minister as mentioned previously. The general practice is that a Senior DGM is considered as the successor for the post of GM / CEO. The committee would get involved in the process in the future.
(f)	The Committee shall be chaired by an Independent Director. The CEO may be present at meetings by invitation.	An Independent Director has been appointed as the Chairman of the Committee. Complied with

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GOVERNANCE REPORT

3 (6)	Board Appointed Committees	
3 (6) (v)	The following rules shall apply in relation to the Integrated Risk Management Committee:	
(a)	The committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories,	Complied with
(b)	The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis.	Risk Management Division (RMD) assesses the credit, market, operational risks and submits reports to the Committee on a quarterly basis. RMD review risk through product & sectors, Stress Testing, Liquidity Ratios, KPI, KRI, Loss Event data etc and report to IRMC/Board periodically.
(c)	The Committee shall review the adequacy and effectiveness of all management level committees.	The Executive Risk Management Committee was reviewed while the Monthly Compliance Meeting was reviewed and established as Executive Compliance Committee and approved by IRMC. The Operational level committees were approved during the year 2010 and 2011 and expected to be reviewed during the year 2013.
(d)	The Committee shall take prompt corrective action to mitigate the effects of specific risks.	The risk indicators have shown that no specific risk has reached the alarming level.
(e)	The Committee shall meet at least quarterly to assess all aspects of risk management including updated Business Continuity Plans (BCP).	The Committee had met four times during the year. Complied with
(f)	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of Bank Supervision.	Presently all disciplinary actions are handled by the Human Resources and Development Division. No necessities have arisen during the year.
(g)	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	The RMD submits risk review reports of IRMC directly to the Board meeting held subsequently. Complied with

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3 (6)	Board Appointed Committees	
(h)	The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the committee periodically.	Compliance function has been established and the Chief Risk Officer has been appointed as Compliance Officer (Re-designated as Head of Risk & Compliance-HRC), until a Compliance Officer is appointed and HRC submits reports on compliance to the monthly compliance meeting and to IRMC on a quarterly basis.
(7) (i) & (ii)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person,	Complied with
3 (7)	Related Party Transactions	
3 (7) (iii)	The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties 'more favorable treatment' than that accorded to other constituents of the Bank carrying on the same business.	Transactions (if any) carried out with Related Parties in the normal course of business and disclosed in Note 39 to the Financial Statements 'Related Party Disclosures' on page 242. Complied with
3 (7) (iv)	A bank shall not grant any accommodation to any of its Directors or to a close relation of such director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favour of such accommodation.	Accommodations granted to the Directors are governed by the NSB Act and Section 20 of the Banking Act. The Bank has not granted any accommodations to Directors as per the disclosures made at Board meeting. Complied with

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3 (7)	Related Party Transactions	
3 (7) (v)	(a) Where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a director.	Complied with
3 (7) (vi)	A bank shall not grant any accommodation or 'more favorable treatment' other than on the basis of a scheme applicable to the employees of such bank.	There is no accommodation or treatment granted under favorable basis other than the general scheme applicable to all employees. Complied with
3 (7) (vii)	No accommodation granted by a bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied with
3 (8)	Disclosures	
3 (8) (i)	The Board shall ensure that:	
	(a) annual audited Financial Statements and quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that,	Complied with
	(b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	

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3 (8)	Disclosures	
	(a) A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Refer page 185 on Annual Report of Board of Directors. Complied with
	(b) A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Refer page 185 on Annual Report of Board of Directors. Refer Directors' Statement on Internal Control on page 197. Complied with
	(c) The External Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3 (8) (ii) (b) above, in respect of any statements prepared or published after 31st December 2008.	Refer Independent Assurance Report on page 200. Complied with
	(d) Details of directors: including names, fitness and propriety, (ii) transactions with the Bank, and (iii) the total of fees/remuneration paid by the Bank.	Profiles of the Directors are given on page 86. Refer Note 39 to the Financial Statements on page 242. Complied with
	(e) Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	The net accommodations granted as a percentage of Bank's regulatory capital are given in Note 39 (d) to the Financial Statements on page 243. Complied with
	(f) The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration.	Details are given in Note 39 (c) to the Financial Statements on page 242. Complied with

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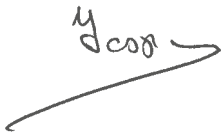
3 (8)	Disclosures	
	(g) The External Auditor's certification of the compliance with these Directions in the annual corporate governance report.	External Auditor's certification was obtained. Complied with
	(h) A report setting out details of the compliance with (i) prudential requirements, regulations, laws (ii) internal controls and (iii) measures taken to rectify any material non-compliances.	Please refer Statement on Directors' Responsibility for financial reporting on page 195. Complied with
	(i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision of CBSL if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	Monetary Board has not directed any disclosures to be made public during the year.
3 (9)	Transitional and other general provisions	The Bank has complied with the transitional provisions. Complied with

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GOVERNANCE REPORT

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

The Auditor General has performed procedures in accordance with the principles set out in Sri Lanka Standards on Related Services 4400 applicable to agreed upon procedures engagements issued by the Institute of Chartered Accountants of Sri Lanka, to meet the compliance requirement of the Direction No. 12 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka. His findings given in his report dated 3 April 2013, were not materially different to the matters disclosed above and did not identify any significant inconsistencies to those reported above by the Board.



Y F Deen

Secretary to the Board



Sunil S Sirisena

Chairman

Colombo

28 March 2013

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BOARD OF DIRECTORS



1. MR SUNIL S SIRISENA – *Chairman*
2. MR S T ABEYGUNAWARDANA – *Working Director*
3. MR D L P R ABEYARATNE – *Director*

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BOARD OF DIRECTORS



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4. MR LIONEL P FERNANDO – *Director*
5. MR SUMITH WIJESINGHE – *Director*
6. MR PRIYANTHA JAYAWARDENA – *Director*
7. MR R M P RATHNAYAKE – *Director*

ROOTED IN OUR HERITAGE

BOARD OF DIRECTORS

Mr Sunil S Sirisena

Chairman

Mr Sirisena was appointed as the Chairman of NSB on 06 August 2012. He is also the Chairman of the NSB Fund Management Company.

Mr Sirisena has previously served as the Additional Secretary to the Ministry of Defense as well as stints as Secretary to the Ministries of Foreign Employment and Welfare, Ministry of Education and Ministry of Cooperative and Internal Trade. He was one of the former Chairmen of the National Film Corporation.

An Economics graduate of the University of Peradeniya, Mr Sirisena also holds a Diploma in Statistics from the university of Colombo and a Higher Diploma in Management from SLIDA. He was a member of the Sri Lanka Administrative Service

Mr S T Abeygunawardana

Working Director

Mr Abeygunawardana was reappointed to the Board on 06 August 2012, having previously served two stints as

a Director from August 2007 to May 2010 and from June 2010 to May 2012.

A businessman with four decades of experience, he also serves as a Director of NSB Fund Management Company, as the Managing Director of Janasetha Jothisa Seveya and as a Director of the Cooperative Hospital, Galle. He also functions as an Advisor on Religious and Cultural affairs to the Independent Television Network.

Mr P A Abeysekera

Director – Ex officio

Mr Abeysekera, who was reappointed to the Board on 22 August 2012, is a senior member of the Sri Lanka Administrative Service since 1980.

He served as Deputy Secretary to the Treasury at the Ministry of Finance and Planning. He was a Council Member of the University Grants Commission; a Director/Member of the Council of the Institute of Indigenous Medicine, Colombo University; a Board Member of the Institute of Policy Studies (IPS); a member of the Governing Council of

the Sri Lanka Institute of Development Administration and also was a member of Advisory Committee of Sri Lanka Transport Board.

His wealth of experience includes serving as Assistant Commissioner of Co-operative Department (Rural Banks) for six years; being District Secretary/ GA of Gampaha and functioning as Secretary to the Commissioner of Investigations of Bribery and Corruption to investigate Allegations of Bribery and Corruption. He retired from the post on 28 February 2013.

Mr D L P R Abeyaratne

Director – Ex officio

Mr Abeyaratne was appointed to the Board on 09 February 2012 and was appointed as the Acting Chairman for the period from 23 May 2012 to 05 August 2012. He is also a Director of NSB Fund Management Company.

Mr Abeyratne is the Post Master General of Sri Lanka. His 16 years of previous experience in Class 1 of the Sri Lanka Administrative Service have included services as Divisional

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BOARD OF DIRECTORS

Secretary, Minuwangoda from 2005 – 2008; Director General, National Gem & Jewellery Authority from 2008 - 2009 and Senior Assistant Secretary, Ministry of Economic Development in 2010.

Mr Abeyaratne has a Bachelor of Commerce (Honours) Degree and a Master of Arts in Sociology at the University of Kelaniya in 1991 and 2010 respectively.

Mr Lionel P Fernando

Director

Mr Fernando, an experienced Chartered Accountant, was appointed to the Board on 06 August 2012. He is also a Director of NSB Fund Management Company.

He holds a Bachelor of Commerce (Special) Degree and is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (FCA), Fellow Member of Society of Certified Management Accountants (FCMA) and a Senior Accounting Technician (SAT).

Mr Fernando sits on the Boards of many Companies including Benjarong (Pvt) Limited; L M Management

Services (Pvt) Limited; Kelani Uni Insurance Brokers (Pvt) Limited; Amerasian Travels (Pvt) Limited; Sundance Property Developers (Pvt) Limited; Amerasian Engineering Consultants (Pvt) Limited; Peerapat Cleaning Technology (Pvt) Limited and Friendshio (Pvt) Limited.

Mr Sumith Wijesinghe

Director

Mr Wijesinghe was appointed to the Board on 06 August 2012. A practicing lawyer, he qualified as an Attorney at Law and holds an LLB degree. Mr Wijesinghe currently serves as Secretary to the Leader of the House and is also a Director of the Export Development Board.

He sat on the Boards of many institutions, including Sri Lanka Telecom PLC, Mobitel Pvt Ltd, National Development Trust Fund (Gar) Ltd and National Development Trust Fund Company (all from 2007 - 2010) and Lankaputra Development Bank (2011 - 2012).

His previous experience has included coordinating programme activities of an Integrated Poverty Alleviation Programme (including Savings and Credit Programme) supported by NDTF/World Bank (1993 - 1997) and planning and implementing a Fishing Community Programme.

Mr Priyantha Jayawardena

Director

Mr Jayawardane, President's Counsel, was appointed to the Board on 06 August 2012.

An Attorney-at-Law of the Supreme Court, Mr Jayawardane obtained a Master's Degree in Commercial Law from the University of Aberdeen Scotland, UK in 1993. He completed the Qualified Lawyers 'Transfer Test' at the College of Law London in 1993 and enrolled as Solicitor in England and Wales in 1996. He also completed studies in Commercial Law at the National University of Singapore in 1999. In October 2012, Mr Jayawardane was appointed as a President's Counsel.

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BOARD OF DIRECTORS

He is a legal consultant to many institutions such as Sri Lanka Insurance (2003 - 2008); National Engineering Research and Development Centre (2004 - 2011); National Institute of Business Management (2006 - 2010); Sri Lanka Institute of Architects (2003 - 2007); Sri Lanka Institute of Information Technology (2000 - 2003) and Lanka Ceramics Company Ltd (2003 to date).

Mr Jayawardane has engaged in private practice and has also been employed at the Attorney General's Department, where he served as a State Counsel. He has also been a Consultant to the Ministry of Food, Internal and International Trade and Commerce and has participated in drafting legislation. He was a Member of the Advisory Commission on Intellectual Property Law in Sri Lanka and Member of the Securities and Exchange Commission of Sri Lanka (2009 - 2012). He has also been a Visiting Lecturer and Examiner at the Department of Building Economics, University of Moratuwa (2000 - 2004) and a visiting lecturer

at Sri Lanka Institute of Tourism and Hotel Management.

Mr R M P Ratnayake *Director-Ex Officio*

Mr. Ratnayake who is the Director, Department of External Resources in the Ministry of Finance and Planning has been in the Public Service for over 19 years appointed to the Board of NSB on 4th March 2013. He holds a BSc (Special) Degree in Agricultural Economics from the University of Peradeniya and obtained the Masters and Postgraduate Diploma in Agriculture and Natural Resources Management from Agricultural University, Norway. He is a life member of Sri Lanka Economic Association.

Mr. Rathnayake was an Assistant Director at the Department of National Planning, Deputy Director and Director - in - Charge in the Human Development Cluster and Director - in - Charge of Asian Development Bank Division of the External Resources Department. He served in the capacity of Director in the Boards of State Pharmaceutical Corporation and

Mahaweli Authority and a member of the Advisory Board of Science and Technology Policy Research Division of the of National Science Foundation. A visiting Consultant and a Lecturer in the Institute of Sri Lanka Development Administration (SLIDA) and a member in the Sri Lanka Council for Agricultural Research Policy (CAARP), Board of Management of Post Graduate Institute of Medicine, University of Colombo and Board of Directors of National Aquaculture Development Authority of Sri Lanka.

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

Yasmin Fathima Deen is an Attorney -at Law & Notary Public with 28 years experience in the Bank as a Legal Officer and worked as the Company Secretary for NSB Fund Management Company from the time of its incorporation in 1999. Covered up the duties of the secretary to the Board from 15 May 2012 to 31 January 2013. She was appointed as the Secretary to the Board of Directors of the Bank with effect from 01 February 2013.

ROOTED IN OUR HERITAGE

GENERAL MANAGER/CEO

Mr H M Hennayake Bandara

General Manager/CEO

The General Manager/CEO of the Bank has extensive experience in banking and financial sector. He is the immediate past President of the Association of Professional Bankers Sri Lanka (APB) and is a Director of the Sri Lanka Banks' Association. He is also a Board Member of the Institute of Bankers of Sri Lanka (IBSL), a Director of the Financial Ombudsman Sri Lanka and a Director of NSB Fund Management Co. Ltd. Mr. Hennayake is a member of the Board of Directors of World Savings Banks Institute (WSBI).

He has been a Council Member of the Institute of Chartered Accountants of Sri Lanka and Sri Lanka Institute of Advanced Technological Education (SLIATE), Board Member of Sri Lanka Accounting and Auditing Standards Monitoring Board and Technical Advisor and Committee Member of Professional Accountants in Business of South Asian Federation of Accountants (SAFA). He is also a past president of the

Association of Accounting Technicians of Sri Lanka (AATSL).

He was a member of the Expert Group appointed by the Central Bank of Sri Lanka to provide expertise to Registered Finance Companies (RFC) and Specialised Leasing Companies (SLC) in respect of the implementation of the 'Stimulus Package for Banking, Finance & Leasing Industry'. He was a recipient of the Award for 'Excellence in Business Management' awarded by CMA Sri Lanka.

Mr. Hennayake holds a B.Com Special Degree from University of Sri Jayewardenepura, and is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, Institute of Certified Management Accountants of Sri Lanka and Association of Accounting Technicians of Sri Lanka. He also holds a Higher National Diploma in Accountancy from the Technical College, Sri Lanka.

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CORPORATE MANAGEMENT TEAM



1. H M HENNAYAKE BANDARA – General Manager/CEO
2. T M K BANDARA – Additional General Manager (Human Resources & Administration)
3. S D N PERERA – Senior Deputy General Manager (Operations, Credit & Information Technology)
4. K RAVEENDRAN – Deputy General Manager (Audit)
5. J K GAMANAYAKE – Deputy General Manager (Marketing & Deposit Mobilization)

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CORPORATE MANAGEMENT TEAM



6. MRS T M SAMARASINGHE – *Deputy General Manager (Legal)*
 7. K B WIJEYARATNE – *Deputy General Manager (Finance & Planning)*
 8. MRS A JAYASINGHE – *Deputy General Manager (Branch Administration)*
 9. R M GUNATHILAKA – *Head of Risk & Compliance*

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EXECUTIVE MANAGEMENT TEAM



1. R C GOONERATNE – Assistant General Manager (Security)
2. MS.C S JESUDIAN – Assistant General Manager (Project Finance & Credit Management)
3. MRS.B P J GUNASEKERA – Assistant General Manager (Asset Management)
4. E M M G EKANAYAKE – Assistant General Manager (Operations)
5. A C GAMAGE – Assistant General Manager (Credit)

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EXECUTIVE MANAGEMENT TEAM



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6. M P A W PEIRIS – *Assistant General Manager (International Banking)*

7. MS. G V A D D SILVA – *Assistant General Manager (Finance)*

8. P A ABEYSOORIYA – *Assistant General Manager (IT)*

9. MS. Y F DEEN – *Secretary to the Board*

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SENIOR MANAGERS

Regional Managers

U.L. Rafeek - *Eastern*
 T.L.A. Wijerathna - *Sabaragamuwa*
 J.M. Senevirathna Banda - *North Western*
 P. Wattuhewa - *Western 1*
 V. Arulanantham - *Northern*
 Mrs. H.R. Silva - *Western 3*
 K.K.V.L.W. Karunathilake - *Central*
 S.N.B.M. Gunawardena - *Southern*
 Mrs. E.D. Seetha - *Western 2*
 Mrs. M. Gawrawawansa - *North Central*
 M.T.A.J.F. Gomis - *Uva*

Operations

S.H.M. Mubarak - *Manager - City*
 T.M.D.G.D. de Alwis - *Manager - Kalutara*
 Mrs. K.P.D.M. de Silva - *Manager - Postal Administration*
 P.H. Andrahennadi - *Manager - Matara*
 V .V. Craison - *Manager - Batticaloa*
 Ms. M.S.S. Fernando - *Manager - Head Office*
 J.A.U. Gamage - *Manager - Kurunegala*
 Mrs. W.A.S. Gunasekara - *Manager - Nugegoda*
 A.L.A. Haleem - *Manager - Kirulapone*
 Mrs. B.K.G.B.M. Karunarathne - *Manager - Kandy 2*
 Mrs. G.P. Nanayakkara - *Manager - Homagama*
 M.A.M. Navaz - *Manager - Galle*
 P.T.A. Perera - *Manager - Wellawatta*
 Mrs.P. Punchibandara - *Manager - Kandy*
 R.P.J. Rajapaksha - *Manager - Anuradhapura*
 Mrs. R.A.N.N. Wijesinghe - *Branch Administration Division*

IT and Support Services

K.M.W.M. Karunarathna - *Premises*
 P.S. Wasanthatillake - *Information Technology*
 J.A.A.S.L. Somarathna - *Information Technology*
 G.M.S.P. Fernando - *Information Technology*
 Mrs. W.P.U.A. De Silva - *Card Centre*

International and Credit

Mrs. S.W. Gunasekara - *Credit*
 Mrs. D.G.P. Senevirathna - *Recoveries*
 H.M.G.P.J Herath - *International Banking*
 Mrs. S.R.Liyanage - *Credit*

Audit

W. Piyarathna - *Audit*
 D.N.J.K. Gamage - *Audit*

Human Resource Development

Mrs. M.Y. Gunasekera - *Human Resources*
 K.S. Weerasena - *Training*
 Mrs. A.P. Samaranyake - *Human Resources*
 Ms. Fernando M.N.A. - *Human Resources*

Finance and Planning

Mrs. S.A.B.M. Bandaranayake - *Superannuation*
 Mrs. M.A. Gomes - *Planning*

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REPORT OF THE BOARD AUDIT COMMITTEE

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

The Committee comprises of three non executive Directors of the Bank. The following directors served on the Committee during the year 2012:

- 1) Mr. Lionel P Fernando
- Chairman of the Committee (from 17/08/2012)
- 2) Mr. P.A. Abeysekera
- Member (from 22/08/2012, retired on 28/02/2013)
- 3) Mr. R.M.P. Ratnayake
- Member (from 04.03.2013)
- 4) Mr. Sumith Wijesinghe
- Member (from 17/08/2012)
- 5) Mr. Shan Shanmuganathan
- Chairman of the Committee (up to 10/08/2012)

- 6) Mr. Hema Madiwela
- Member (up to 18/05/2012)
- 7) Mr. R.A.P. Ranawaka
- Member (up to 10/08/2012)

Meetings

During the financial year ended 31st December 2012, five Committee meetings were held. The details of which are as follows:

The Attendance of the Committee Members			
Date	Mr. S. Shan Shanmuganathan	Mr. Hema Madiwela	Mr. R.A.P. Ranawaka
27th January 2012	✓	✓	✓
24th February 2012	✓	✓	✓
	Mr. Lionel P. Fernando	Mr. P.A. Abeysekera	Mr. Sumith Wijesinghe
25th September 2012	✓	✓	✓
09th October 2012	✓	✓	✓
22nd November 2012	✓	✓	✓
✓ Attended			

The Deputy General Manager (Audit) functioned as the Secretary to the Committee. The members of the senior management who were invited also attended the Committee meetings. The Superintendent of the Government Audit attended to the meetings regularly, as an observer.

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REPORT OF THE BOARD AUDIT COMMITTEE

Board Audit Committee Charter

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

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

The Charter also stipulates the functions and responsibilities, and the authority of the Committee. A Charter Checklist was introduced to assist the Committee to assess its compliance to the Charter in performing the Committee's functions and discharging its responsibilities:

Internal Audit Charter

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

Activities during the Year

The Committee attended to the following activities during the year 2012:

- 1) Approved the Audit Plan for the year 2012 and 2013 at the meetings held in January 2012 and November 2012 respectively.
- 2) Reviewed the Charter Checklist to assess the compliance to the Charter in performing Committee's functions and discharging its responsibilities in the year 2011.
- 3) Discussed and completed the Self Assessment Guide for 2011.

- 4) Reviewed the financial statements of the Bank for the year ended 31st December 2011, and the quarter ended 30th September 2012 and recommended to submit the same to the Board of Directors.
- 5) Reviewed the performance of the Audit & Vigilance Division.
- 6) Reviewed the progress of the Risk Management function of the Bank.
- 7) Approved the report on the Board Audit Committee activities to be included in the Annual Report of 2011.
- 8) Reviewed and discussed the nature and the scope of the Government audit for the year 2012.
- 9) Reviewed the performance appraisal of senior audit staff members of the Audit and & Vigilance Division.
- 10) Reviewed the internal audit findings. The Committee considered the internal audit

ROOTED IN OUR HERITAGE

REPORT OF THE BOARD AUDIT COMMITTEE

reports, the deficiencies observed therein, responses by the Heads of Divisions and branches and corrective actions taken to rectify the deficiencies observed.

- 11) Reviewed the summary of internal investigations on the fraudulent and irregular activities and management action thereon.
- 12) Followed up on the outsourcing of Information System Audit.
- 13) Reviewed the manpower requirement and the staff matters of the Audit & Vigilance Division.

External Audit

By statute, the Auditor General is the external auditor of the Bank. The Superintendent of Government Audit is invited to attend to the Committee meetings as an observer. The Committee reviewed and discussed the nature and scope of the external audit in 2012. The external auditor was invited to discuss the findings of the external auditor during the Committee meetings. The

Committee ensured the provision of all information and documents required by the external auditor for the purpose of audit.

Reporting

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

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



Lionel P. Fernando

Chairman – Board Audit Committee

Colombo
28 March 2013

ROOTED IN OUR HERITAGE

REPORT OF THE HUMAN RESOURCES & REMUNERATION COMMITTEE

The Human Resources and Remuneration Committee appointed by and responsible to the Board of Directors consists of three Non Executive Directors (including Chairman), two of whom are Independent Directors.

The following Directors have served on the committee during the year 2012.

1. Mr. Sunil S Sirisena
- Chairman – NIND/NED (From 17/08/2012)
2. Mr. P A Abeysekera
- Member –IND/NED
(Reappointed on 22/08/2012 and retired on 28/02/2013)
3. Mr. R M P Ratnayake
Member – IND / NED (From 04/03/2013)
4. Mr. Priyantha Jayawardena -
Member – IND / NED (From 17/08/2012)

5. Mr. P G S Kariyawasam -
Chairman - NIND/NED (Up to 21/05/2012)

6. Mr. S T Abeygunawardana -
Member – IND / WD (Up to 18/05/2012)

NIND: Non Independent Director,
IND:Independent Director, NED:Non
Executive Director, WD: Working
Director

Scope

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

The Committee reviews all significant Human Resource policies and initiatives, salary structures and terms and conditions relating to

staff at senior executive level. In this process, necessary information and recommendations are obtained from the GM/CEO and the Additional General Manager.

Committee Meetings

During the financial year ended 31 December 2012, two HRRC meetings were held. The HRRC attended to the following during the year under review:

1. Reviewed proposals forwarded by five employee unions for the Collective Agreement 2012 – 2014
2. Reviewed the analysis in respect of the Managers and Second Officers of the entire branch sector of the Bank with a special focus on the age and date of retirement.
3. Appointed a sub-committee to formulate a succession plan for the branch sector of the Bank

ROOTED IN OUR HERITAGE

REPORT OF THE HUMAN RESOURCES & REMUNERATION COMMITTEE

4. Reviewed the matters relating to the absorption of Sales Officers in to the permanent cadre
5. Granted promotions to the Post of Confidential Secretary Class I (Sinhala/English)
6. Reviewed and discussed the proposed cadre for the year 2012.



Sunil S Sirisena

*Chairman – Board Human Resources
& Remuneration Committee*

Colombo
28 March 2013

ROOTED IN OUR HERITAGE

REPORT OF THE INTEGRATED RISK MANAGEMENT COMMITTEE

Composition of the Integrated Risk Management Committee of the Bank

The Integrated Risk Management Committee (IRMC) of NSB consists of 3 Non-Executive Directors and members of the Corporate Management and the Compliance Officer. The Head of Risk & Compliance functions as the Secretary to the Committee. The details of the members are given in the page 61 of the Annual Report.

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

- Advise the Board of Directors in fulfilling its responsibilities relating to risk management.
- Implement the Integrated Risk Management Policy approved by the Board and periodic updating of the Bank wide risk management framework.
- Ensure that all credit, market, operational and strategic risks faced by the Bank are identified, monitored, and adequately managed;

- Work with key management personnel very closely and make recommendation to the board within the framework of the authority and responsibility assigned to the committee.

Charter and the Responsibilities of the Risk Management Division.

The Risk & Compliance Division prepares and collates the material necessary for the IRMC to deliberate and recommend the decisions on matters falling within its mandate for approval of Board of Directors. These papers are circulated to members in advance. The process through which risks were managed is explained in detail in the Risk Management section of this Annual Report.

IRMC Meetings of the year

IRMC meets on a quarterly basis. During the year, NSB convened four IRMC meetings. The attendance of members in the Committee is details of on page 61 of the Annual Report. The

minutes of the meetings and risk reports were submitted to the Board regularly.

The committee reviewed the Risk Management Charter and the Stress Test policy, risk management structure & future actions, examination of internal controls etc and risk reviews through Stress Test, Key Risk Indicators and Key Performance Indicators and performance comparison. Further the Compliance Policy review, Corporate Governance & Regulatory Framework, KYC compliance status, review of statutory examination progress etc. were taken up at these meetings and was satisfied that the actions taken in respect of managing risks of Bank.



D L P R Abeyaratne

Chairman

Board Integrated Risk Management Committee

Colombo

28 March 2013

ROOTED IN OUR HERITAGE

REPORT OF THE NOMINATION COMMITTEE

The Nomination Committee comprises three Independent Directors appointed by the Board of Directors of the Bank. The following Directors serve on the Nomination Committee.

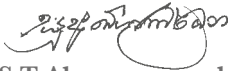
- Mr. P. A. Abeysekera - Chairman (IND/NED)(Up to 28-2-2013)
- Mr. R M P Ratnayake - Chairman (IND / NED) (From 04/03/2013)
- Mr. H. Madiwela - (IND/NED) (Up to 18-5-2012)
- Mr. S. T. Abeygunawardana (NIND/WD)
- Mr. Sumith Wijesinghe (IND/NED) (From 17-08-2012)

The Dy. General Manager (HRD), functions as the Secretary to the Committee.

IND - Independent Director, NED - Non-Executive Director, WD - Working Director

The Committee sets the criteria (qualification, experience, etc.) required for eligibility for appointment or promotion to the posts of CEO and Key-Management Personnel and ensures that CEO and the Key Management Personnel are fit and proper to hold office. In addition, the Committee considers and recommends to the Board of Directors from time to time, the requirements for additional and/or new expertise and the succession arrangements for retiring Key Management Personnel.

The Nomination Committee has not met during the year under review as there have been no significant matters coming under the committee purview.


S T Abeygunawardana
for Chairman - Nomination Committee

Colombo
28 March 2013





CHAPTER 4

ASSESSING AND MANAGING OUR RISK FACTORS

RISK MANAGEMENT

ASSESSING AND MANAGING OUR RISK FACTORS

RISK MANAGEMENT

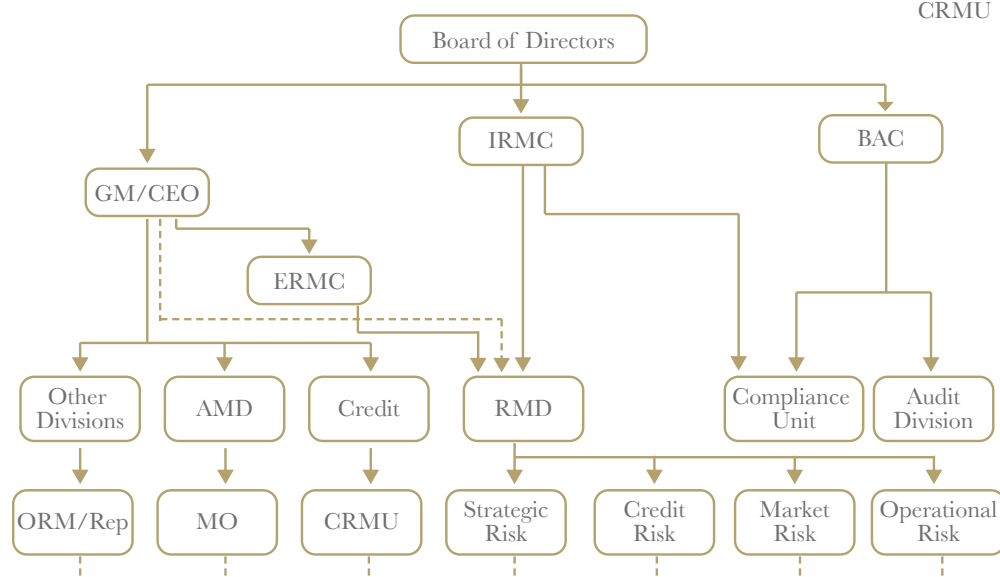
Risk Management requires an integrated approach that interacts with a number of factors such as strategy, structure, policies and procedures, functions etc since all activities are interrelated and interconnected in achieving the organisation's goals. A cohesive approach of management, development of an atmosphere for positive cultural and organisational changes, policy & structure based systems and procedures, risk identification and reporting etc are the pillars of achieving the establishment of an Integrated Risk Management (IRM) framework in the Bank. Further, assessment of potential

risks for an organisation at every level and then aggregating the results at the corporate level to facilitate priority setting and improved decision-making are fundamental for IRM. Integrated risk management should focus on optimisation of corporate goals at an acceptable risk level through support activities that foster innovation, optimal operating results and stability to sustain during turbulent times. Integrated risk management should also enable the regulators to identify an entity as a responsible organisation focusing on long term system stability and compliance with national interests.

Risk Management Structure

The Bank has been improving its effort for establishing a cohesive risk management structure to ensure adequate oversight due to the nature and complexity of and risk inherent in the Bank's operations. The principal responsibilities set out below extend throughout the Bank.

- IRMC - Integrated Risk Management Committee
- BAC - Board Audit Committee
- ERMC - Executive Risk Management Committee
- AMD - Asset Management Division
- RMD - Risk Management Division
- ORM/Rep - Operational Management Representative
- MO - Middle Office
- CRMU - Credit Risk Management Unit



ASSESSING AND MANAGING OUR RISK FACTORS

RISK MANAGEMENT

Risk Identification, Measurement, Mitigation, Monitoring and Reporting

The Bank, with the approval of the Board of Directors has established basic risk identification and measurement techniques; such as Key Performance Indicators (KPIs), Key Risk Indicators (KRIs), Stress Tests, Management Information System (MIS), Risk review, Competitor Analysis, Control Examination, improvement of Structures etc during the period under review. The findings were used as yard sticks for risk measurement and mitigating measures.

The Board approved stress test policy was reviewed during the year to represent regulatory and market risk. The policy ties over ten stress test conditions covering profitability (interest income and expenditure), credit (Adverse shifts of Non Performing Loans (NPL) categories, transfer of Performing Loans (PL) into NPL, impact of increasing provisions etc), interest and liquidity (change of interest rates of government securities, deposit and lending rates, change of maturity profile of assets and

liabilities etc) and adverse impacts on change of overheads.

KPIs cover profitability, performance efficiency, and asset quality. KRIs highlights possible risk areas including impact on interest rate risk, margin, assets and liability structure, market positioning, overheads etc. The findings are reported to the respective operational committee (i.e. ALCO, ERM, IRMC) and to the Board on a quarterly basis.

An MIS is being developed as a tool for risk identification, monitoring process and feedback process at the operational level and results are discussed within the representative management committees. The Bank is also taking actions to formulate a comprehensive retail credit policy and the draft is being reviewed by the Senior Management.

STRATEGIC RISK

Strategic Risk is defined as the possibility of losses arising from adverse business decisions, lack of responsiveness to industry changes, negative impact on current and/or prospective earnings

or capital, lack of concentration on strategic direction and critical factors which may arise due to a weak strategic planning process.

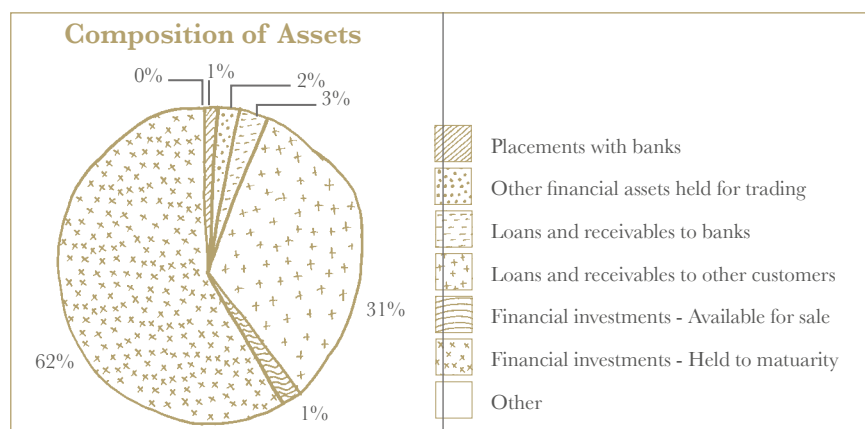
The Bank identifies Strategic Risk through environmental scanning by the Board and the Corporate Management team in achieving the Strategic Goals and Objectives. The guidelines of the Board approved Policies, Charters, Risk Review Reports, Risk Tolerance Limits etc, are used to identify strategic risk by using tools such as Scenario Analysis and Stress Testing.

Board approved Integrated Risk Management Policy (IRM Policy), Treasury and Asset and Liability Management Policy, Investment Policy, HR Policy, Code of Conduct for Dealers, Training Policy, Outsourcing Policy and Charters for All Operational Level Committees are in place in order to minimise strategic risk.

Note: All the figures, data tables and graphs in the risk management report are based on the Sri Lanka Accounting Standards (SLAS) unless otherwise mentioned specifically.

ASSESSING AND MANAGING OUR RISK FACTORS

RISK MANAGEMENT



The composition of assets mainly comprise of Financial Investments which is 62% of total assets.

Capital Allocation

The Capital Adequacy Ratio (CAR) also known as “Capital to Risk Weighted Assets Ratio” (CRAR), measures the Bank’s ability to absorb reasonable amount of losses before insolvency. The assets are weighed according to the level of riskiness which arises from credit, market and operational risks based on the regulatory guidelines.

The capital adequacy ratios serve to protect depositors and promote the stability and efficiency of the financial system.

The Asset and Liability Management Committee (ALCO) headed by the General Manager/CEO and the Corporate Management team reviews and decides assets allocation, pricing, liquidity, strategic investments etc.

The Bank regularly measures and maintains its capital adequacy as required by the Section 76 j (1) of

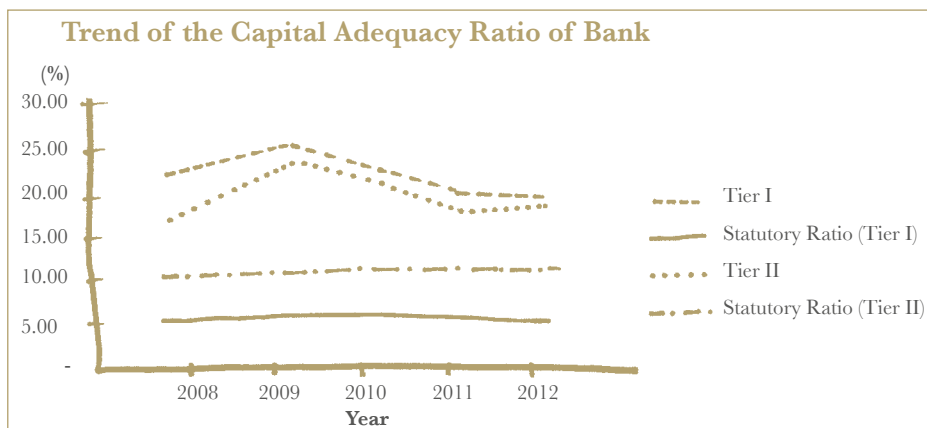
the Banking Act No. 30 of 1988 as amended by the Banking Act No. 33 of 1995.

The capital base and the risk weighted amount under each category of risk are given in the following table.

ASSESSING AND MANAGING OUR RISK FACTORS

RISK MANAGEMENT

Item	Rs.Mn	Rs.Mn
Paid up Share Capital/ Common Stock	3,200.0	
Statutory Reserve Fund	1,626.5	
General and Other Reserves	17,766.2	
Less: Deductions (Tier I)	(2,466.6)	
Core Capital (Tier I)		20,126.1
Supplementary Capital (Tier II)		1,286.1
Less: Deductions (Tier II)		(1,180.5)
Tier III Capital		0.0
Capital Base		18,945.7
Minimum Capital Charge for Credit Risk	5,394.3	
Minimum Capital Charge for Market Risk	1,392.8	
Minimum Capital Charge for Operational Risk	2,403.8	
Risk Weighted Amount for Credit Risk	53,942.7	
Risk Weighted Amount for Market Risk	13,927.9	
Risk Weighted Amount for Operational Risk	24,038.3	
Total Risk Weighted Amount		91,909.0
Core Capital (Tier I) Ratio (Minimum Requirement 5%)		21.90
Total Capital (Tier II) Ratio (Minimum Requirement 10%)		20.61



ASSESSING AND MANAGING OUR RISK FACTORS

RISK MANAGEMENT

Strength of the Capital Adequacy

Further, the sensitivity to the stress condition of the CAR has been examined periodically to ascertain the buffer to absorb risk shocks. Both the Tier I and Tier II Capital Adequacy Ratios are well above the minimum regulatory requirements even under the serious scenarios calculated under stress tests as approved by the Board. Stress conditions are given in the table below.

Risk Type	Stress Scenario
Credit Risk	Increase in the Non-Performing Loans (NPLs) and the respective provisioning
Market Risk	
- Interest Rate Risk	Impact of Change in the Difference between Average Yield of Government Securities and average rate of less than 12 months FDs and Savings
- Liquidity Risk	Impact of Liquidating Interest Earning Assets to pay 3 Months Liabilities
Operational Risk	Risk Weighted Assets under The Standardised Approach (TSA)

The table below summarises the impact on the Bank's Capital Adequacy Ratio in a situation of combined stresses Occurrence.

Stress Test Results and Capital Cushion

Risk Type	Capital Required Under Normal Direction	Possible Capital Erosion on Account of Stress Scenario	Risk Weighted Assets after the Capital Erosion
Credit Risk (Rs. Mn)	53,943	7,132	61,074
Market Risk (Rs. Mn)	13,928	3,182	17,110
Operational Risk (Rs. Mn)	24,038	5,442	29,480
Liquidity Risk (Rs. Mn)		1,423	1,423
Total (Rs. Mn)	91,909	17,179	109,088
Capital Funds Available (Rs. Mn)	18,946	-	18,946
CAR (%) - Tier II	20.61	-	17.37
Impact on CAR (%)	-	3.25	-

ASSESSING AND MANAGING OUR RISK FACTORS

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CREDIT RISK

Credit risk is the possibility of losses arising from the diminution in the credit quality of borrowers or counterparties which could materialise from the banking book and the trading book and both on or off balance sheet.

For a bank's stability and continuing profitability, it is crucial that every bank has a sound credit risk management system integrated into the overall risk management framework. The credit risk management aims to maximise a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks should have a keen awareness to identify measure, monitor and control credit risk and should have adequate capital to absorb these risks.

Ensuring lending staff complies with the set policies, procedures and guidelines of the Bank and ensuring the existence of Board approved policies to limit or manage other areas of credit risk are the main steps in managing credit risk.

As part of the annual planning process, the Board and Management set targets for the NSB's loan portfolio mix and reviews on an ongoing basis to ensure that the performance meets the Board's expectations and the level of risk remains within the acceptable limits. Adaptation of standardised lending procedures which reduces risk of transactional error and ensures compliance with regulatory requirements are the high priority in Bank's credit process. The Bank applies Key Performance Indicators (KPIs), Key Risk Indicators (KRIs), Stress Testing, Portfolio Review, Internal Control Assessment, Yield Assessment etc. to monitor the quality of the Credit Portfolio on a quarterly basis.

Credit Risk Appetite

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept and by monitoring exposures in relation to such limits. The risk appetite of the Bank is set by the Board of Directors and contains a set of credit portfolio monitoring measures which include tolerable risk levels.

Credit Risk Management Structure

The Bank has initiated a structure to the credit risk management process to optimise the credit risk management functions and identifies, assesses, quantifies, prices, monitors and manages credit risk continuously.

The Risk & Compliance Division conducts two key functions of Credit Risk Management and Credit Risk Review. The functions covered by the Credit Risk Management are; involvement in assessment of pre-approval stage on large and high risk credits as per the Integrated Risk Management Policy, evaluate and comment on new lending products from a risk perspective, monitor Key Credit Risk Indicators including NPL, monitor and report to the Board of Directors and Operational Level Committees such as Credit Committee (CC), Asset & Liability Management Committee (ALCO) etc. Credit Risk Review Function covers evaluating the portfolios of different loan categories, evaluating the credit process and adequacy of

ASSESSING AND MANAGING OUR RISK FACTORS

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internal controls and reporting the findings with recommendations to the relevant Board and Operational Level Committees.

The CC, ALCO, Executive Risk Management Committee (ERMC) and the Integrated Risk Management Committee (IRMC) review the credit risk assessments.

In order to carry-out credit risk management activities at operational level the Bank has strengthened and streamlined the Credit Risk Management Unit (CRMU) within the Credit Division under the supervision of Risk & Compliance Division.

Credit Risk Exposures of the Bank

The total Credit Exposure which is 33.1% of the Bank's total assets is the Bank's second major line of business (The investment in risk free securities is 62.0% of total assets-based on SLFRS). Hence the magnitude of credit risk is comparatively low to the Bank, albeit

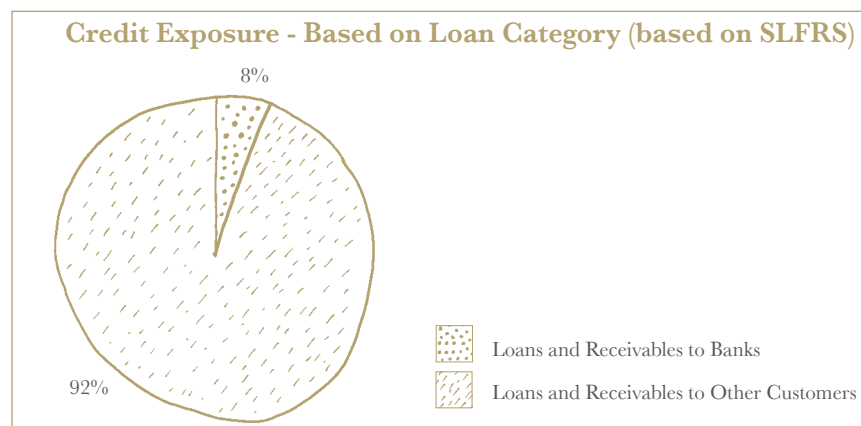
the fact that the Bank considers credit risk as a major type of risk.

The credit exposure of the Bank is created from two main categories i.e. 'lending to banks' and 'lending to other customers' such as corporate and retail borrowers, Government and Government Institutions.

NSB's Credit risk mainly arises from 'lending to other customers' which is 92% of the total Credit Exposure created by the conventional On-Balance Sheet items i.e Term Loans, Debentures, Trust Certificates and Securitisation and Off-Balance Sheet

items such as Guarantees and Bonds. Credit risk which is created through the wholesale lending or 'lending to banks' i.e. funding short-term and medium-term fund requirements of the Banks via short-term loans, Debentures, Securitised Instruments, Trust Receipts etc. represents 8% of the total Credit Exposure.

Credit Exposure is based on the level of security depicted that 90% represents secured loans and 10% represents unsecured loans. Loans which are backed by property represents the largest portion (35%) of the secured category of Loans and Advances and pawning



ASSESSING AND MANAGING OUR RISK FACTORS

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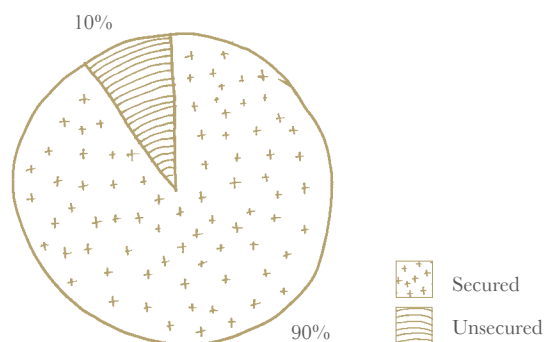
which is backed by gold represents the second largest portion (34%). The cash backed credit represents 13% of the secured loan portfolio.

Management of the Credit Portfolio

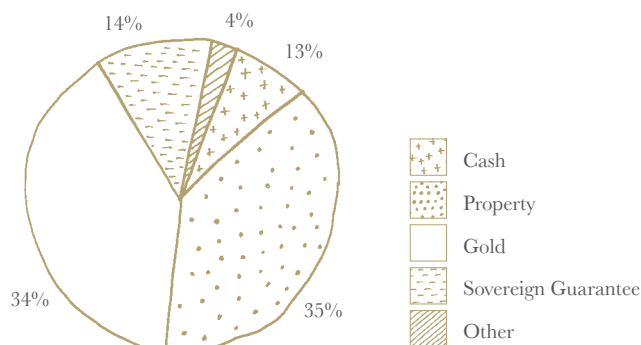
• *Portfolio Analysis*

The credit portfolio analysis enables the Bank to monitor the credit risk attached to different loan categories as well as to the entire credit portfolio. Comprehensive reports are submitted to the Risk Management Committees setting-out detailed risk evaluation as well as suggested mitigation actions. The risk evaluation of retail exposures are mainly based on rate-wise / size-wise loan portfolio analysis, computation of Weighted Average Rate of each retail loan category, NPL analysis, market value based analysis, insurance cover and industry analysis.

Credit Exposure - Based on Level of Security (based on SLFRS)

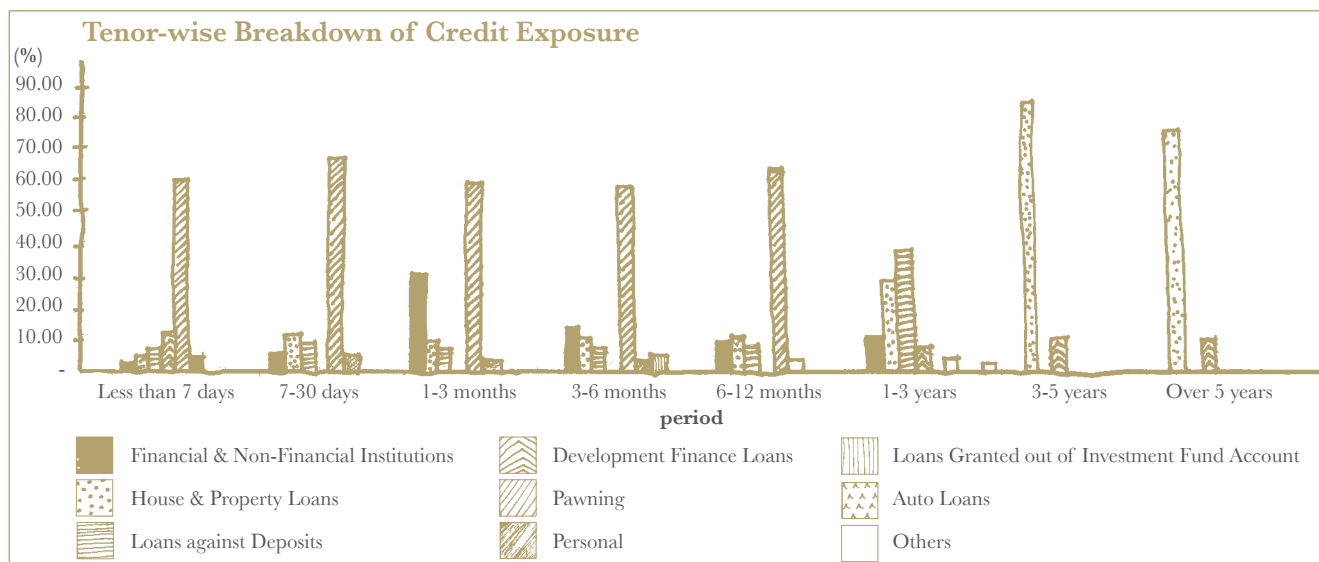


Secured Loans and Advances



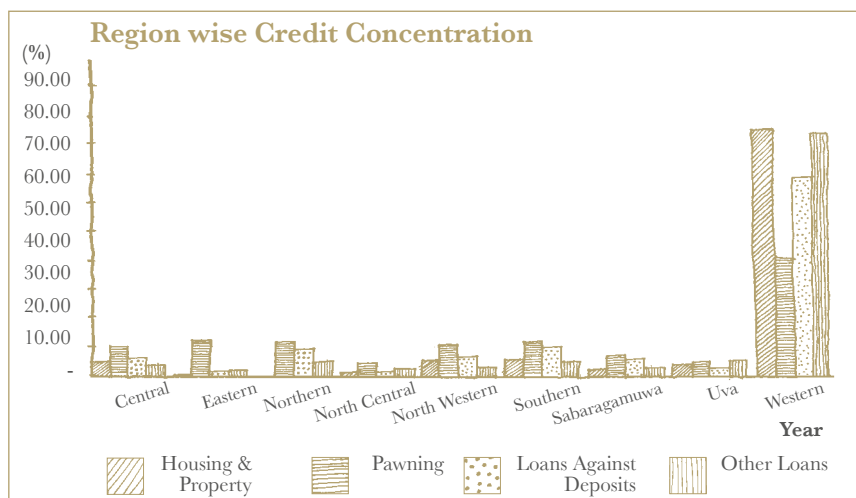
ASSESSING AND MANAGING OUR RISK FACTORS

RISK MANAGEMENT



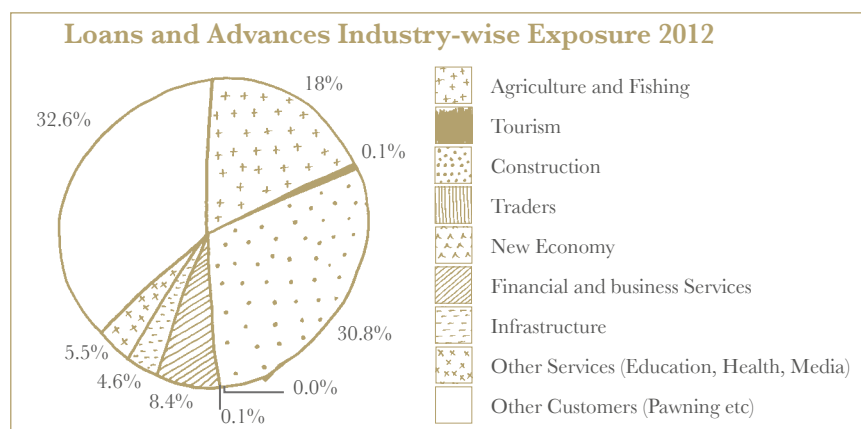
• Concentration of the Credit Portfolio

Concentration of exposures in credit portfolios is an important aspect of credit risk. Concentration risk may arise from two types of imperfect diversification. The first type; the 'name concentration risk' can arise from uneven distribution of exposures (or loans) to its borrowers. The second type; the 'sector concentration risk' arises from uneven distribution of exposures to particular sectors, regions, industries or products. Name concentration implies



ASSESSING AND MANAGING OUR RISK FACTORS

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less than perfect granularity of the portfolio, while sectoral concentration implies that risk may be driven by more than one systematic component (factor).

The Bank analyses the maximum exposure to credit risk by geography of counterparty and by industry before the effect of mitigation is applied through the use of collateral agreements.

The geographical analysis of Loans and Advances of the Bank depicts that the Western province has deployed the highest percentage of mobilised funds in every category of loans.

The Bank has deployed the mobilised funds in the respective provinces through loans and the ratios are in line with the Bank's loans to deposit ratio.

Industry Analysis of Loans and Advances

The Industry-wise classification of credit exposure indicates that Construction represents the major sector in the year 2012 (30.8% as per the SLAS categorisation and 25.5% as per the SLFRS categorisation) among the sectors financed by the Bank.

Herfindahl and Hirschman Index (HHI)

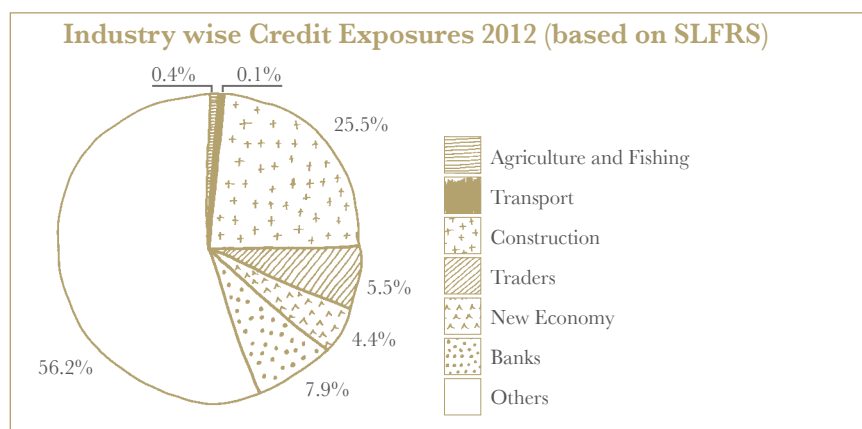
Concentration is a key driver of a portfolio credit risk and the HHI is a reliable standard for measuring concentration risk. HHI measures the size of firms in relation to the industry or a sector in relation to the total portfolio.

The Bank applied the HHI Measure of sector exposure to the total Loans and Advances portfolio. The results of HHI can range from 0 to 1.0, moving from a few sectors to a larger number of sectors where the minimum value of HHI Index generally indicates a low concentration and low level of competition in the market place and vice versa.

The index shows a decrease in concentration risk from 2011 to 2012 indicating the Bank's credit portfolio is on the low end of credit concentration risk. The concentration risk impact on the overall portfolio too is low, since concentration risk on account of the growing products such as housing loans and pawning are distributed over large

ASSESSING AND MANAGING OUR RISK FACTORS

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number of customers and backed by marketable securities.

Credit Quality

The Bank has established a credit quality review process to provide early identification of possible changes in the credit worthiness of counterparties, including regular collateral revisions. Establishing industry acceptable criteria for assessment of risk profile of the borrower and the facility helps to monitor the overall quality of the total credit portfolio and mitigate any credit risk.

An analysis of the behaviour of NPL categories shows a shift in portfolio composition evident of the efficiency and effectiveness of recovery actions taken during the year for 'Doubtful' and 'Loss' accounts.

Stress Testing

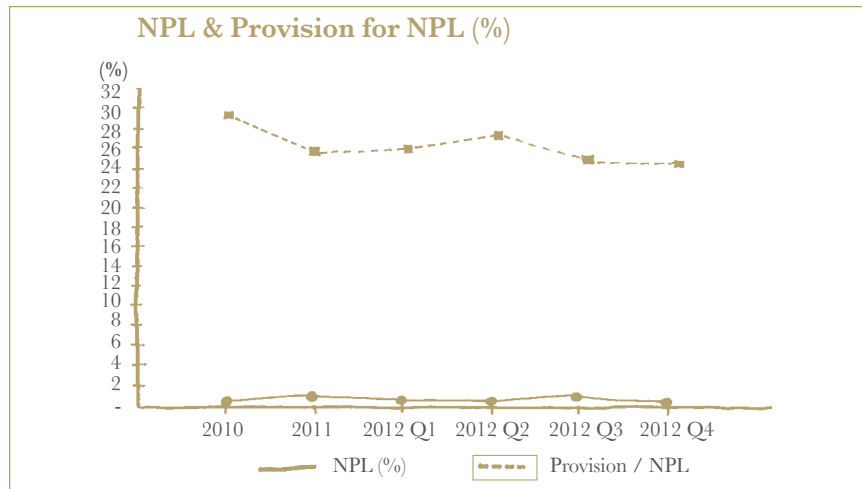
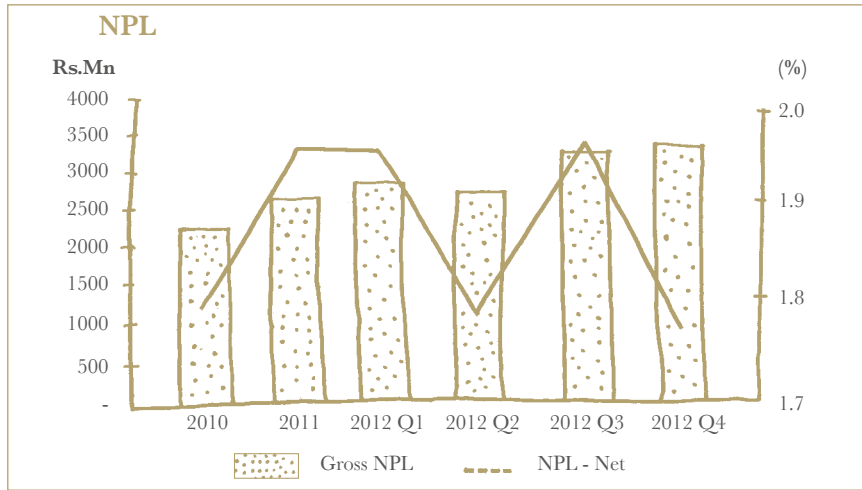
An important element of maintaining credit quality is analysing what could potentially go wrong with individual credits and the overall credit portfolio if conditions/environment in which borrowers operate change significantly. Accordingly, the Risk & Compliance Division has stressed tested NPLS to identify the deviations from the risk tolerance under assumed scenarios. Such stress tests can reveal previously undetected areas of potential credit risk exposure that could arise in times of crisis.

The results of this analysis should then be factored into the assessment of the

Loan Category	HHI	HHI
	2011	2012
Housing and Property Loans	0.15899	0.10165
Loans against Deposits	0.02459	0.02446
Loans to Government	0.00000	0.00210
Loans to Government Institutions	0.00000	0.00052
Development Finance Loans	0.00454	0.00268
Pawning	0.12083	0.13069
Personal	0.00030	0.00060
Loans Granted Out of Investment Fund Account	0.00000	0.00007
Others	0.00015	0.00009
	0.30939	0.26288

ASSESSING AND MANAGING OUR RISK FACTORS

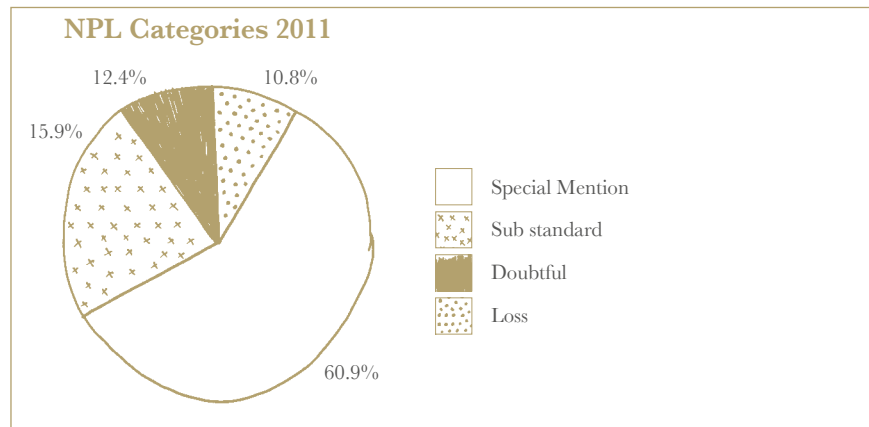
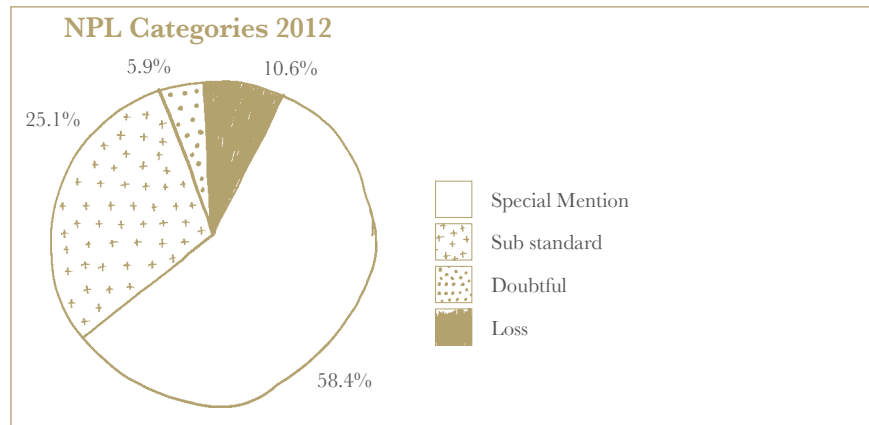
RISK MANAGEMENT



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adequacy of provisioning and capital of the Bank. The Senior management regularly reviews the results of stress tests. The results are taken as an important input into a review of credit risk management framework to make recommendations on setting limits and provisioning levels for the Bank.



ASSESSING AND MANAGING OUR RISK FACTORS

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The scenarios that the Bank is currently carrying out stress testing for credit portfolio include:

I) A shifting of performing loans by 10% to NPL plus moving of NPL categories to adverse stages by, (a) 50 %, (b) 80 %, and (c) 100%

	Actual 2012	Scenario 1 50%	Scenario 2 80%	Scenario 3 100%
PBT (Rs.Million)	6,719	4,559	4,266	4,131
P/L Impact (%)	100	68	64	62
Interest Cost/ Interest Income (%)	79	83	84	84
Margin (%)	3.09	2.62	2.55	2.52
Gearing (%)	5.09	5.05	5.03	5.02

II) Increasing in NPL up to (a) 10%, (b) 15% and (c) 20% and provisioning by 50%

	Actual 2012	Scenario 1 50%	Scenario 2 80%	Scenario 3 100%
PBT (Rs.Million)	6,719	1,532	(329)	(4,050)
P/L Impact (%)	100	23	(7)	(88)
Interest Cost/ Interest Income (%)	79	81	81	83
Margin (%)	3.09	2.91	2.82	2.65
Gearing (%)	5.09	4.95	4.68	3.95

Shifting of performing loans by 10% into non-performing categories and moving of NPL categories have a lesser impact on the profitability than increasing of NPL by different percentages and provisioning by 50% on the profitability. However, occurrences of these stresses are very remote due to practicing of secured lending guidelines and procedures.

III) In the event of market value of the pawning portfolio dropping by 15% and 10% there will be no serious impact to the Capital Adequacy of the Bank.

Ratio	Actual 2012	Market Value Drop to;	
		85%	90%
CAR % (Tier I)	21.90	19.16	21.01
CAR % (Tier II)	20.61	17.87	19.72

ASSESSING AND MANAGING OUR RISK FACTORS

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Collateral and Other Credit Enhancements

An assessment of the credit risk of the counterparty determines the amount and type of collateral required. The loans to banks and financial institutions are based on their credit rating while, either property mortgages, treasury guarantees and corporate guarantees are obtained as collateral for commercial lending and mortgages over residential properties, personnel guarantees, gold and cash were obtained for retail lending.

The Management monitors the market value and the forced sale value of the

collateral and assesses the adequacy of the allowance for impairment losses. It is the Bank's policy to take the decision of disposing repossessed properties in an orderly manner and the proceeds are used to recover the outstanding claims. As a general rule, the Bank does not occupy repossessed properties for business use.

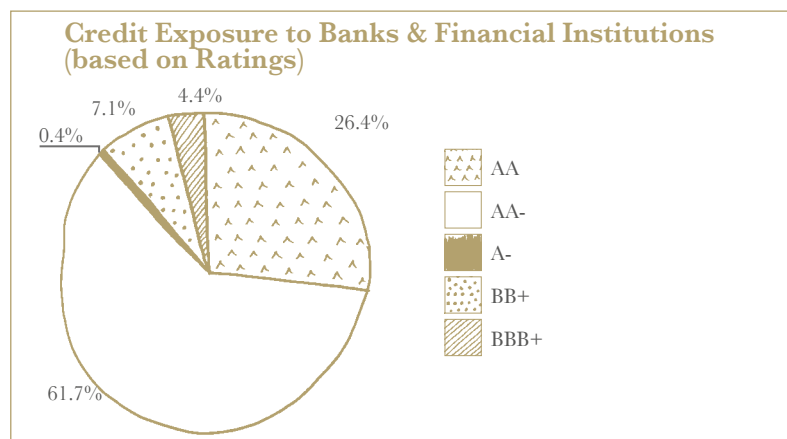
Loan Review Mechanism (LRM)

LRM is an effective tool for constantly evaluating the quality of the loan book and to bring about qualitative improvements in the credit process. The Risk & Compliance Division therefore,

has drafted a Loan Review Mechanism for all types of credit with responsibilities assigned to various areas such as, evaluating the effectiveness of the loan process, maintaining the integrity of credit grading process, assessing the loan loss provision, portfolio review etc and intend to implement LRM during the next year.

Credit Risk Indicators

The credit risk along with the risk profile of the Bank are assessed mainly through, Key Risk Indicators (KRIs) and Key Performance Indicators (KPIs) such as NPLs, provision for NPLs, monitoring of interest in suspense, market share based analysis, portfolio growth, asset allocation and then are reported to the Board and Operational Level Committees. The Risk and Compliance Division has developed a MIS to monitor and manage credit risk and submit the data / information to the relevant divisions to report the credit data to the relevant Board Committees and Operational Level Committees.



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Credit Risk Monitoring, Mitigation and Control

Credit risk monitoring refers to continual monitoring of individual credits inclusive of Off-Balance sheet exposures to obligors as well as the overall credit portfolio of the Bank. A proper credit monitoring system enables to monitor quality of the credit portfolio on day-to-day basis and will provide the basis for taking prompt corrective actions when warning signs point-out to deterioration in the financial health of a borrower.

The credit discipline, credit risk management and control process are being implemented in the Bank. Streamlining of the credit process is being carried-out through the Credit Committee via continuous revision of procedures and monitoring performance.

The Bank has taken action to strengthen and streamline the Credit Risk Management Unit (CRMU) under the supervision of the Risk & Compliance Division in order to carry-out credit

risk management functions such as; credit limit setting, credit exceptions, security valuation, exposures etc. The Risk & Compliance Division will initially be involved in the assessment of pre-approval stage on large and high risk credits as per the Integrated Risk Management Policy.

MARKET RISK

Market risk to the Bank stems from movements in market prices, in particular, changes in interest rates, foreign exchange rates and equity prices. Market risk is often propagated by other forms of financial risk such as credit and market-liquidity risks. The risk of losses would arise from On-Balance sheet as well as Off-Balance sheet activities.

A bank is required to develop a sound and well informed strategy to manage its market risk. The strategy should first determine the level of market risk the institution is prepared to assume. This level should be set with consideration given to, among other factors, the

amount of market risk capital set aside by the institution.

Once its market risk tolerance is determined, the Bank needs to develop a strategy that balances its business goals with its market risk appetite. The Bank will consider the following factors when developing such strategies:

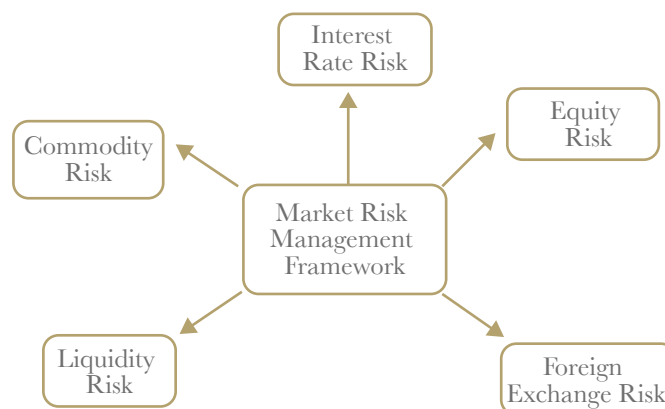
- Economic and market conditions and their impact on market risk
- Whether the Bank has the expertise to profit in specific markets and is able to identify, monitor and control the market risk in those markets
- The Bank's portfolio mix and how it would be affected if more market risk is assumed

The Bank has taken actions to establish a market risk management framework with the objective of optimising the rewards during the year 2012. This is facilitated through Board approved policies, guidelines as well as risk parameters and limits. The Risk Management Division of the Bank is responsible for the overall risk management of the Bank and the

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evaluated risks are reported to the Assets and Liability Management Committee (ALCO), Executive Risk Management Committee (ERMC) and Integrated Risk Management (IRMC) periodically. Initial steps were taken to establish an independent Treasury Middle Office in order to improve the effectiveness of market risk management. The market risk management framework of the Bank is as follows.



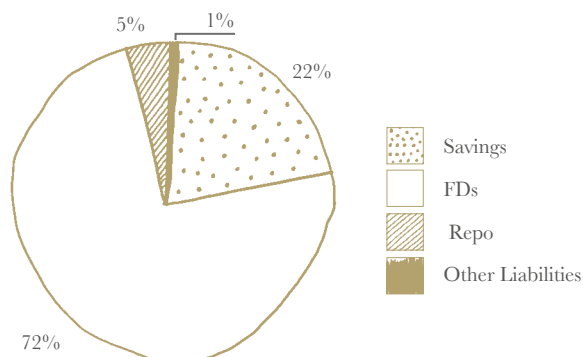
Interest Rate Risk

Interest rate Risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates,

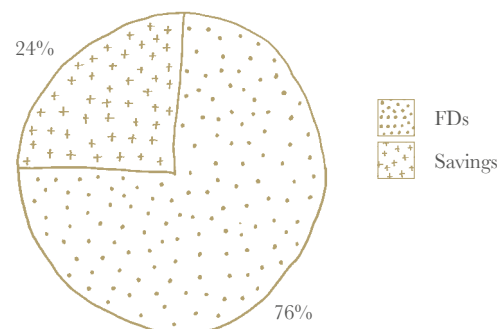
in the shape of the yield curve or in any other interest rate relationship. The Bank's major source of funding

is deposits which represent 94% of total on balance sheet liabilities. Of this, 24% represents savings deposits

Composition of Liabilities



Composition of Total Deposits



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where 76% represents Fixed Deposits (FDs). On the other hand, the majority of investments in the Bank represent investment in government securities in short to medium term which represents 62% of total on balance sheet assets. Hence the Bank is subject to interest rate risk to a greater extent.

The composition of FDs amongst the total liabilities is on the increasing trend even though the rate of growth has reduced from 2011 to 2012. This causes the Bank to have a high interest cost which in turn results in reducing net interest margin. The Savings deposits are also on the increasing trend even though at a slower rate. However, the position of other liabilities and the repo borrowings remains almost same.

Measurement of Interest Rate Risk and Interest Rate Risk Indicators

The Banking Book constitutes 61% of the total balance sheet assets. On the other hand the deposits consist of 86% of the total on balance sheet liabilities and equity. Hence, the Bank is

subjected to re-pricing risk to a greater extent. Therefore, the Bank gives due consideration in managing interest rate risk. ALCO has been constantly monitoring the market risk factors and managing the interest rate risk in a rising interest rate scenario.

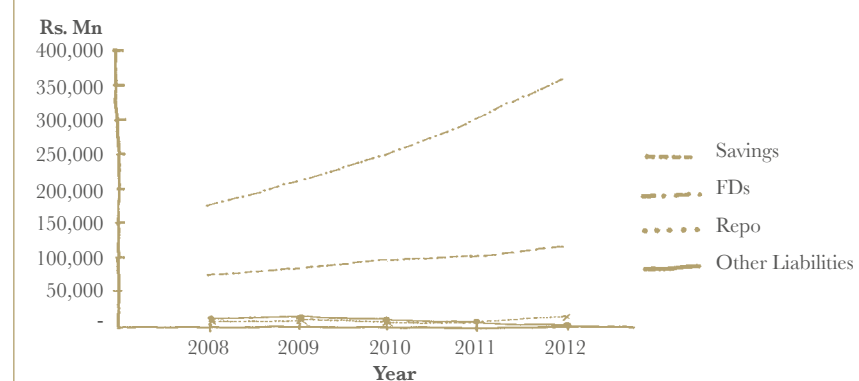
Rate sensitive gap that is prepared based on rate sensitive assets and rate sensitive liabilities is a major tool used in forecasting and managing interest rate risk of the Bank. Based on the gap and re-pricing risk faced, decisions are being taken by the ALCO to manage the interest rate risk to the optimal level.

Rate Sensitive Gap

(Rs.Millions)

Item	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	3 - 5 years	Over 5 years
Rate Sensitive Assets	24,814	36,169	56,050	120,410	154,447	57,176	39,416
Rate Sensitive Liabilities	86,225	156,124	61,217	131,126	27,965	360	1,619
Gap	(61,411)	(119,955)	(5,167)	(10,716)	126,482	56,816	37,797
Gap as a % of Total Liabilities	(71)	(77)	(8)	(8)	452	15,782	2,335

Trend of Liabilities



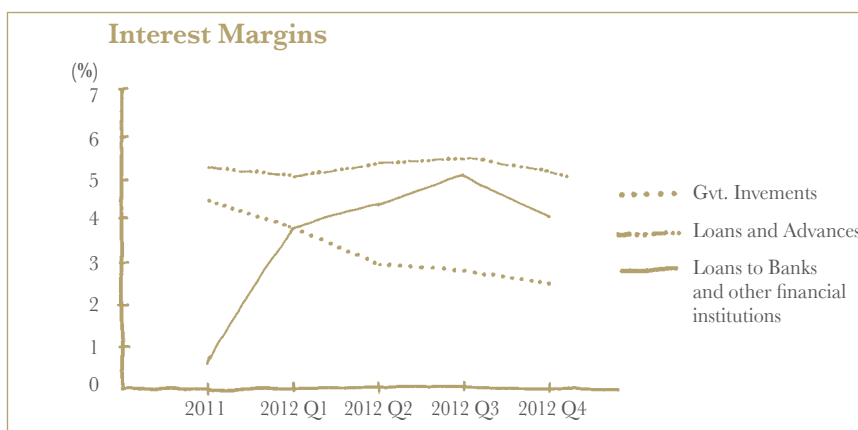
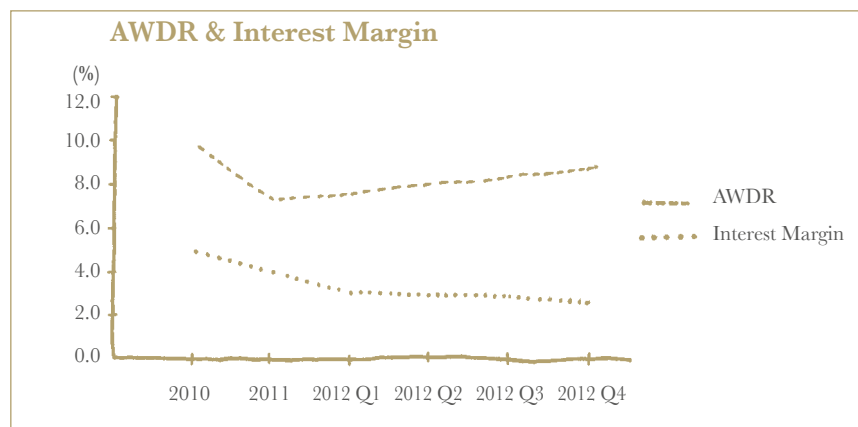
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Maturities of assets and liabilities, Key Risk and Key Performance Indicators (KRIs/KPIs) are also used as tools in managing the interest rate risk of the Bank. Interest margin and Weighted Average Deposit Rate (AWDR) are used as major Key Risk Indicators in monitoring the behaviour of the deposit rates and measuring interest rate risk of the Bank. The ratios indicate that the Bank has been able to manage its Net Interest Income, even though the Interest Margin of the Bank is on a declining trend.

The diversification of assets is based on the margins and yields that are received. As such a higher proportion of assets are allocated to sectors that generate higher margins.

The investment in loans and advances gives the highest margin. Though it is on a decreasing trend, the decrease in margin from loans and advances is very marginal. Interest margin from loans to banks and other financial institutions has increased from 2011 to 2012 while margin from Government Investments



has decreased. However, margin from all the categories show a slight reduction in the fourth quarter of 2012 compared to the third quarter.

Stress tests are another tool used to assess and forecast the future interest rate risks faced by the Bank and to analyse the ability of the institution to face

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idiosyncratic situations. These stress tests are reviewed periodically to represent current market conditions as per the Board approved Stress Test Policy.

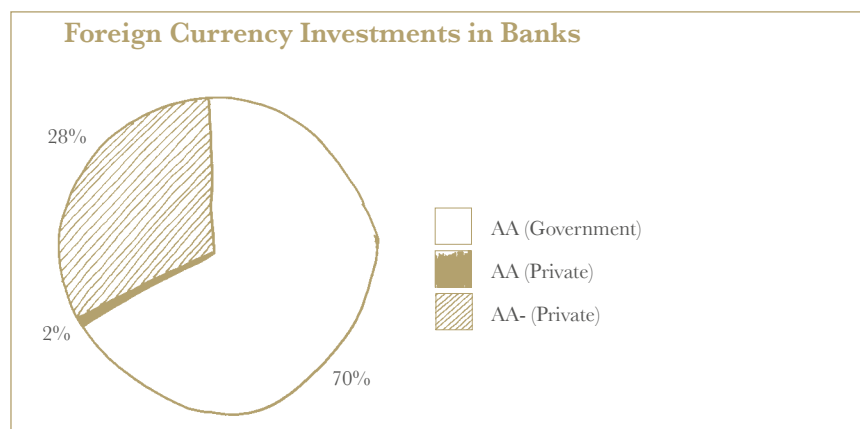
The following scenario summary on interest rate risk indicates that the Bank is still able to maintain the profitability even if the FD rate on all fixed deposits increased by 0.5% and 1% while Treasury Bill and Treasury Bond rates remain unchanged. These types of stress tests are very much helpful in an interest rate rising scenario.

Foreign Exchange Risk

Foreign exchange risk (also known as exchange rate risk or currency risk) is a financial risk posed by an exposure to unanticipated changes in the exchange rate between two currencies. In terms of foreign currency (FC) operations, the Bank is only engaged in accepting savings and fixed deposits in major currencies, accepting remittances from customers and investing in more or less in the same tenure. Further, the Bank selects the investing banks based

on their rating and the selected banks currently are in higher notches of rating. Hence, the foreign exchange risk faced by the Bank is at a minimum and the mismatch of the foreign currency assets and liabilities is at a manageable level.

Item	Actual 2012	Scenario 1 0.5%	Scenario 2 1%
PBT (Rs.Million)	6,719	3,762	2,292
P/L Impact (%)	100	56	34
Interest Cost/ Interest Income (%)	79	86	89
Margin (%)	3.1	2.4	2.1
Gearing (%)	5.1	4.7	4.5



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Maturities of Foreign Currency Assets and Liabilities (Rs.Millions)

Item	Upto 1 Month	1- 3 Months	3-6 Months	6-9 Months	9- 12 Months
Assets					
Investments (Net of provisions)	412	1,212	1,475	1,456	1,375
Liabilities					
Deposits	2,007	264	338	2,401	600
Gap	(1,595)	949	1,137	(945)	775
Cumulative Gap	(1,595)	(646)	491	(454)	320

	Actual 2012	25% Drop of the portfolio and 1% Discount of Assets
PBT (Rs.Million)	6,719	6,450
P/L Impact (%)	100	97
Interest Cost/ Interest Income (%)	79	79
Margin (%)	3.1	3.1
Gearing (%)	5.1	5.0

A stress test was carried out to measure the impact on the balance sheet and the income statement when a premature withdrawal is made of the entire (100%) FC deposits during the period of 0 to 91 days in first day of the period while 25% of the deposits matured thereafter (0 - 91 days, 90 - 120 days and 121 - 364 days maturity buckets) is withdrawn during the first maturity bucket on the same day. The impact of loss is assessed by 1% drop of the interest rates due to discounting of foreign currency assets to meet withdrawals. It indicates that the

Bank is unaffected since the exposure is minimal.

Equity Price Risk

Equity risk is the risk that one's investments will depreciate because of stock market dynamics causing one to lose money.

The measure of risk used in equity markets is typically the standard deviation of a security's price over a number of periods. The standard

deviation will delineate the normal fluctuations one can expect in that particular security above and below the mean, or average. However, since most investors would not consider fluctuations above the average return as "risk", some economists prefer other means of measuring it.

The Bank is conscious of systematic and un-systematic risks of the equity portfolio and encourages portfolio diversification and therefore select

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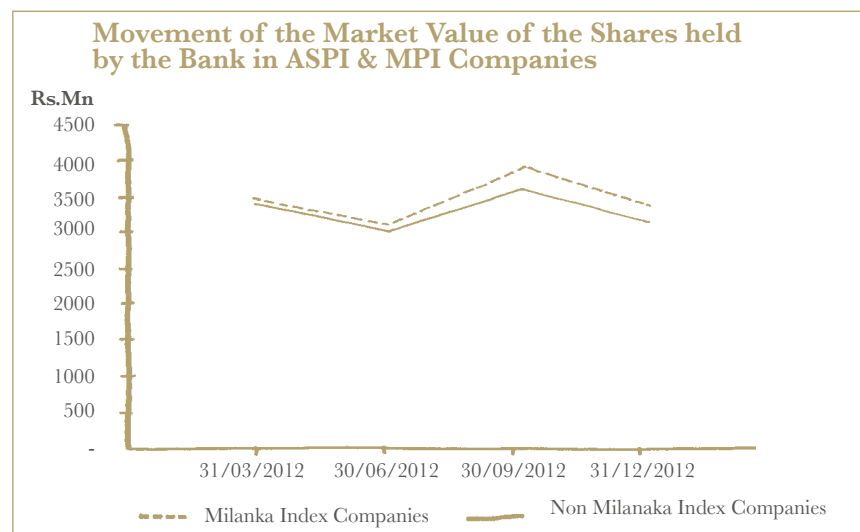
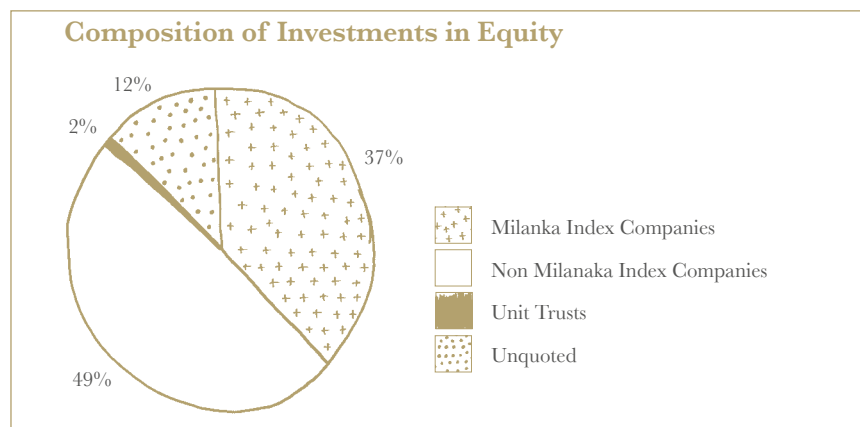
fundamentally sound stocks in mitigating associated risks.

The investments in equity represent 1.6% of the total assets while investments in quoted and unquoted equity are 1.36% and 0.25% respectively. Hence, the Bank does not have a major exposure to equity risk. However, the adverse movements in the stock market affected the yield on equity investments. The investments in non-quoted companies are made due to policy decisions on market and economic development and strategic reasons.

The yield from the equity investments of the Bank showed a slight reduction due to the fact of downturn in the stock market. As a result, the total market value of the shares held by the Bank in ASPI and MPI companies have declined.

Liquidity Risk

Liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit).



Liquidity risk would occur in a situation where the Bank would not be able to

fulfill its obligations promptly due to inadequate cushions maintained.

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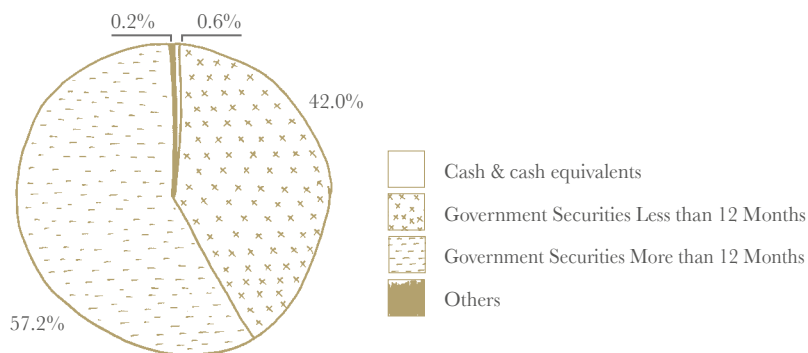
Liquidity management involves the Bank implementing strategies of “self insurance” or “purchased insurance” against shortfalls of cash required to meet current and forthcoming obligations in a variety of ways. The optimal mix will reflect the relative costs incurred in using each approach and the risks associated with each.

Concentration of Liquid Assets

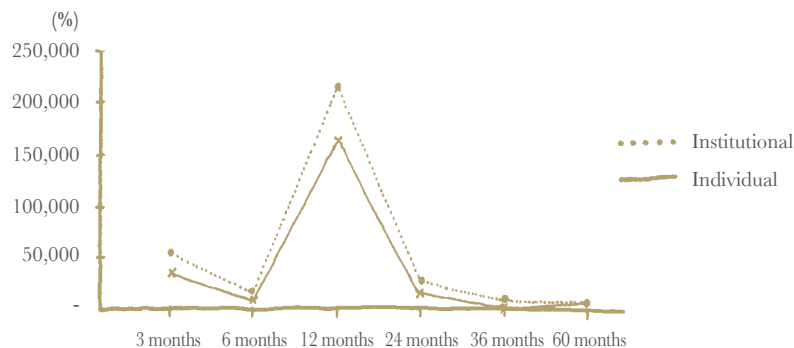
The Bank’s regulatory requirement to invest 60% of its deposits in Government Securities forces the Bank to maintain a high Statutory Liquid Asset Ratio. Currently, the Bank maintains the ratio at 69% which is well above the statutory requirement of 20%. The investment in government securities represents 79% from the total liquid assets of the Bank.

Further, the Bank’s off-balance sheet exposure is limited and therefore a very minimal risk of unforeseen liquidity issues would arise. The ability of the Bank to access the Inter-bank market is also not difficult in a situation of liquidity problems due to its large investments in T. Bills and T. Bonds, reputation in the market and the Government affiliation.

Concentration of Liquid Assets



Stability of Funding



On the other hand majority of the fixed deposits of the Bank includes individual fixed deposits which represent 76% of the total FDs and only the balance 24% represents the institutional deposits.

This re-emphasises the stability of the funding as well as the liquidity position of the Bank.

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Measurement of Liquidity Risk and Liquidity Risk Indicators

To measure and monitor the liquidity risk of the Bank, liquidity risk indicators such as Loans to Customer Deposits, Liquid Assets to Short term Liabilities, Purchased Funds to Total Assets are calculated and they are monitored on a regular basis and reported to the ALCO and the Board. The liquidity risk indicators were reviewed in 2012 in order to be in line with CBSL requirements and the Basel II guidelines.

Movement of Some Liquidity Risk Indicators

Month /Ratio (%)	31/03/2012	30/06/2012	30/09/2012	31/12/2012
Loans to Deposits	30.1	31.8	32.1	33.1
Loan to Adjusted Deposit (Less than 12 Months Deposits) Ratio	32.0	34.5	34.6	35.3
Liquid Asset to Total Deposits	70.6	68.8	68.3	67.5
Liquid Asset to Total Assets	62.3	59.9	59.8	58.5
Net Loans to Total Assets	26.4	27.5	27.9	28.5
Liquid Assets to Short term Liabilities	69.0	67.1	67.4	66.4
Large Liabilities (Minus) Temporary Investments to Earning Assets (Minus) Temporary Investments	(14.3)	(14.3)	(19.7)	(18.0)
Purchased Funds to Total Assets	16.7	18.3	18.1	20.5
Commitments to Total Loans	1.2	1.1	1.1	1.6
Core deposits to Total Deposits	9.9	12.2	12.7	12.6
Loans + Fixed Assets to Total Assets	27.7	28.8	29.2	29.7
Loans + Fixed Assets to Core Deposits	255.5	270.9	262.7	271.0
Temporary Investments to Volatile Liabilities	25.6	26.0	30.1	30.3
Volatile Liabilities to Total Assets	91.2	91.1	91.0	91.1

As shown in the above table, the Bank's Loans to Deposit Ratio is on the increasing trend which compares the loans and advances to customers as a percentage of deposits. The Bank has

room to increase the ratio much further since it is below the industry averages.

In accordance with the Board approved stress test policy, liquidity levels are assessed under stress scenarios

periodically to monitor the soundness of the liquidity of the Bank. The Loans to Deposits Ratio and the Net Loans to Total Assets Ratio are around 30%. The industry average of the Loans to Deposits ratio is around 90% which

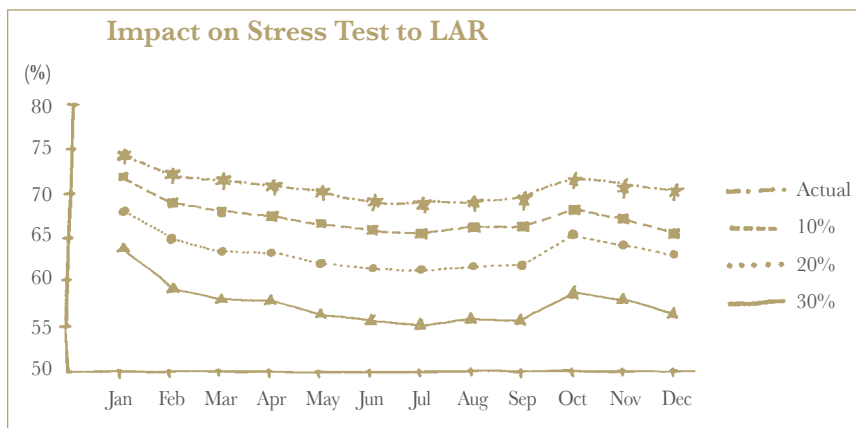
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indicates that the Bank is much below the industry averages. However, this implies that the Bank is sound in terms of liquidity since lesser funds are tied up in least liquid assets, though the Bank has room for further improvements in the ratio. As such, the Bank is capable of maintaining the liquidity levels well above the statutory requirement of 20% even in extreme stress conditions.

The graph below indicates the impact on the Liquid Asset Ratio when the liquid liabilities are reduced by 10%, 20% and 30% respectively while settling those liabilities through liquid assets.

Apart from the liquidity ratios, the Bank uses maturity gap analysis to manage the liquidity risk, depending on the contractual maturities of assets and liabilities. The maturity gap analysis shows that the Bank is exposed to the re-pricing risk which is inherent in the Banking industry. The majority of the liabilities fall within less than 12 months maturity buckets which are re-priced in shorter intervals and the assets that are residing at more than 12 months maturity buckets are re-priced at longer intervals. Therefore, the Bank tries to manage liquidity risk through managing the mismatches in maturities.



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Maturities of Assets and Liabilities (MAL) Rs.Millions

Item	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	3 - 5 years	Over 5 years
Assets							
Cash on hand	446	-	-	-	-	-	-
Deposits with CBSL	-	-	-	-	-	-	-
Balances due from Other Banks	2,833	1,274	1,560	2,768	-	-	-
Investments (Net of provisions)	16,135	21,012	33,841	80,943	122,324	40,626	23,887
Loans and Advances	5,847	13,883	20,649	36,699	32,123	16,550	15,529
NPLs	-	-	-	-	-	-	2,589
Other Assets	-	-	-	-	-	-	5,250
Other	2,993	5,323	2,513	1,351	307	34	636
Total (a)	28,253	41,492	58,563	121,761	154,753	57,211	47,890
Liabilities							
Deposits	74,802	148,596	60,265	128,536	27,965	360	1,619
Borrowings	11,423	7,528	952	2,590	-	-	-
Other Liabilities	3,406	3,569	3,996	4,109	3,859	55	375
Total Capital Fund	-	-	-	-	-	-	25,919
Total (b)	89,631	159,693	65,212	135,235	31,824	415	27,913
Gap = (a) - (b)	(61,378)	(118,200)	(6,650)	(13,474)	122,930	56,796	19,977
Cumulative Gap	(61,378)	(179,579)	(186,228)	(199,702)	(76,773)	(19,977)	0

OPERATIONAL RISK

The Basel Committee on Banking Supervision defines operational risk as “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events”. This definition includes legal risk but excludes strategic and reputational risk.

The Regulators of financial institutions and banks are demanding a far greater level of insight and awareness by directors about the risks they manage, and the effectiveness of the controls they have in place to mitigate these risks. Further they have emphasised the importance of having a sound operational risk management practice

in place, especially when dealing with Internal Capital Adequacy Assessment Process (ICAAP).

Operational Risk Management Framework

The Bank’s Operational Risk Management framework provides a mechanism for improving the overall

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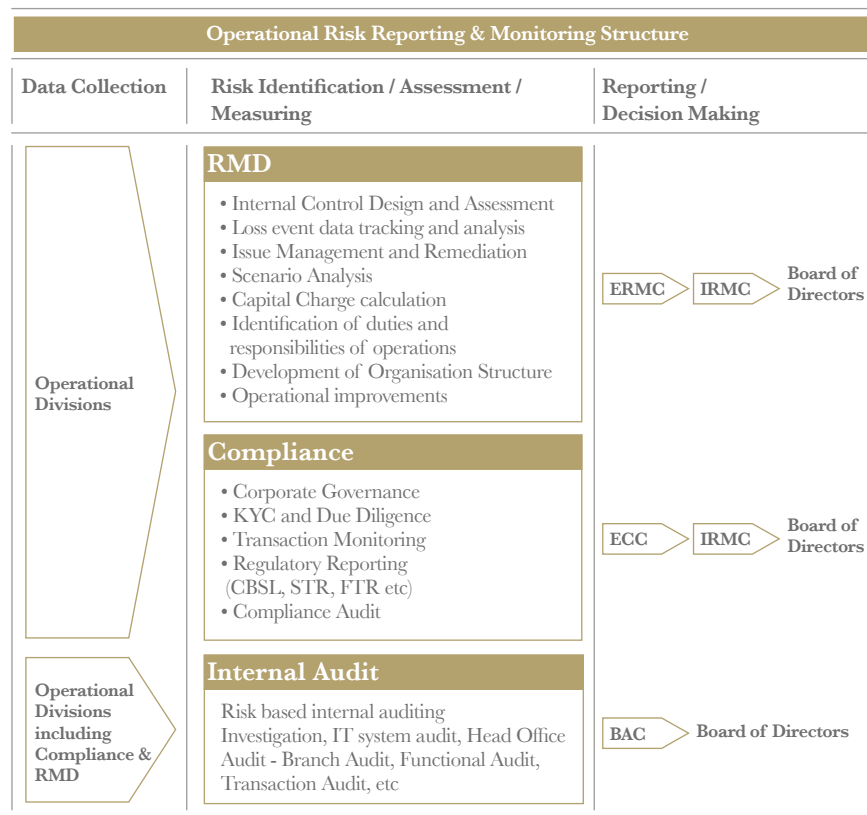
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risk culture and behaviour towards operational risk management and understanding the Bank's inherent risks through the operational risk management process which leads to making sound decisions in order to achieve the objectives of the Bank. Further the Bank's Operational Risk Management Function is guided by the Board approved Integrated Risk Management Policy of the Bank.

Establishing an operational risk management process and monitoring are the responsibilities of the Risk Management Division (RMD) while the Compliance and Audit Divisions are responsible for overlooking the operational risks in the Bank.

The Bank accepts the fact that Internal Audit, Risk Management and Compliance functions should have a formal status within the Bank to give them the appropriate standing, authority and independence while sharing the management of operational risk jointly. A close co-operation has already been established among

Internal Audit, Risk Management and Compliance function for provision of exchanging relevant information, identifying and the reporting of the operational risks. The audit concerns on risk & compliance is taken up at the Board Audit Committees (BAC).



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Operational Risk Governing Structure

The Bank has taken action for establishment of a suitable Organisation Structure to manage operational risk under the IRM Framework by establishing independent units within the main operational divisions namely Asset Management, Credit and Branch Management. Actions to establish a Middle Office was taken for asset management function to ensure independence of the activities. Supervision of Credit GL, Structure of Credit Process and conducting collateral examination of retail loans are functions established under the head office and the branches initial functions come under the purview of the Credit Risk Management Unit and would expand in the future. The Executive Compliance Committee (ECC) under the Compliance Policy review was established to take compliance matters to the management directly.

Actions were initiated during the year 2012 to establish an independent unit within the Branch Management



LORCs - Liaison Officer for Risk & Compliance

Division to carry out independent reporting of Branch MIS, Branch Evaluations, recording of loss event data and coordination of risk management & compliance matters in the Branch network. Also formalised appointment of Liaison Officers for Risk & Compliance in branches and other operational divisions of the Head Office were made.

Loss/Risk Event Reporting

A basic structure for incident reporting mechanism is in place to streamline the loss reporting mechanism which also enhances the loss database covering all types of losses and near miss incidents

that have taken place in business lines as per Basel guidelines. Loss events of branches are collected and reported to RMD by the Branch Operational Unit. Other loss events are reported directly to RMD from other divisions. The Internal and External loss event data are obtained from the Internal Audit Division through their reported events. Effective reporting of these loss events by the operational divisions facilitates to identify risks and respond to them promptly in the best possible manner.

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The status of the risk events encountered under the Basel II-Loss/Risk Events for the year 2012 is given below.

Type of Risk/ Loss Event	Nature of reported loss events	Remarks
Internal Frauds	Fraudulent Withdrawals, Intentional Accounting Irregularities, Cash Frauds, Manipulations of Accounts, Intentional Cash Shortages	Impact and the severity are insignificant. Actions are taken to improve the internal controls.
External Frauds	Third party fraudulent withdrawals, card frauds	Impact and the severity are insignificant.
Employment Practices and Work Place Safety	Disciplinary Inquiries	Disciplinary Inquires and LT cases have been monitored and no financial risk or unethical practices encountered.
Client, Product and Business Practices	NIL	Court cases are been monitored and no new legal claims were made.
Damages to Physical Assets	Damages to Physical Assets	Covered under Insurance Policies Irrecoverable amount is insignificant.
Business Disruption and System Failures	ATM Failures, Failures of System modules, Power outage, Telecommunication outage, Hardware Failures	Impact and the severity are insignificant and monitored closely.
Execution, Delivery and Process Management	Accounting Irregularities, Counter transaction Cash shortages/excess, ATM cash shortages, Losses due to ATM errors, card losses, Mis posting of entries, Non compliance of execution of trading transaction	Significant reputational loss was occurred due to 'The Finance Transaction' though the policies and practices are in place. The impact and the severity of other events are insignificant.

Internal Control Assessments

Periodic assessments on adequacy and effectiveness of the Bank's internal controls are a part of the operational risk management process to ensure that systems have adequate controls that would minimise the operational risk. RMD has already commenced the process of reviewing the strength of internal controls of existing operations by mapping the flow charts of current processes.

The process and controls of the operations of deposit collection via point of sales device, the credit process, card center operations and, internal controls of asset management function have been reviewed and improvements to be made to the process and additional controls have been identified and introduced in consultation with the Internal Audit Division. The operational level requirements which have arisen from the risk register and internal

control examination findings are communicated to senior management through risk committees such as ERM, IRMC and the Board. This includes the actions such as reviewing of the existing process/procedure and/or introducing of new systems, procedures and processes. This will lead to establishing a Risk and Control Self Assessment (RCSA) process under operational risk management.

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Process/System Improvements

As process/system improvements, credit modules and the branch modules were updated to comply with the CBSL directions and Basel II requirements. Requirements regarding KYC data capturing and KYC monitoring, implementation of the IT modules for developing of a comprehensive Pawning MIS and a system to facilitate the implementation of credit scoring model were also introduced during the year.

Improvements towards the IT Infrastructure

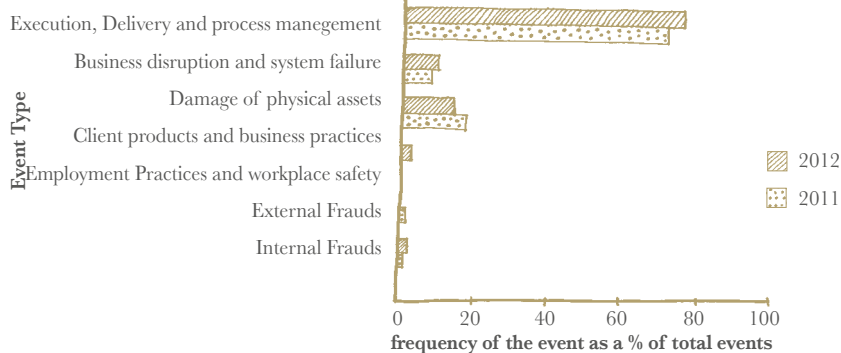
In order to keep up with advanced technology approaches, the Bank is focusing on the development and review of IT systems. Mitigation actions related to IT risks are taken by enhancing the Information Security System and other internal development environments with the use of Quality Assurance and other professional practices. Operational Risk Management process is in place for implementations of such developments or changes to the systems.

Key Risk Indicators (KRI)

During the year, the Risk Management Division developed KRIS for Bank's operational risks that reflect risks of technical and non technical matters related to key business areas/business lines. Since internal loss events reporting has become an effective source for process improvements, KRIS relating to operational risk such as number of internal frauds reported, external frauds reported, Operational Loss Events (beyond the CBSL threshold), Suspicious Transactions reported to FIU etc are included in the quarterly risk review report.

These KRIs are updated quarterly and the trends are communicated to operational divisions through risk management committees to initiate risk mitigating measures. Operational Risk based on reported loss events are monitored by RMD and reported to the Executive Risk Management Committee (ERMC), Integrated Risk Management Committee (IRMC) and the Board. The loss events which exceed the threshold as per the Regulator are reported quarterly.

Operational Loss Events



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As experienced in previous years, high frequency of loss events of the Bank were reported with Execution, Delivery and Process Management mainly consisting of losses relating to cash operations accounting for the highest number of loss events. However the financial impact to the Bank was minimal. There were no incidents reported on Client Product and Business Practices, Employment Practices and work place safety and External Frauds.

Minimum Capital Requirement

The Bank is currently applying the Basic Indicator Approach (BIA) for Capital Allocation for Operational Risk. The magnitude of operational risk is as follows.

Risk Mitigation

The Bank has established Policy Framework, Committee Structures, organisation set up, Control Measures etc as risk mitigation measures under the operational risk management framework. Also the system and procedure improvements are being carried out to streamline the operational risk management process.

Business Continuity Planning, Insurance upgrading and outsourcing are also strategies for risk mitigations of the Bank. The Bank is currently involved in the implementation and review of the salient features under the Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP).

Insurance policies have been reviewed to identify any uncovered areas, and the respective business units have been provided with recommendations for improvements. The outsourcing policy addresses the criteria for selection of areas for outsourcing, selection of service providers, periodic reviews on outsourced activities, and execution and monitoring of Service Level Agreements.

Training

A number of training programs have been conducted on Risk Management, Compliance and Operational risk areas and internal controls during the year with a view to developing a culture of risk awareness culture and improving the risk management process at the Bank.

Year	2012	2011	2010
Total Risk Weighted Amount (Rs.Millions)	91,641	89,407	73,865
Risk Weighted Amount for Operational Risk (Rs.Millions)	24,038	23,770	20,138
Level of Operational Risk as a %	26%	27%	27%

ASSESSING AND MANAGING OUR RISK FACTORS

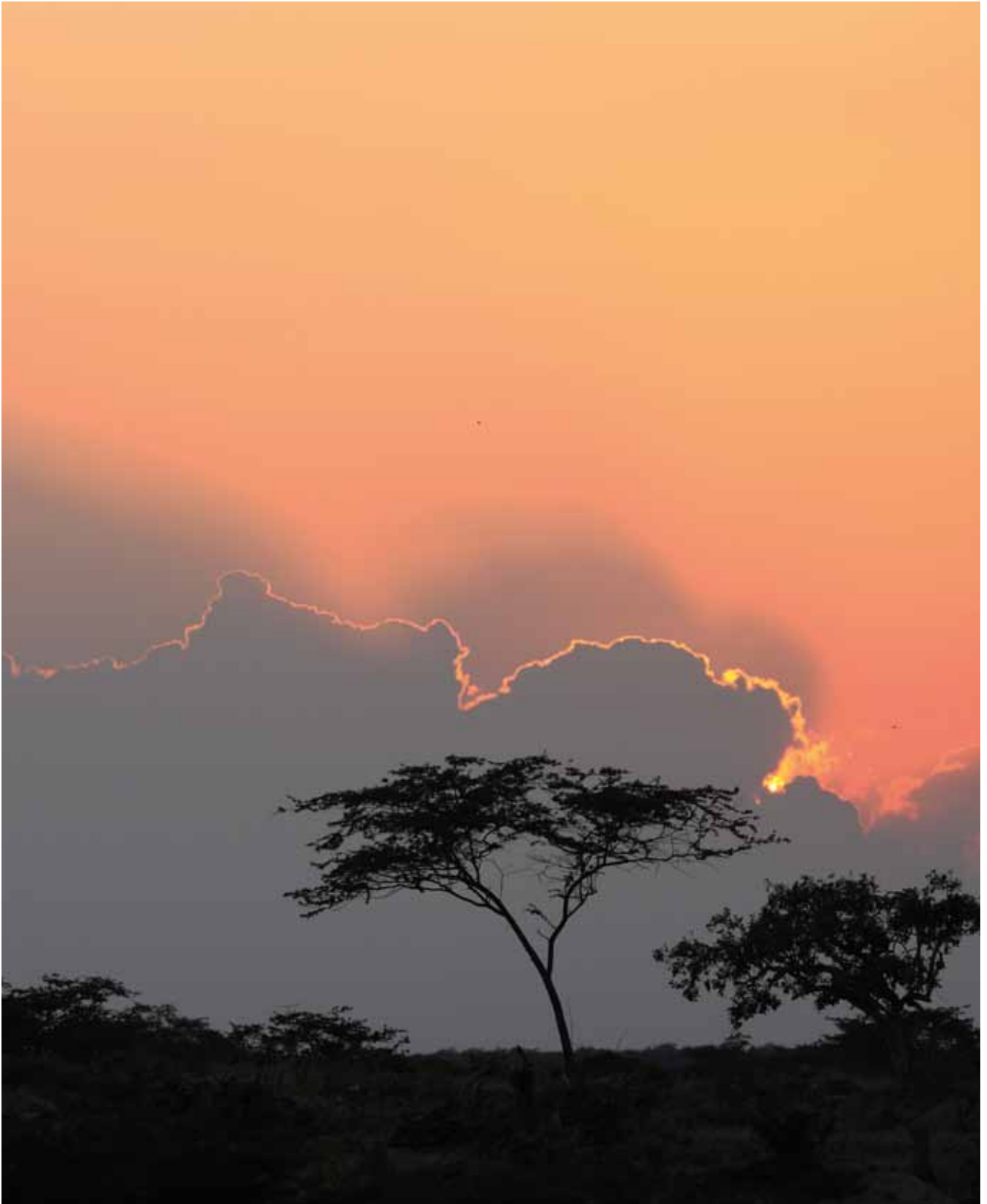
RISK MANAGEMENT

CONCLUSION

The objective of risk management is to enhance the awareness of risk in its activities and ensure that the risks are consciously taken with full knowledge, clear purpose and understanding, so that risks can be measured and mitigated systematically.

The Bank has been continuously engaging in establishing policies, organisational setups, systems and procedures and other operational support services in managing all types of risks. As a result, identifying, measuring, monitoring, reporting and managing risk have been improving and gradually spreading to the operational levels. The Bank has taken and will continue to take effective actions to improve the Management Information System, Data Warehousing Solution, Existing IT Applications and System Securities and, establishment of controls to create a better environment for risk management.

The Bank would take actions for consolidation of its risk management measures in the future too particularly in respect of Regulatory and Basel compliances to the maximum extent so that the Bank can take conscious proactive risk measures in its future endeavours.





CHAPTER 5

BRANCHING OUT INTO NEW VENTURES

SUSTAINABILITY REVIEW

BRANCHING OUT INTO NEW VENTURES

SUSTAINABILITY REVIEW

STRATEGY AND ANALYSIS

A Message from the Chairman

For years, NSB has been a trusted custodian of the people of Sri Lanka and today, more than ever, we have invested in upholding this trust by continually improving our services for the public of Sri Lanka and by ensuring that our business operations are sustainable in the long term. I believe that long term sustainability of a large scale public financial institution, such as ours, is a key requirement for the overall economic and social stability of the country as a whole. Therefore, we continued our quest to improve as a socially and environmentally sustainable institution, so that we continue to add value to our services to the nation.

Given the wide impact of our activities on Sri Lankan society, we remained mindful of not only the quality of our service delivery, but also of our investments, lending and other projects, to minimise risks and ensure maximum benefits to the overall economy and society. More than 90% of our investment portfolio is in government

“I am happy to announce that some of our newly constructed branches are equipped with rainwater harvesting facilities as one such expression of this commitment to conserve our natural resources.”

securities and we continued to support national infrastructure development projects, because infrastructure development is extremely important for the country to move ahead in the modern world.

As part of our contribution to the national development drive, we continued to look at helping low income groups, rural communities and also people in the war recovering North and East by providing housing loans, personal loans, agricultural loans and pawning, and also through project financing.

While catering to the needs of rural people, we have also updated our

technologies aligned to global trends. Our internet banking and SMS banking facilities have introduced modern conveniences to people and our bill payment facilities, by connecting with major utility suppliers, telecom providers and major insurance companies, provide a one-stop-shop convenience for consumers.

I believe our employees are a vital element in achieving our operational and strategic goals and I strongly believe that employee satisfaction, results in higher productivity that contributes directly to the bottom-line. Therefore, during the year we continued to train and develop the skills of our employees. This has ensured the highest standard of service for our customers and also contributed towards improving the competitiveness of the bank.

As a public institution, we are also acutely conscious of the need to conserve the environment for future generations. Therefore, we continued to invest in conserving natural resources and to mitigate environmental impacts through our activities. I am happy

BRANCHING OUT INTO NEW VENTURES

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to announce that some of our newly constructed branches are equipped with rainwater harvesting facilities as one such expression of this commitment is to conserve our natural resources. As part of this commitment towards protecting the environment, we also help our customers develop methods of reducing the environmental impact through their individual business activities.

Throughout the year, we also supported many worthy causes, to encourage such activities and to ensure wider benefits to society. You may read more about these activities and our approach towards achieving a balanced and sustainable business culture in the pages of this sustainability report. We hope to continue our journey towards sustainability and long term shareholder value during 2013 and beyond.



Sunil S Sirisena
Chairman

Colombo, Sri Lanka
28 March 2013

Preamble

Sustainability necessitates people to look inward, not only collectively but also individually. It prompts questions as to what we can do, as a person, to make ourselves achieve more without harming those around us; how we can empower our communities to better themselves; how we work on initiatives that will reduce our carbon footprint; what impacts do our actions have on those around us? These are not easy answers to respond to, but it certainly encourages a thought process that is built on long term sustainability.

For NSB, being rooted means we have been around a long time and hence, have a responsibility for the sustainability of the planet and all those living beings on it. It also means that we have to economically empower people, while ensuring that the environment is not harmed, preserving nature's resources. It is also our responsibility to instil best practices, values and ethics that will encourage better compliance wherein we will be regarded as a responsible corporate steward that must be

emulated. And this also makes us focus on the macro picture that contains our stakeholders; shareholders, customers, valued business partners, communities, our people and the environment – that we have a responsibility to ensure their sustainability.

REPORT PARAMETERS

Scope of Report

This report, the fourth of its kind, reviews the sustainability of NSBs operations for the year ended 31 December 2012. The report is grounded on principals of materiality, stakeholder inclusiveness, sustainability context and completeness and has been guided by triple bottom line reporting, based on the GRI reporting framework. We have attempted to ensure the reliability of the information stated in this report through a systematic, ongoing, data collection process, and by keeping in mind the principles of balance, accuracy, timeliness, clarity and reliability, in reporting.

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For further information, and for any other inquiries regarding our operations, please address your queried to;

The Finance and Planning Division
National Savings Bank
Savings House
255, Galle Road,
Colombo 3, Sri Lanka.
E-mail: nsbgen@nsb.lk

Report Boundary

This report focuses on the functions and activities of NSB within Sri Lanka and excludes NSB's subsidiary, i.e the NSB Fund Management Company, because we assume that operations of the subsidiary are immaterial to the report.

Specific Limitations on Scope

The report covers only NSB's operations within Sri Lanka.

Data Measurement and Base of Calculation

The information for the compilation of this report was drawn from a number of sources. Financial information was

extracted from the Audited Financial Statements and accompanying notes. Information relevant to employees was obtained from the Human Resources Development Division and training details of employees from the Training Division. Products and services, product responsibility details and CSR activities were provided by the Marketing Division. Operational details were provided by the Branch Management Division, Asset Management Division, International Banking Division, Postal Banking Division, Retail Lending Division and Project Finance Division.

Changes in Reporting

The Financial Statements for the previous year was prepared in accordance to the Sri Lanka Accounting Standards (SLAS). However, this year, in line with new regulatory requirements, the Financial Statements have been prepared in accordance with revised Sri Lanka Accounting Standards (LKAS) and Sri Lanka Financial Reporting Standards (SLFRS). Other than this, there is no deviation from the previous

reporting period with regard to scope, boundary or measurement techniques.

Table Identifying the Location of the Standard Disclosures in the Report.

Please refer the GRI Index in page 172.

Key Impacts, Risks and Opportunities

Our operations in the Sri Lankan market are impacted by a number of elements. One key element is the rising competition due to the establishment of new banks and financial companies, and the diversified products offered by competitors. The continuous evolution and rapid changes to technology requires that we are always mindful of the need to upgrade our existing systems to ensure the latest facilities and services are made available to our customers. The lack of opportunities for expansion is another factor that affects our operations and regulatory restrictions such as the credit ceiling imposed by the Central Bank of Sri Lanka (CBSL) also, has direct impacts on our activities.

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As a business entity, we face a number of risks in our daily operations that have direct and indirect impacts on our bottom line. A key risk factor is fluctuations in interest rates and exchange rates. These volatile situations affect our bottom line through impacts on interest income, foreign exchange income and cost. Technologies becoming outdated is another risk we face, which can make us uncompetitive in the highly competitive financial sector in Sri Lanka, as consumers may switch to competitors that offer more efficient services through the use of technologies. In addition, market volatility adds to unpredictability of operations, making it difficult to steer a steady course through the year based on pre-defined plans and goals. Meanwhile, regulatory constraints and changes also introduce a risk that affects our revenues, costs and profitability.

However, despite these risks, we have identified a number of opportunities for NSB's future growth. For instance, the build up of confidence among the general public, with regards to the

“A key risk factor is fluctuations in interest rates and exchange rates. These volatile situations affect our bottom line through impacts on interest income, foreign exchange income and cost.”

financial services sector, has ensured greater growth opportunities across the country, among new, potential consumer groups. Another opportunity we see on the horizon is in contributing towards overall national development through investments in government securities. Such investments will have an overall social and economic impact on the entire population, while also generating returns for the Bank. The Government guarantee on deposits has also opened up the opportunity to expand our market share and operations.

ORGANISATIONAL PROFILE

Corporate Information, Products and Services

Essential information about NSB and its subsidiary can be found in the Corporate Information Section, on page 272 of this Annual Report. For a full description of our products and services, please see page 257.

Operational Structure of the Organisation

NSB's operational structure comprises operational divisions, support services, other divisions and subsidiary. Our operational divisions comprise the Branch Management, Credit, Project Finance, International Operations, Postal Banking and Treasury Operations divisions, while our support services comprise the services provided by the Legal, IT, Finance & Planning, Human Resources Development, Training and Marketing divisions of the Bank. In addition to these, the Bank's structure includes specific aspects that can be listed under 'other sectors' which includes Risk Management

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SUSTAINABILITY REVIEW

and Compliance and Internal Audit activities. Our Subsidiary is the NSB Fund Management Co. Ltd, which is located at the organisation's headquarters.

Location of Organisation's Headquarters

The location is stated in the Corporate Information section

Nature of Ownership and Legal Form

Nature of ownership and legal form is stated in the Corporate Information section.

Countries in which NSB Operates

In addition to domestic activities, which extends through a network of 641 Post Offices and 3,412 Sub-Post Offices and 219 NSB branches, NSB is active in Foreign Currency remitting activities in most Middle East countries, to serve the needs of Sri Lanka's migrant worker community. Sri Lankans in Italy, Germany, UK, USA, Australia, Switzerland, France, Ireland, Sweden,

“As a public bank, we believe the provision of housing is a key element for the uplifting of the quality of life of the people of Sri Lanka.”

Netherlands, Russia, and the Asian countries of Hong Kong, Malaysia and the Korea Republic get the facility of remitting money through NSB.

Markets Served

NSB serves a diverse range of markets through a comprehensive range of financial products designed to meet the requirements of these different market segments. Our main products are deposits and retail lending products, which are offered to a diverse, island wide customer base.

Accepting Deposits

We have number of products in the form of savings and time deposits. We offer a range of products under the above

sectors based on interest rate, age, gender and maturity period. These deposits are accompanied by ATM cards, debit cards, the easy card, internet banking and SMS banking, for customer convenience.

Retail Lending Operations

We provide four main types of loans under the retail lending category as housing loans, pawning, personal loans and auto loans.

Our retail lending operations are mainly involved with the provision of housing loan facilities. As a public bank, we believe the provision of housing is a key element for the upliftment of the quality of life of the people of Sri Lanka. Therefore, we are proud to be involved in the provision of affordable housing loans that enable shelter for the people. We facilitate government assisted housing loan schemes for government employees. Pawning advances are granted at a lower interest rate. However, the Bank pays a comparatively higher rate per sovereign than the other banks.

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Personal loans are granted as per requirement of customers on personal guarantees, or on securities.

Expatriate products which are available for migrant workers, including a debit card introduced this year in collaboration with the Sri Lanka Foreign Employment Bureau. NRFC, RFC, Savings Accounts and Fixed Deposits are other products offered by the Bank.

The auto loan facility is available to make the dream of owning a vehicle with convenient repayment options.

We also provide corporate loans and project loans for large scale projects.

Scale of the Organisation

As at 31 December 2012, NSB employed 3,128 full time staff, comprising 2,647 permanent employees and 481 as contact employees.

As at end December 2012, NSB had 219 branches across the country, most located in rural areas where there are fewer facilities for savings and

investments. Through NSB branches, rural communities were rescued from the clutches of illegal financial organisations, renowned to prey on the most vulnerable and the most gullible. Most of the branches are equipped with Automated Teller Machines (ATM) which provides 24 hour accessibility to banking.

In addition, 22 off-site ATM machines were installed islandwide. Currently, 231 ATM machines are available within the NSB network. POS mobilisations continue to grow, as the devices in the field grew in parallel with the expansion of the branch network. POS banking has proved to be an immense success in providing banking solutions to encourage savings at schools, weekly and weekend fairs, and factories.

The following figures, have been extracted from the 2012 Statement of Financial Position to indicate the financial scale of the Bank:

	2012
	Rs.Million
Total Assets	509,694
Total Equity	24,336
Income	53,045
Net Interest Income	13,531
Profit after Tax	4,331

Significant Changes during the Reporting Period

A new Chairman and Board Members were appointed, following the resignation of the previous Board Members.

We continued expanding our services during the year under review and opened nine new branches and 793 new School Banking Units.

We established new relationships with foreign exchange houses in Bahrain and South Korea, to support the Sri Lanka's growing migrant worker populations in these countries, by facilitating secure inward remittances. In Bahrain, we have established a relationship with Baharain Financing Company and

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in South Korea we have established linkages with the Woori Bank.

We established a new business partnership with Visa International and launched the NSB Visa Debit Card that will add to the convenience of banking with NSB.

Changes and improvements to our internal systems and procedures continued during the year. The Information System Reviews were regularised, increasing efficiency of the information systems, while the branch data base cleanup process continued with the assistance of university aspirants.

We implemented a system of selecting a 'star branch' from among our branch network to recognise outstanding performance and to motivate employees.

Awards and Recognition

We are proud to announce that Fitch Rating awarded the Bank with an AAA (lka) rating for the 10th consecutive year. Our Annual Report continued to receive many accolades during the year. NSB's Annual Report for 2011, received

recognition from a number of different sources in 2012. This is an indication of the quality of our reporting and level of transparency. Our list of awards is given below.

1. Awards received for our Annual Report

- League American Communication Professionals Vision Award Ceremony
 - The Bank's AR 2011 was among the top 50 Annual Reports of the Asia Pacific Region
 - Gold for Banks-Thrift and Mortgage Finance Category
- International ARC Awards
 - Grand award for Sri Lanka's Best Annual Report.
 - Gold for the Non Traditional Annual Report
 - Honors for the Chairman's review
- Annual Report Awards of Institute of Chartered Accountants of Sri Lanka
 - 1st runner up for Award for Management Commentary

- Silver Award for Financial Institute Category
- Certificate of Merit in the category of Public Sector Banking Institutions at SAFA best presented Annual Reports Awards.

The Bank also won the award for the Best T+0 Contributor in SLIPS, at the 10th Anniversary Celebrations of Lanka Clear (Pvt) Ltd. This award is an outstanding achievement by NSB as there were 27 participants, including Commercial Banks, vying for the award.

GOVERNANCE, COMMITMENTS AND ENGAGEMENT

We are Sri Lanka's leading specialised Savings Bank with a 100% government guarantee. As a public institution, NSB has a responsibility towards the public of Sri Lanka and is accountable to the people of Sri Lanka. As such, we believe our governance systems and internal procedures should be oriented towards maximum accountability, compliance and transparency. Therefore, the Bank

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strictly adheres to all relevant rules and regulation issued by the Government, Treasury and CBSL.

Governance Structure

The Board of Directors is the highest governing body of the Bank. Other than two ex officio members all Board members are appointed by the Minister of Finance and Planning. Responsibility for achieving the Bank's mandate through policy, strategy, action and review, is vested in the Board of Directors. Directors are chosen for their probity, varied but relevant disciplinary backgrounds and broad

experience. The Board comprises a number of professionals with different competencies.

For the most part, the Board exercises oversight through a number of committees. There are four Board Sub Committees. They are the Board Audit Committee (BAC), the Human Resources and Remuneration Committee (HRRC), the Nomination Committee (NC) and the Integrated Risk Management Committee (IRMC). They are constituted and mandated in accordance with guidelines issued by the CBSL and members are appointed by the Board of Directors. Each

committee is governed by a founding charter. Board Committees meet quarterly, or at intervals specified by their specific charters.

The CEO/GM is the highest executive officer and he reports directly to the Chairman and the Board. The next level of authority is the Bank's Corporate Management and Executive Management.

Please refer the Corporate Governance and Risk Management sections in pages 54 to 135 of this Annual Report for more information on NSB's governance structure.

Composition of Main Board

		Non-Executive Members	Working Director	Independent Directors	Non Independent Directors	Gender		Age	
						Male	Female	Below 60 yrs	Above 60 yrs
	Main Board								
1	Mr Sunil S Sirisena	✓			✓	M			✓
2	Mr S T Abeygunawardana		✓		✓	M		✓	
3	Mr P A Abeysekera (Upto 28.02.2013)	✓		✓		M		✓	
4	Mr R M P Ratnayaka	✓		✓		M		✓	
5	Mr D L P R Abeyaratne	✓			✓	M		✓	
6	Mr Lionel P Fernando	✓			✓	M		✓	
7	Mr Priyantha Jayawardena	✓		✓		M		✓	
8	Mr Sumith Wijesinghe	✓		✓		M		✓	

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Communicating with the Board

Shareholders

As a public institution, the Government of Sri Lanka is the shareholder of NSB. On behalf of the government, the Treasury maintains ongoing communications with the Bank. A representative from the Ministry of Finance and Planning is an ex-officio member of the Board who serves to ensure that there is a dialogue between the Treasury and the Bank. The Bank submits periodic reports to the Treasury and also complies with requests for ad hoc reports and updates. In addition, the Board of Directors and top management maintain a continuous dialogue with officials of the Treasury.

Employees

The Bank maintains open communication lines with employees to ensure smooth operations. In addition, the Bank also provides specific mechanisms of communications between employees and Board. To ensure smooth flow of communications, the General Manager represents all employees at the Board and

participates at Board meetings on behalf of employees, while Additional General Manager, Senior Deputy General Manager and all other DGMs have access to the Board on matters under their purview. For the purpose of expressing employees' views on operational and other matters, managers' conferences are held within reasonable intervals and all Board members participate at these meetings. The Bank has five trade unions representing employees and these unions can meet the Chairman and Board members on request regarding matters of concern. Employees also have a conduit of communication through the Working Director, who is available at the Bank at most times

Linkage in Compensation

The Bank's governance body and Corporate Management are not subjected to individual targets. However, the Bank's annual targets are specified in the Strategic Business Plan, Annual Budget and Annual Action Plan. Therefore, bonuses are decided on the overall achievement of the Bank and its performance.

Conflict of Interest

Procedures to avoid conflict of interest in the dealings of the Board of Directors and key management personnel were developed and approved in 2011, and revised in 2012. In addition, all related party transactions are monitored by the Board Secretary during Board proceedings and transactions are disclosed. A Compliance Officer has also been designated to review and ensure the compliance requirements of statutory bodies.

Eligibility of Board Members

As required by the NSB Act, five of the seven Directors of the Bank are appointed by the Minister of Finance and Planning. Appointees must have excelled in various disciplines such as accountancy, law and marketing. The sixth and seventh members of the Board are appointed by the Secretary to the Treasury (or his nominee) and the Postmaster General (or his nominee), respectively.

The conduct of the Board is governed by the Corporate Governance Directions

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issued by the Central Bank of Sri Lanka and all employees are bound by an internal code of conduct and a Government oath.

Vision, Mission, Values and Objectives

The vision and mission statements of the Bank has been given on pages 4 and 5 of this Annual Report. They reflect our commitment to the core values and operating principles that drive and sustain us.

At all times, we strive to:

- Deliver satisfaction to our customers, clients and partners: We are driven by a passion to satisfy the financial needs of the Government, as well as our individual and corporate clients. We believe that disciplined execution will lead to sustainable, long-term performance
- Trust our team: We work together around the country to meet the expectations of all our stakeholders, striving always to be consistent and straightforward in our interactions

○ Embrace the power of our people: We value our differences and understand that diversity and inclusion are good for business and make the Bank stronger

○ Act responsibly : We are aware that our decisions and actions often have profound effects on people's lives, we hold ourselves accountable for disciplined risk management and always doing the right thing

○ Promote opportunity: We are committed to helping each other achieve our potential, to build a better future for ourselves, customers, clients, communities and the country we serve

Management of Economic, Environmental, and Social Performance

Procedures have been established for the Board to oversee the Bank's identification and management of economic, environmental, and social performances, including relevant risks and opportunities, and compliance.

These internal procedures include a code of conduct for dealers of the Bank, an internal compliance policy, an internal risk management policy, an internal credit policy and a charter for performance reviews of Committees. A Board approved HR policy and Training and Development policy are also available to strengthen human resource management and training of employees.

External processes include the preparation of financial statements in accordance with SLAS & SLFRS and directions and regulations of the CBSL. In addition, the Bank has obtained ISO 9001:2008 certifications for the Credit Division.

Processes for Evaluating Board Performance

The Bank has clearly defined its vision, mission, code of conduct and rules and regulations for its operations. In addition, the economic, social and environmental performance of the Bank is reviewed periodically by Board Sub Committees such as the BAC and IRMC and also

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by high level operational committees such as the ALCO, Investment Committee, Marketing Committee, IT Steering Committee and Management Committee. The outcomes of these reviews are reported to the Board. The Strategic Business Plan, Annual Action Plan and Annual Budget set out a number of performance indicators and these are periodically reviewed.

Precautionary Approach

Internal audits are conducted to a pre determined plan, after assessing associated operational risks by the Internal Audit Division, which is headed by a DGM. A separate Risk Management Division has also been established within the Bank. The methods of mitigating risk are explained in detail in the Risk Management Report in page 104.

The Compliance Division monitors the regulatory compliance of the Bank and corrective measurements are taken as a precautionary approach. The Business Continuity Plan and Disaster Recovery Plan have been developed as a precautionary approach.

External Initiatives Applicable to NSB

NSB adheres to a number of external rules and codes set by regulatory and standard setting institutions. The leading of these are the guidelines and directions issued by the Central Bank of Sri Lanka, which is the financial sector regulator of Sri Lanka. NSB is also subject to directions of the Ministry of Finance and Planning as the sole shareholder of the Bank and the government representative. The Bank adheres to LKAS & SLFRS guidelines and standards in preparation of Financial Statements. Our internal audits are conducted according to the standards set by the Internal Auditors Association and in conducting system audits, we adhere to the requirements of the Institute of System Audit Control and Assurance standards. In the area of risk management, we comply with Basel 11 guidelines and generally accepted risk management principles. In addition our Credit Division has obtained ISO 9001:2008 certification and adheres to the ISO standards.

Bribery & Corruption

NSB has always maintained a zero tolerance on bribery and corruption. We will not condone or knowingly participate in any such acts that construe bribery and corruption in any way.

Corruption Risk Analysis

The associated risk of branches are evaluated according to the pre established parameters and previous experiences. Accordingly, branches are assigned a high, moderate or low risk rating. The Annual Audit Plan is developed accordingly, to mitigate assigned risks. Every branch is audited once in two years. The audit reports are forwarded to the BAC. Follow up actions are being taken by the Internal Audit Division.

Responses to Corruption

In instances of fraud or corruption an investigation is conducted and the findings are handed over to the Human Resources Division for disciplinary action.

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Public Policy Participation

The Bank submits its proposals on the preparation of the national budget. The Bank also contributed towards the development of the IFRS implementation road map of the CBSL.

Political Contributions

The Bank made no political contributions during the year under review

Anti-Competitive Behaviour

There were no cases of legal actions for anticompetitive behaviour

Compliance

There were no fines or non-monetary sanctions imposed on the Bank for noncompliance with laws and regulations apart from the restrictions imposed as a result of TFC transaction.

Membership in Associations

NSB is an active member of several associations that advocate or help shape public policy. In 2012, the Bank retained membership in the following organisations:

- The National Chamber of Commerce of Sri Lanka
- Society for Worldwide Interbank Financial Telecommunication
- Eurogiro Global Payment Community
- Lanka Clear (Pvt) Ltd
- The Lanka Swift User Group
- World Savings Banks Institute (WSBI)

Stakeholder Engagement

As a public entity, NSB engages daily with diverse stakeholder groups. The table following lists the Bank's formal stakeholders and the Bank's method of engagement with each group.

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Stakeholder	Topics discussed	Method of Response
Shareholder: the Government of Sri Lanka, represented by the Ministry of Finance and Planning	- Contribution towards the Consolidated Fund - Ensuring compliance in Regulatory Reporting - Ensuring maintenance of Statutory Ratios (Capital Adequacy, Liquid Assets etc.) - Assuring feasibility of network expansion - Plans to launch and re-launch new products and existing products. - Strategies to maintain low NPLs - Ensuring compliance with laws and regulations - Preparation of Strategic Business Plan	- Annual Report - Annual Budget - Annual Action Plan - Media statements - Publications - Interim Financial Statements - Periodic updates
Customers	- Satisfaction on rendered services - Facility of making utility payments - Due respect and recognition in receiving service. - Accessibility to relevant and reliable banking information (interest rates, lending rates) - Awareness on promotional activities - Facilitates for branchless banking	- Branches - Ithurum Ayojana Kawa - School Banking Units - ATMs - Internet Banking - Mobile Banking - POS - Call Centre - Surveys on Customer satisfaction - Corporate Website
Suppliers	- Registration of suppliers - Procurement opportunities - Delivery of contractual obligations	- Procurement Procedures - Meetings - Site inspections. - Product demonstrations

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Stakeholder	Topics discussed	Method of Response
Employees, Trade Unions and Executive Associations NSB has five trades unions and a special committee attends to employee grievances and reports to the Board.	- Collective Agreements. - Remuneration - Performance Bonus - Staff welfare activities - Future plans and strategic plans - Defined benefit and contribution plans - Training and other facilities - Disciplinary actions - Special appraisals	- Negotiate collective agreements - Performance appraisals - Internal news letter - Special Announcements through public address system - Circulars published in the Intranet - Training programmes - Ad hoc meetings - Periodical returns - Review meetings - Special Events
Regulators and Statutory Bodies - Central Bank of Sri Lanka - Department of Inland Revenue - Other Government organisations - External Auditors - Professional organisations and business community	- CBSL regulations and directives - Basel II implementation - IRD tax regulations - Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards by ICASL - Banking license fees - Labour regulations - Marketing and promotional campaigns - Awards and accolades	- Annual Report - Directions and Circulars - Interim Financial Statements - Periodical returns to regulatory bodies. - Interviews and meetings - Specialist opinions - Participation in competitions - Corporate website

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Stakeholder	Topics discussed	Method of Response
Other interested parties	- Operational Performance of the Bank - Financial performance of the Bank - Recruitment from communities - Launching and re-launching products and services - Scholarships granted by Banks - Social responsibility activities carried out by the Bank.	- Annual Report - Promotional advertisements - Sponsorships - Media statements - Public relations activities - Recruitment advertisements

ECONOMIC PERFORMANCE INDICATORS

Economic Responsibility

As a public financial institution dedicated to sustainable business operations, we take our economic responsibilities very seriously. Our economic goals, over the long term and short term, are defined in our Corporate Business Plan, Strategic Business Plan, Budget and Action Plan and these goals are communicated to our staff through meetings.

We have not only focused on domestic savings, but have also supported inward remittances and NRFC & RFC deposits for Sri Lankans wherever they are at work. As a trusted, guardian of incomes of migrant workers, NSB has established a network of global

relationships with over 35 prominent exchange houses around the world, including Money Gram International & the Eurogiro fraternity.

NSB effectively manages its loans and advances portfolio while concentrating on the requirements of rural areas and North & Eastern Provinces. Housing Loans, Personal Loans, Agricultural Loans, Pawning and Project Financing are the main categories of this portfolio.

Despite the complex nature, the development of infrastructure is extremely important to a developing the country. Thus, to move ahead in the modern world, and to enable rapid development and provide better access to essential services for the people, NSB

provided finance for infrastructure projects, through corporate lending.

The Bank provides financial products to under-served populations in rural and remote areas and offers accessible and affordable services to cater to the needs of low income population.

The Bank is very close to the people's heart and the undeniable truth is that almost all Sri Lankans have learned their ABCs of savings from NSB.

While catering to the needs of rural people, the Bank has taken measures to be updated with the highly volatile technological advancements of the world. Our internet Banking and SMS Banking facilities added contemporary

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convenience for people able to, or wishing to, manage their banking transactions on the move, or at home. We have also introduced bill payment facilities, building one-stop-shop convenience through our network. We are connected to major utility suppliers, telecom providers and major insurance companies.

We conducted research on products offered by us to re-design the products in order to maximise customer satisfaction.

As part of our economic responsibilities, we contribute to government income through Income Tax, VAT and contributions to the Consolidated Fund in the form of dividends. Over 90% of our investment portfolio represents investment in government securities and we ensure the availability of funds for national development initiatives.

NSB also supports the national economy through equity investments in different economic sectors such as banks and financial institutions, power and energy,

“Over 90% of our investment portfolio represents investment in government securities and we ensure the availability of funds for national development initiatives.”

telecommunications and construction and engineering.

In making our banking services available to the public, we pay special attention to rural areas and the North and East.

Direct Economic Value Generated and Distributed

The following table shows economic value added through the activities of the Bank in 2012.

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ECONOMIC VALUE ADDED STATEMENT

	2012	2011
	Rs. '000	Rs. '000
Invested Equity		
Shareholders' Funds	24,335,791	23,052,483
Add : Cumulative Loan Loss Provision/ Provision for Impairment	625,773	495,462
	24,961,564	23,547,945
Earnings		
Profit after Taxation	4,331,342	6,061,862
Add : Loan Losses and Provisions	130,935	142,632
	4,462,277	6,204,494
Cost of Equity based on 12 months Weighted Average Treasury Bill Rate plus 1.8% for the Risk Premium	13.90%	9.43%
Cost of Average Equity	3,469,657	3,983,923
Economic Value Added	992,620	2,220,571

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SOURCES AND DISTRIBUTION OF INCOME

	2012	2011
	Rs. '000	Rs. '000
Source of Income		
Interest	52,673,261	47,095,745
Fee & Commission	221,709	240,768
Other Income	150,089	(791,869)
Total	53,045,059	46,544,644
Utilisation of Income		
Employees - Salaries and Other Payments to Staff	4,077,501	4,139,657
Depositors Interest	39,166,973	29,322,652
Impairment for loans and other losses	130,935	142,632
Other Expenses	2,261,322	2,120,541
	45,636,731	35,725,482
Net Income before Government Taxes and Levies	7,408,328	10,819,162
Government		
VAT and Income Taxes	3,076,986	4,757,300
Consolidated Fund	2,823,245	3,212,671
	5,900,231	7,969,971
To Reserves	1,508,097	2,849,191
Total	53,045,059	46,544,644

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VALUE ADDITION AND DISTRIBUTION

	2012	2011
	Rs. '000	Rs. '000
Value Addition		
Income from Banking Services	52,673,261	47,095,745
Cost of Services	(39,142,492)	(29,296,099)
Value Added by Banking Services	13,530,769	17,799,646
Non-Banking Income	347,317	(577,654)
(Provisions) / Reversal	130,935	142,632
	14,009,021	17,364,624
Distribution to Employees		
Personnel Costs	4,077,501	4,139,657
To Government :		
Income Tax	1,837,917	3,192,819
Value Added Tax	1,239,069	1,564,481
Contribution to the Consolidated Fund	2,823,245	3,212,671
	5,900,231	7,969,971
Retained for Expansion and Growth :		
Earnings	3,674,396	4,840,496
Depreciation	356,893	414,500
	4,031,289	5,254,996
	14,009,021	17,364,624

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Climate Change Impacts

The Bank is not directly exposed to economic impacts arising from climate change. However, the Bank extends funding facilities towards agricultural loans and pawning advances for agricultural purposes which may be affected by climate changes.

Government Assistance

The Bank did not receive any financial assistance from the Government during the year.

However, the Bank has a loan scheme for Government employees, to purchase property and construct houses, at concessionary rates. The interest rate difference between the existing rate and concessionary rate, is reimbursed by Government.

Hiring from the Local Community

All employees are recruited from citizens of the country and when appointing agents in foreign countries, priority is given to Sri Lankans who are residing in those countries.

Supporting Locally-Based Suppliers

The procurement procedure of the Bank is governed by the Government Procurement Manual. The Bank recognises the local suppliers by sourcing from locally based suppliers as its maximum possibility.

INDIRECT ECONOMIC IMPACTS

NSB, through its activities has an indirect economic impact on various stakeholder segments, in addition to direct economic impacts. These are explained in detail under Social Community Care on page 165.

Extent of Indirect Economic Impacts

NSB's CSR activities have wide indirect impacts on society and particularly the younger generation. One of our main aims is uplifting the education and knowledge of the next generation and many of our CSR projects have been conducted with this in mind. In addition, the Bank also supports the

welfare of vulnerable groups such as the elderly and war heroes, and religious events that have wide social impacts.

ENVIRONMENTAL PERFORMANCE INDICATORS

Environmental Responsibility

NSB's operations do not have direct adverse impacts on the environment. However, as a responsible public entity, we are conscious of the need to preserve the environment and natural resources, for future generations. Therefore, NSB has been actively involved in resource conservation by using less printing of paper, reducing wastage of paper, using teleconferencing and telecommunicating whenever possible, online training and developing more energy efficient office spaces.

Waste paper is collected and handed over to the Paper Corporation for recycling. Some of our newly constructed branches are equipped with rainwater harvesting facilities. Trees are grown at NSB branches to conserve greenery and create an

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“We have conquered horizons and broken boundaries and all due to a team that remains highly motivated.”

attractive atmosphere. We emphasise environmental regulatory compliance and minimum environmental impact when constructing NSB branches. Maximum efforts are taken to avoid destruction of the natural environment, by avoiding the cutting of trees and other types of environmental damages. In addition the Bank obtains legal clearances from local authorities before granting housing loans.

Energy Savings

We use CFL energy saving lights to save energy and VRV type A/C systems have been introduced to new branches to save energy while ensuring the comfort of staff and customers. We have taken a decision to limit the use of air conditioning to normal banking hours, to reduce electricity consumption and we have restricted our working hours during holidays also to save resources such as water, fuel and electricity. We use only CFC-free air conditioning units in all our offices to avoid adverse environmental impacts.

Water Use

The average consumption of water at our Head Office is 1,650 units per month and we are focused on conserving water by reducing wastage wherever possible. We have also ensured that our waste water disposal is done in a proper manner to avoid any possible harmful environmental impacts. Our storm water disposal system is connected to the public storm water drainage system, while our waste water is disposed through standard soakage pits inside the premises. These measures ensure the proper disposal of waste water.

Mitigating the Environmental Impact of Products and Services

As a bank, our products and services have no direct impact on the environment. We produce no goods that need to be transported except

stationery, fixed assets and promotional materials for marketing campaigns, and the environmental impact of this is negligible. Our business premises, also, are always selected and constructed in order to minimise their impact on the environment.

Retail lending is also subject to similar environmental considerations. The Bank's vehicle loan scheme is configured to favour the purchase of vehicles less than three years old, since such vehicles produce lower emissions and are more energy efficient. Housing loans, too, are only approved after the affect of the building and its construction on the environment, have passed assessment.

Finally, the Bank provides support through philanthropic and commercial community-based activities, for efforts to make houses and buildings more energy-efficient.

Impact of Transportation

Our fixed assets and promotional materials are for the most part, directly transported to the branches by

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suppliers. Stationery and employees are transported from the Head Office to the branches for official visits. Other than this, employees using their own modes of transport.

Fines and Sanctions

The Bank did not face any fines or non-monetary sanctions for non-compliance with environmental laws and regulations.

OUR TEAM

The backbone to our success, no task is too big, too small or too impossible. We have conquered horizons and broken boundaries and all due to a team that remains highly motivated. In recognising that the team must be nurtured and strengthened, equipped with tools, skills and knowledge to meet the growing and emerging challenges that are bound to ensue in the marketplace, our team philosophy is multi-faceted. Through focused training and development worked through on-the-job, off-the-job, internal and external programmes, in addition to identifying leaders, specialist

areas and expert competencies and honing these, our team has proved that it is truly dynamic team.

LABOUR PRACTICES AND DECENT WORK PERFORMANCE INDICATORS

Creating a Conducive Work Environment

The Bank's HR Policy provides Bank employees with guidelines on the culture, work ethics, acceptable/unacceptable behaviour, norms and standard procedures of the Bank, ensuring operational efficiency, addressing the HR mission and thereby assisting the Bank in achieving its strategic objectives.

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

The HR objectives of the Bank are;

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

To meet these objectives, NSB hires staff with the right attitude and professional skills and helps them develop a long term relationship with the Bank. Every new recruit that joins NSB is considered a member of the NSB team and a component in achieving the Bank's overall goals.

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Total Work Force

We believe our workforce is our strength and we invest in our workforce in many different forms to ensure their growth and development and the Bank's competitiveness. Currently we have a full time workforce of 3,128 and an outsourced cadre of 945 that are the bulwark of the Bank.

Employment Type	No. of Employees
Full Time	3,128
Outsourced	945

Employment Type

Our workforce can also be considered in terms of permanent employees and contract employees. As at end December 2012, the Bank had a permanent employee cadre of 2,647 and contract employees numbering 481.

Employment Type	No. of Employees
Permanent Employees	2,647
Contract Employees	481

Employees by Bank branch

Our branch network has been classified into seven zones for ease of administration respectively. Our employees are distributed within this branch network as shown in the table below for optimum level of efficiency and productivity.

Zone	No. of Branches	No. of Employees
Central	31	255
Colombo	33	441
Wayamba	37	380
Eastern	27	192
North	28	211
Southern	33	306
Kalutara	30	295

However the zonal system has been changed to a regional system from January 2013.

Employees by Employment Category

Our dedicated workforce pulls together as a team to ensure the success of the Bank at all times. The Bank's corporate

management team of 9 represents 0.30% of our total workforce, while our executive and middle management represents 0.31% and 4.26% of the workforce, respectively. A majority of our employees (50.92%) fall within the category of Banking Assistants.

Category	No. of Employees	Percentage
Corporate Management	9	0.30%
Executive Management	9	0.31%
Middle Management	114	4.26%
Junior Management	447	16.88%
Supervisors	581	21.94%
Banking Assistants	1,825	50.92%
Others	145	5.36%
Total	3,128	

Employee Turnover

Labour turnover during the year was insignificant.

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Employee Benefits

We believe employee satisfaction is an integral element of corporate sustainability. Therefore, we ensure many welfare benefits for our employees while also focusing on attracting the best talent and skills.

Non Financial Benefits Granted to Employees

Permanent employees enjoy a range of benefits from the Bank. These include a staff medical scheme, loan schemes at concessionary rates, overseas and local training opportunities and the use of holiday bungalows at concessionary rates.

The Bank also recognises the academic and sports achievements of the children of employees. On Annual Achievers Day, children with the best results in the Grade 5 Scholarship Examination, GCE (O/L), GCE (A/L) and outstanding performance in sports and other areas are recognised and rewarded. Further, at this event, long serving employees are recognised. To strengthen employee relations, the Bank hosts an annual

“Employees benefit from a strong medical welfare scheme that contributes to a healthier workforce.”

sports day and special events like Vesak Bhakthi Gee and Christmas carols.

Medical Facilities

Employees benefit from a strong medical welfare scheme that contributes to a healthier workforce. An Employees Medical Assistance scheme is available at NSB where employees and their families can obtain medical assistance. The scheme covers a wide range of situations and includes routine medical expenses, specialist charges, dental care, eye care, hospital charges, continued medication for critical illnesses and special treatment for critical areas.

Compensation Benefit Scheme for Personal Accidents and Deaths

NSB maintains a highly advantageous compensation scheme for employees

and their dependents to be used in the case of accidents, illness or natural causes, that may result in bodily injury or death. To get the compensation under this scheme it is not necessary for the victim to be at work at the time of the accident.

Labour Relations

At NSB, we believe in mutual cooperation between employees and management for sustainable and smooth day-to-day operations. Therefore, we adhere to International Labour Standards (ILS) in our operations. ILS embraces numerous aspects of labour markets, ranging from minimum wages and equal pay, to health and safety regulations. These standards can be classified into six main categories.

- a. Respect for fundamental human rights
- b. Protection of wages
- c. Employment security
- d. Working conditions
- e. Labour market and social policies
- f. Industrial relations

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“NSB’s training programmes promote diversity and inclusion, facilitate career development and point the way to better work-life balance.”

The International Labour Organisation (ILO) which is the international organisation responsible for drawing up and overseeing international labour standards, brings together the representatives of governments, employers and workers to jointly share policies and programmes promoting decent work for all. NSB, as a Government entity, is responsible in complying with the Conventions of the ILO that are ratified by Sri Lanka. NSB complies with the International Labour Standards in relation to forced labour, freedom of association and right to organise, collective bargaining, equal remuneration, discrimination in employment, minimum age for employment and hours of work, maternity protection, workmen compensation etc. and has considered them in its policies and procedures.

Employees Covered by Collective Bargaining Agreements

All permanent employees, comprising 90% of all staff, are covered by collective agreements.

Minimum Notice Period(s) Regarding Operational Changes

The collective agreement does not, cover minimum notice periods regarding operational changes. However, trade union officials have the opportunity of discussing about the changes with the management.

Health and Safety

There is no specific threat to employees’ health and safety at NSB.

An in-house medical centre is available within the head office premises which is operated by a leading private hospital from which employees can obtain free medical treatment. Two Medical

Specialists are also available in this medical centre.

Injuries and Fatalities

There were no injuries, occupational diseases or fatalities at NSB during the year. We have maintained a Zero Lost Workday Case environment in NSB.

Education About Serious Diseases

In addition, the in-house mobile medical clinics conducted by leading private hospitals were organised for employees during the year. Awareness campaigns have been conducted to prevent from dengue.

Health and Safety in Collective Agreements

As described earlier employees are facilitated with medical assistance scheme by which the terms are prescribed in collective agreement.

Recruitment and Remuneration

We maintain transparent recruitment procedures and work on reputed

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guidelines culled from renowned HR organisations. While, all positions are advertised and every applicant given an equitable chance of gaining employment with NSB, we also headhunt for positions requiring specialist competencies and skills, within the marketplace and beyond. Remuneration is based on laid down guidelines and on par with market parameters and we do not condone in any form, favouritism or discrimination in our recruitment or remuneration policy. It must be noted that wages are decided through collective agreements signed with the Bank's trade unions. These wages are in line with the main Government banks. The collective agreements are revised every three years.

Lifelong Learning

The Bank's training programmes are continually updated to meet the changing needs of the workforce and the market. NSB's training programmes promote diversity and inclusion, facilitate career development and point the way to better work-life balance. During the year, as a part of the Bank's philosophy of life long learning, the

Bank conducted a number of training programmes in line with the Bank's human resource development policies and training needs. In-house training and regional training were provided for many employees. Foreign training was provided where necessary for others who required specialised training. In addition, many employees are also following long-term educational courses including diplomas, and degree courses, such as M.Sc. and MBAs, while working at the Bank. The Bank encourages such academic pursuits as we believe education is part of lifelong learning and it is never too late to expand an individual's knowledge and skills. In addition, a number of short term training programmes, seminars and workshops were conducted during the year.

Performance Reviews

All employees receive regular performance and career development reviews as a means of furthering individual career aspirations and aligning them with the Bank's vision, mission and goals.

Salary Differences

NSB prides itself on being an equal opportunity employer and maintains remuneration and benefits at the same levels for both men and women.

Coverage of Defined Benefit Plans

The defined benefit plan for NSB employees consists of a retirement gratuity and pension scheme. An actuarial valuation of the plan is carried out once every three years. The defined contribution plan, in keeping with standard Sri Lankan business practice, involves contributions to the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF). For more information on these plans, please see the Statement of the Bank's Accounting Policies on page 216.

○ Employees pension scheme

The Bank established a non-contributory pension scheme in 1980. This is an approved scheme for pension payments for permanent employees who joined

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before 1 October 1995. The Bank's contribution to the pension fund is made monthly at the rate of 20% on gross salary. In total, 974 employees are entitled to the scheme. Employees who joined the Bank after 1st October 1995 and opted to be the members of the contributory pension scheme must contribute to the fund at the rate of 13.5% of their gross salary, every month. In total, seven employees are entitled to this.

○ **Gratuity**

The Bank has made provisions for gratuity payments for employees who joined the Bank after 1st October 1995 and did not want to join the contributory pension scheme.

The Bank conducted an actuarial valuation on these retirement obligations at the end of 2012.

Defined Contribution Plans

The defined contribution schemes are the EPF and ETF. The Bank contributes to the ETF on the basis of

gross salaries of employees. For further information please refer Note no. 2.6 of the Financial Statements on page 216.

HUMAN RIGHTS AND EQUAL OPPORTUNITY

Safeguarding Human Rights

NSB provides equal employment opportunities for all persons regardless of race, color, religion, age, gender marital status, national origin or disability. Recruitment, hiring, compensation, benefits, transfers, training and development, educational assistance, recreational programmes, and promotion of individuals in all job classifications are conducted without discriminating on race, colour, religion, nationality, age, gender and physical disability, except where a bona fide occupational qualification exists. Employment and promotional decisions are made in such a manner as to further the principle of equal employment opportunity, based upon selection criteria that is job related. The Bank is committed to providing a work and learning environment that is

free of any kind of harassment. NSB considers harassment in all forms to be a serious offence. Vendors, visitors, customers and guests too, are prohibited from harassing other individuals while in the Bank's premises. NSB will not make a decision about hiring, promotion, discharge, compensation, benefits, training or any other aspects of employment, based on an individual's disability, if the concerned individual is qualified for the job. The Bank is committed to provide a safe and healthy work place for all employees. Management and all employees working in the Bank share the responsibility for the success of the safety and health procedures at their respective branches/ divisions. In addition, as a responsible employer, NSB adheres to the International Labour Organisation's convention on upholding the right to freedom of association of all NSB employees.

Human Rights Training

During the year, six employees who are members in trade unions, participated in

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a training programme on national and international labour law compliance.

Cases of Discrimination

There were no reported incidents of discrimination during the year.

Risks to Freedom of Association

Freedom of association and collective bargaining is fully facilitated and were not under threat during the year.

The following unions are recognised and active in the Bank;

- Ceylon Bank Employees' Union
- Sri Lanka Nidahas Sevaka Sangamaya
- Jathika Sevaka Sangamaya
- Executive Officers' Association
- All Ceylon Bank Employees' Union

Child Labour

The Bank eschews child labour or any feature relating to such practices and does not recruit employees under the age of 18 years.

“We believe that eliminating corruption is a social responsibility and as such, we have implemented stringent internal controls to prevent bribery and corruption.”

Forced and Compulsory Labour

All employees work voluntarily and there are no operations with significant risk of forced labour.

SOCIAL AND COMMUNITY CARE

Responsibility to Society

As one of largest publicly owned financial institutions in the country, we believe strongly in eliminating any avenues for corruption and irregularities at our organisation. We believe that eliminating corruption is a social responsibility and as such, we have implemented stringent internal controls

to prevent bribery and corruption. Our risk management mechanisms are aimed at minimising the risk of bribery, corruption and fraud and we have established operational risk monitoring mechanisms and Liaison Officers have been appointed in all Branches and Divisions, reporting directly to the Head of Risk and Compliance (HRC) in respect of risk and compliance.

As a public institution, we believe in providing as much benefits as possible to the public of Sri Lanka. Therefore, we have developed a variety of products to serve the needs of many different social groups ranging from infants to senior citizens.

Our Ithurum Ayojana Kawa savings scheme for instance, is aimed at helping the low income segment enter the formal banking systems and to encourage them to save. A concessionary housing loan scheme has been introduced by the Bank for academic as well as non academic staff at universities.

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However, it must be noted that while our products and services are always focused on ensuring sustainability of our various stakeholders, we are very much aligned to maintaining our CSR platforms on Developing Education, Women and Health, Uplifting War Heroes, Assistance to the Elderly and National Unity. Given below are the notable initiatives implemented under these five platforms for 2012.

Developing Education

Optimising Potential : Each year, NSB conducts Hapan Scholarship seminars for Grade Five students, throughout the country. The free seminars are focused on Government examinations and are facilitated by well-known personalities to help school children develop their academic skills, personality and attitudes. During the year, thirty seminars were conducted.

As has been done continually from 2008, we also conducted 52 Grade Five Scholarship seminars under the Mathulowa Dinumata Nena Guna Wadamu programme, organised and

conducted by “Tharunyata Hetak,” held islandwide, including the North and East, South, Central and Western regions, in Sinhala and Tamil media. In addition, NSB continued its Ithuru Mithuru seminar series for Ordinary level Examination students this year too.

The popular Navayugaya Magazine and NSB held seminars islandwide, utilising the expertise of experienced resource personnel as a means of knowledge enhancement.

Rewarding High Achievers :

Recognising the academic potential of students who are high achievers at the Grade Five scholarship examination, the top ten performers in each district are rewarded. The ceremony was held at Temple Trees, while other students with merit results were recognised at special ceremonies at the NSB branches.

A scholarship fund was established in memory of the renowned Sinhala scholar, Kumarathunga Munidasa, to recognise the best performer at the G.C.E. Ordinary Level examination’s

Sinhala language exam. The student is awarded a laptop and a deposit of Rs.100,000.00 in aid of higher education. The Bank awarded the deposit for the said purpose.

Financial Assistance to Further Knowledge :

The Ithru Mithuru Egenuma loan scheme was introduced to provide financial assistance to students for further education and teachers for educational purposes. Students who have enrolled for higher studies in a recognised local or foreign university, college, academy or an educational/professional institution are eligible for loans under this scheme. Loans are granted for academic or/and professional higher studies, research studies and any studies for innovative experiments either in Sri Lanka or another country. The Bank contributed Rs.100,000 towards the Dehiwala and Ratmalana Development Foundation for its an annual donation of exercise books for under privileged children.

Promoting the reading habit : Under the guidance of H.E. the President, the

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members of the President's staff have initiated a voluntary project to promote reading among schoolchildren. As many schools lack libraries, or the existing ones are ill-equipped, each school was donated 250-300 books of educational and literary value, suitable for children up to 14 years of age. The donation enabled schools to either start new libraries or supplement the existing resources. The Bank spent Rs.1,000,000.00 on supporting this initiative.

Women and Health

Given the long distances that midwives travel most often in difficult terrain, NSB extended loans to Government Midwives to purchase motorcycles and scooters, under a personal loans scheme.

The Bank extended a sponsorship of Rs.100,000.00 towards development programmes to uplift rural women, organised by the Empowerment of Rural Women Development Fund, aligned to the Mahinda Chinthana vision for future.

“Recognising the selfless service rendered by Sri Lanka’s war heroes, NSB established a War Heroes Parents Protection Passbook Programme.”

With our Hapan Children's Savings Account as the title of the project, we renovated the children's ward at the Medirigiya Base Hospital as a CSR initiative.

The visually impaired were also supported by NSB as it financially funded an awareness newspaper supplement on Eye Donation Day organised by the Sri Lanka Eye Donation Society.

Uplifting War Heroes

Recognising the selfless service rendered by Sri Lanka's war heroes, NSB established a War Heroes Parents Protection Passbook Programme, while also contributing Rs.1 Million to a fellowship event organised by the

Army Benevolent Fund, in aid of the Ranawiru Abhimansala. This event raised funds for the care and upkeep of disabled war heroes and to provide housing for them.

Assistance to the Elderly

In collaboration with Helpage Sri Lanka, an approved charity, NSB sponsored seven mobile medical camps conducted for the elderly persons in Sri Lanka, residing mainly in rural areas. The seven camps held in Batticaloa, Mahiyanganaya, Monaragala, Badulla, Kantale, Trincomalee and Kahatagasdigiliya involved a total investment of nearly Rs.500,000 and extended to identification of cataracts and donation of spectacles.

National Unity

We strongly believe that Sri Lanka's strong foundations are built upon its multi-cultural multi-ethnic multi-religious identity and strive to ensure that these identities are preserved, while making them a tool that could encourage national unity. NSB donated

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Rs.1 Million towards the Buddha Rashmi Vesak celebrations, organised by the President's Office at the Hunupitiya Gangarama Temple.

This national unity philosophy was further extended when NSB extended a sponsorship of Rs.100,000 towards a fund established by the Sama Viharaya which aims to instigate projects aimed towards cultural unity and community development.

CUSTOMERS – OUR PARTNERS

Being a savings bank that remains very cognizant of its responsibility of inculcating the savings culture among the people of Sri Lanka, our customers have truly been the tangible example of our success. With a customer base of 17.4 Millions comprising all social strata, multiple demographics, cultural, religious and ethnic backgrounds, our customers have embraced the National Savings Bank as a lifelong partner. We, in turn, must be conscious and sensitive to this loyalty and confidence and have, in our very long history, ensured that our products reflect our customers'

“...we make sure that all our product and service brochures are in available in all three languages of Sinhala, Tamil and English.”

aspirations. We have developed products that give them the impetus to grow; to nurture their lifestyles; to venture into entrepreneurship and to improve their accomplishments. We have added customer service excellence into the very core of our customer interactions and thus, what you see today is a Bank that not only thrives on being the savings partner for Sri Lankans, but also one that is flexible, efficient, responsive and very proactive.

Our extensive product portfolio has ample examples of the customer ethos we espouse, from infants, to young people, to senior citizens; to migrant workers and women; from housing loans, auto loans, agricultural loans

to project loans; to infusing IT into the very heart of the banking process, our products, coupled with exemplary service is the key to our success.

NSB 24/7 Call Center enables customers to contact us more easily, have quicker replies to their queries, gain valuable feedback and be used as a marketing tool to give more information of our products and services to callers.

Please refer to page 257 for information of our products and services.

PRODUCT RESPONSIBILITY PERFORMANCE INDICATORS

NSB conforms to all relevant regulations with regards to the provision of products and services to customers and also follows high ethical standards in ensuring that customers get the maximum benefits of our products and services. We do not resort to unethical advertising and/or marketing practices, and we ensure customers are well informed about our products and services at the point of transaction. To further enhance our ability to meet our

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customer expectations, we conduct surveys and research on customer behaviour and customer opinions. This information is used to improve our products and services.

Product and Service Labelling

With the view of ensuring that all Sri Lankan citizens, regardless of ethnic group, are able fully understand and access our products and services we make sure that all our product and service brochures are available in all three languages of Sinhala, Tamil and English. This includes information on products, interest rates, maturity period and contact details.

Compliance

The Bank did not face any instances of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling.

Practices on Customer Satisfaction

The Bank conducted surveys on customer satisfaction, customer behaviour and product awareness during the year.

During the year we conducted a Customer Satisfaction Survey as customer satisfaction is an important indicator of how a customer feels about our Bank and an interpreter of work behaviour, such as organisational citizenship. Therefore, a customer satisfaction survey was carried out to identify the level of customer satisfaction with NSB service. This information will be used to improve our customer services. The Research Division carried out an external Product Awareness research to identify the level of awareness of NSB products among people. The survey was conducted at the Maharagama Youth Center, by targeting the seminar held for grade five students on 16th August 2012. A customer behaviour study was conducted which examined the reasons for customers withdraw their savings from savings accounts. The study was conducted at selected branches, during

the months of August and September. The objective was to reduce savings extractions by understanding the reasons for withdrawing savings. A product analyses was conducted to measure NSB's product performances. This information will be used to further enhance the quality of our products and services.

Other initiatives aimed at customer satisfaction included a study on NSB Accounts Circulation, the Win Win Thegi Warusa Campaign, the Hapan Deposit Expansion and the NSB Aurudu Wasana programmes. Studies were also done on the performance of Hapan, the children's savings account and Sthree, the savings account targeting women. A situation report was developed on the Hapan accounts.

Marketing Communications

NSB applies ethical Banking concepts in all marketing communications and the following information is always presented in all English, Sinhala and Tamil advertisements:

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- Name of the Bank
- Fitch Rating
- Web URL
- Call Centre number

Business Promotion & Image Building

The Bank conducted a wide ranging series of business promotions and brand building activities during the year. To further augment our market presence, we also participated in exhibitions and conducted seminars.

Participation in exhibitions has been a highly effective method to reach many consumers and interact with them. We are happy to report that our participation in the Construction Expo resulted in over 200 loan inquiries. We also used the Deyata Kirula Exhibition as a venue to increase consumer awareness about our products and services.

As part of our overall promotional and marketing drive, we successfully introduced a New Year campaign

from 16th March onwards, in line with the festivities of the traditional Sinhala-Tamil New Year. To further mobilise savings, we introduced lucky draws, rewards programmes and added incentives during the year. This included the seasonal campaign “Avurudu Wasana” and a campaign during International Women’s Month, to promote our savings accounts for women Sthree. Other promotional campaigns applied to Smile, Win Win Thegi Warusa and the Hapan Year Five Scholarship promotions.

As a historic milestone to celebrate our 40th anniversary, NSB hosted the World Savings Banks Institute’s (WSBI) 18th Asia-Pacific Regional Group Conference on the theme, ‘The Competitiveness of Current Retail Banking of WSBI Members’. Forty delegates, from the 23 WSBI member institutions, from 16 countries, participated in the event. As part of the celebrations, a commemorative plaque was presented to His Excellency, President Mahinda Rajapakse, at Temple Trees. The grand finale of

the anniversary celebrations was a musical extravaganza titled, ‘Siw Maha Dashaka Gettha Wansa Kathawa,’ which featured popular singers from Sri Lanka.

Technology Based Marketing Communications

As a bank with a progressive approach to all our activities, we have leveraged modern communications systems to promote our Bank. We have successfully utilised the Internet and mobile platforms as a means of communicating with our busy, tech savvy customers. During the year, we conducted SMS and e-mail campaigns to directly communicate with our customers. We promoted our technology based products in magazines, and Internet Banking, and technology based banking services were advertised in LMD, Business Today and Medaperadiga, to raise awareness among consumers about our range of technology based services and facilities. We also developed web based news publications for all e-papers and conducted E-flyer campaigns. We promote all our technology based IT

BRANCHING OUT INTO NEW VENTURES

SUSTAINABILITY REVIEW

and NRFC products both internally as well as externally.

Establishing Logo Identity

The logo was finalised and was endorsed by the Chairman, GM/CEO and Senior Management.

Customer Touchpoints Enhanced

No. of branches at the end of the year	: 219
No. of new ATMs at the end of the year	: 231
No. of new school banking units at the end of the year	: 1,185
Post Offices	: 641
Subpost Offices	: 3,412

Compliance in Marketing

There were no instances of non-compliance with regulations and voluntary codes concerning marketing communications

Complaints on Customer Privacy

There were no complaints regarding breaches of customer privacy and/or loss of customer data.

Fines

The Bank did not face any fines for non-compliance of laws and regulations

BRANCHING OUT INTO NEW VENTURES

GRI COMPLIANCE INDEX

	Report Section	Page/s
1. STRATEGY & ANALYSIS		
1.1 Statement from the most senior decision maker of the organisation	Sustainability Review	138
1.2 Descriptions of key impacts risks and opportunities	Sustainability Review	140
2. ORGANIZATIONAL PROFILE		
2.1 Name of the organisation	Corporate Information	272
2.2 Products, and/or services	Our Products and Services	257
2.3 Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures	Governance Report	54
2.4 Location of organisation's headquarters	Corporate Information	272
2.5 Number of countries where the organisation operates	Sustainability Review	142
2.6 Nature of ownership and legal form	Corporate Information	272
2.7 Markets served - Information required based on geographic breakdown, sectors served, and types of customers/ beneficiaries.	Sustainability Review	142
2.8 Scale of the reporting organisation- Update required on No. of employees, Net sales, Total capitalisation broken down in terms of debt and equity.	Sustainability Review	143
2.9 Significant changes during the reporting period regarding size structure or ownership- Update on Branch openings, Changes in share capital structure and other capital formation, Maintenance and alteration operations	Sustainability Review	143
2.10 Awards received in the reporting period	Sustainability Review	144
3. REPORT PARAMETERS		
3.1 Reporting period for information provided.	Sustainability Review	139
3.2 Date of most recent previous report (if any).	Sustainability Review	139
3.3 Reporting cycle (annual, biennial, etc.)	Sustainability Review	139
3.4 Contact point for questions regarding the report	Sustainability Review	140
3.5 Process for defining report content	Sustainability Review	140
3.6 Boundary of the report- Example: Countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers	Sustainability Review	140
3.7 Specific limitations on the scope or boundary of the report	Sustainability Review	140

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GRI COMPLIANCE INDEX

		Report Section	Page/s
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	N/A	
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	Sustainability Review	140
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement.	Sustainability Review	140
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	Sustainability Review	140
3.12	Table identifying the location of the Standard Disclosures in the report.	Sustainability Review	172
3.13	Policy and current practice with regard to seeking external assurance for the report.	N/A	
4. GOVERNANCE, COMMITMENTS AND ENGAGEMENT:			
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	Corporate Governance	56
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Annual report of Board of Directors	190
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non executive members	Annual report of Board of Directors	190
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Sustainability Review	146
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisations' performance (including social and environmental performance).	Sustainability Review	146
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	Sustainability Review	146

BRANCHING OUT INTO NEW VENTURES
GRI COMPLIANCE INDEX

	Report Section	Page/s
4.7 Process of determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental and social topics.	Sustainability Review	146
4.8 Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	Sustainability Review	147
4.9 Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	Sustainability Review	147
4.10 Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	Sustainability Review	147
4.11 Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	Sustainability Review	148
4.12 Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.	Sustainability Review	148
4.13 Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation has memberships.	Sustainability Review	149
4.14 List of stakeholder groups engaged by the organisation.	Sustainability Review	150 - 152
4.15 Basis for identification and selection of stakeholders with whom to engage.	Sustainability Review	150 - 152
4.16 Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Sustainability Review	150 - 152
4.17 Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	Sustainability Review	150 - 152

BRANCHING OUT INTO NEW VENTURES
GRI COMPLIANCE INDEX

	Report Section	Page/s
Economic Performance Indicators		
Aspect: Economic Performance		
EC1. Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	Sustainability Review	154 - 156
EC2. Financial implications and other risks and opportunities for the organisation's activities due to climate change	Sustainability Review	157
EC3. Coverage of the organisation's defined benefit plan obligations	Sustainability Review	163
EC4. Significant financial assistance received from government	Sustainability Review	157
Aspect: Market Presence		
EC5. Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	Sustainability Review	157
EC6. Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	Sustainability Review	157
EC7. Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	Sustainability Review	157
Aspect: Indirect Economic Impacts		
EC8. Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	Sustainability Review	165
EC9. Understanding and describing significant indirect economic impacts, including the extent of impacts	Sustainability Review	157
Environmental Performance Indicators		
Aspect: Energy		
EN 1. Materials used by weight or volume	Sustainability Review	158
EN2. Percentage of materials used that are recycled input materials	N/A	
EN3. Direct energy consumption by primary energy source	N/A	
EN4. Indirect energy consumption by primary source	N/A	
EN5. Energy saved due to conservation and efficiency improvements	Sustainability Review	158
EN6. Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	Sustainability Review	158

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GRI COMPLIANCE INDEX

	Report Section	Page/s
EN7. Initiatives to reduce indirect energy consumption and reductions achieved	Sustainability Review	158
Aspect: Water		
EN 8. Total water withdrawal by source	Sustainability Review	158
EN 9. Water sources significantly affected by withdrawal of water	Sustainability Review	158
EN10. Percentage and total volume of water recycled and reused	N/R	
EN 11. Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	N/R	
EN12. Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	N/A	
EN13. Habitats protected or restored	N/A	
EN14. Strategies, current action & future plans for managing biodiversity	N/A	
EN15. Number of IUCN Red List Species & National Conservation List Species with habitats in areas affected by operations	N/A	
EN16. Total direct and indirect greenhouse gas emissions by weight	N/A	
EN17. Other relevant indirect greenhouse gas emissions by weight	N/A	
EN18. Initiatives to reduce greenhouse gas emissions and reductions achieved	N/A	
EN19. Emissions of ozone-depleting substances by weight	N/A	
EN20. NO, SO, and other significant air emissions by type and weight	N/A	
EN21. Total water discharge by quality and destination	N/A	
EN22. Total weight of waste by type and disposal method	Sustainability Review	158
EN23. Total Number of & Volume of significant spills	Sustainability Review	158
EN24. Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annexures I, II, III, and VIII, and percentage of transported waste shipped internationally	Sustainability Review	158
EN25. Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff	N/A	

BRANCHING OUT INTO NEW VENTURES
GRI COMPLIANCE INDEX

	Report Section	Page/s
Aspect: Products and Services		
EN26. Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Sustainability Review	158
EN27. Percentage of products sold and their packaging materials that are reclaimed by category	N/A	
Aspect: Compliance		
EN28. Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations	Sustainability Review	159
Aspect: Transport		
EN29. Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce	Sustainability Review	158
Aspect: Overall		
EN30. Total environmental protection expenditures and investments by type	N/R	
Labour Practices and Decent Work Performance Indicators		
Aspect: Employment		
LA1. Total workforce by employment type, employment contract, and region	Sustainability Review	160
LA2. Total number and rate of employee turnover by age group, gender, and region	Sustainability Review	160
LA3. Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	Sustainability Review	161
Aspect: Labour/Management Relations		
LA4. Percentage of employees covered by collective bargaining agreements	Sustainability Review	162
LA5. Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	Sustainability Review	162
LA6. Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advice on occupational health and safety programs	Sustainability Review	162
LA7. Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region	Sustainability Review	162

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GRI COMPLIANCE INDEX

	Report Section	Page/s
LA8. Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	Sustainability Review	162
LA9. Health and safety topics covered in formal agreements with trade unions	Sustainability Review	162
LA10. Average hours of training per year per employee by employee category	Sustainability Review	163
LA11. Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Sustainability Review	163
LA12. Percentage of employees receiving regular performance and career development reviews	Sustainability Review	163
LA13. Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	Sustainability Review	145
LA14. Ratio of basic salary of men to women by employee category	Sustainability Review	145
Human Rights Performance Indicators		
Aspect: Investment and Procurement Practices		
HR1. Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	Sustainability Review	164
HR2. Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	Sustainability Review	164
HR3. Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Sustainability Review	164
Aspect: Non-discrimination		
HR4. Total number of incidents of discrimination and actions taken	Sustainability Review	165
Aspect: Freedom of Association and Collective Bargaining		
HR5. Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	Sustainability Review	165

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	Report Section	Page/s
Aspect: Child Labour		
HR6. Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labour	Sustainability Review	165
Aspect: Forced and Compulsory Labour		
HR7. Operations identified as having significant risk for incidents of forced or compulsory labour, and measures taken to contribute to the elimination of forced or compulsory labour	Sustainability Review	165
Aspect: Security Practices		
HR8. Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations	N/R	
Aspect: Indigenous Rights		
HR9. Total number of incidents of violations involving rights of indigenous people and actions taken	N/A	
Society Performance Indicators		
Aspect: Community		
SO1. Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting	Sustainability Review	165
Aspect: Corruption		
SO2. Percentage and total number of business units analysed for risks related to corruption	Sustainability Review	148
SO3. Percentage of employees trained in organisation's anti-corruption policies and procedures	Sustainability Review	148
SO4. Actions taken in response to incidents of corruption	Sustainability Review	148
Aspect: Public Policy		
SO5. Public policy positions and participation in public policy development and lobbying	Sustainability Review	149

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	Report Section	Page/s
SO6. Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	Sustainability Review	149
Aspect: Anti-Competitive Behaviour		
SO7. Total number of legal actions for anticompetitive behaviour, anti-trust, and monopoly practices and their outcomes	Sustainability Review	149
Aspect: Compliance		
SO8. Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations	Sustainability Review	149
Product Responsibility Performance Indicators		
Aspect: Customer Health and Safety		
PR1. Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	Sustainability Review	168
PR2. Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services, by type of outcomes	Sustainability Review	168
Aspect: Product and service labeling		
PR3. Type of product and service information required by procedures and percentage of significant products and services subject to such information requirement	Sustainability Review	169
PR4. Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	Sustainability Review	169
PR5: Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Sustainability Review	169
Aspect: Marketing Communications		
PR6. Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	Sustainability Review	169
PR7. Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	Sustainability Review	169

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	Report Section	Page/s
Aspect: Customer Privacy		
PR8. Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Sustainability Review	169
Aspect: Compliance		
PR9. Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services	Sustainability Review	169

N/A - Not Applicable

N/R - Not Reported

		2002 In Accordance	C	C+	B	B+	A	A+
Mandatory	Self Declared				✓			
	Third Party Checked			Report Externally Assured		Report Externally Assured		Report Externally Assured
Optional	GRI Checked							





CHAPTER 6

THE RESULTS OF A CHALLENGING YEAR

FINANCIAL REPORTS

THE RESULTS OF A CHALLENGING YEAR
FINANCIAL CALENDAR

Financial Calendar 2012

1st Quarter Interim Results Released on	31 May 2012
2nd Quarter Interim Results Released on	30 August 2012
3rd Quarter Interim Results Released on	28 November 2012
4th Quarter Interim Results Released on	29 March 2013

Proposed Financial Calendar 2013

1st Quarter Interim Results will be released on	20 May 2013
2nd Quarter Interim Results will be released on	19 August 2013
3rd Quarter Interim Results will be released on	20 November 2013
4th Quarter Interim Results will be released on	21 February 2014

THE RESULTS OF A CHALLENGING YEAR

ANNUAL REPORT OF BOARD OF DIRECTORS

General

The Directors of the National Savings Bank have pleasure in presenting their Annual Report on the affairs of the Bank together with the audited Financial Statements of the Bank and Consolidated Financial Statements for the year ended 31 December 2012. The draft Financial Statements together with the Annual Report were approved by the Board of Directors at the Board Meeting held on 28 February 2013 and submitted to the Auditor General on 28 February 2013. The audited Financial Statements were authorised to be issued on 28 March 2013. The Report also includes certain disclosures required to be made under the Banking Act Direction No.12 of 2007 on Corporate Governance. The Annual Report and Financial Statements, together with the Auditor General's Report will be submitted to the Ministry of Finance & Planning, on or before 31 May 2013 as per Circular No. PE D/27 of 27 January 2005, issued by the Director General of the Department of Public Enterprises to be placed before the Parliament of Sri Lanka.

National Savings Bank is incorporated in Sri Lanka by National Savings Bank Act No 30 of 1971 and was granted the status of Licensed Specialised Bank in terms of Banking Act No. 30 of 1988.

The Bank has been assigned AAA(lka) long term credit rating by the Fitch Rating Lanks (Pvt) Ltd.

Review of Business

Principal Activities Bank

The principal activity of the National Savings Bank is to promote savings among the people of Sri Lanka and to make profitable investments of savings so mobilised.

Subsidiary

The principal activity of NSB Fund Management Company Ltd. is dealing in Government Securities as a primary dealer authorised by the Central Bank of Sri Lanka. Details are given in Note 26 to the Financial Statements.

There were no significant changes in the nature of the principal activities of the Bank and the Group during the year.

Vision, Mission and Values

The Bank's Vision, Mission and Values are given on pages 4 and 5 of this Annual Report. The Bank maintains high ethical standards in its activities whilst pursuing the objectives stated under 'Vision' and 'Mission'. All permanent employees are made aware about the Code of Conduct of Bank and are abide by it to reach the Vision & Mission of the Bank.

Going Concern

The Board of Directors have reviewed and satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Therefore, we continue to adopt the going concern basis in preparing the Financial Statements in compliance with Sri Lanka Accounting Standards, LKAS & Sri Lanka Financial Reporting Standards (SLFRS) and in conformity

THE RESULTS OF A CHALLENGING YEAR

ANNUAL REPORT OF BOARD OF DIRECTORS

with the Generally Accepted Accounting Principles (GAAP) applied consistently.

Review of Business Performance

The Bank's performance for the financial year 2012 and its financial position were reviewed in the Message from the Chairman (page 15), a review by General Manager/CEO (page 19) and Management Discussions and Analysis (page 26). These reports form an integral part of the Annual Report.

New Accounting Standards (SLFRS/LKAS)

Sri Lanka converged fully with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) with effect from January 2012. These Sri Lanka Accounting Standards comprise of Sri Lanka Accounting Standards (LKAS) and Sri Lanka Financial Reporting Standards (SLFRS). Application of LKAS & SLFRS for the first time shall be deemed to be an adoption of SLFRS. As required by these standards the Bank

prepared its opening Statement of Financial Position (previously termed as Balance Sheet) as at 1 January 2011 with the assumption that the Bank had applied these standards retrospectively with all the adjustments to equity being recognised directly on the statement of changes in equity.

Significant Accounting Policies

Accounting Policies have been revised with the adoption of LKAS/ SLFRS Significant Accounting Policies adopted in the preparation of Financial Statements which are given on pages 211 to 218.

Directors' Responsibilities for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements that will reflect a true and fair view of the state of affairs of the Bank. The Directors are of the view that Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in equity, Cash Flow Statement, Significant Accounting Policies and

Notes there to have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (LKAS) and the Banking Act No. 30 of 1988 and its amendments. The Directors' Responsibility Statement appearing on page 195 of this Annual Report describes in detail the Directors' Responsibilities in relation to Financial Statements, which forms an integral part of the Annual Report of the Directors.

Financial Statements

The Financial Statements of the Bank and the Group have been prepared in accordance with Sri Lanka Accounting Standards (LKAS & SLFRS) laid down by the Institute of Chartered Accountants of Sri Lanka.

The Financial Statements for the year ended 31 December 2012 are the first prepared under LKAS/SLFRS. The comparatives to these Financial Statements were previously reported under SLAS and the reconciliation of SLAS Balance Sheet as at 31 December 2011 and 01 January 2011 and SLAS

THE RESULTS OF A CHALLENGING YEAR

ANNUAL REPORT OF BOARD OF DIRECTORS

Income Statement for the year ended 31 December 2011 with the comparatives reported under LKAS/SLFRS is given in Note 45 to the Financial Statements.

The Financial Statements of the Bank and the Group for the year ended 31 December 2012 duly signed by the Deputy General Manager - Finance & Planning, General Manager/Chief Executive Officer, Chairman and one Directors of the Bank are given on pages 205 to 250, which form an integral part of the Annual Report of the Bank.

Statements appears on page 203 of this Annual Report.

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

Auditors' Report

The Auditor General carried out the audit of the Bank in 2012. The audit was carried out through out the year. Issues identified in their reports were submitted to the management regularly for prompt action. Having confirmed the accuracy of the financial reporting, the Financial Statements, together with the necessary data and information were made available to the Auditor General for examination. The Auditor General's opinion on the Financial

Details of Profit Relating to the Bank are given in the following Table:

	2012	2011
	Rs.'000	Rs.'000
Profit for the year after payment of all expenses and providing for depreciation, Impairment Losses and contingencies before VAT and Tax	7,408,328	10,819,162
Less: VAT on Financial Services	1,239,069	1,564,481
Profit before income tax	6,169,259	9,254,681
Less: Taxation	1,837,917	3,192,819
Net Profit after Taxation	4,331,342	6,061,862
Other Comprehensive Income net of Income Tax	(210,840)	(1,239,521)
Total Comprehensive Income for the year	4,120,502	4,822,341
Attributable to:		
Appropriations		
Reserve Fund	86,627	287,957
Other Reserves	1,407,521	759,607

THE RESULTS OF A CHALLENGING YEAR

ANNUAL REPORT OF BOARD OF DIRECTORS

Financial Results

Interest Income

The interest income of the Bank for 2012 was Rs.52,673 Million (2011 - Rs.47,096 Million) while the Group's interest income was Rs.53,780 Million (2011 - Rs.48,083 Million). Details are given in Note 4(a) to the financial statements.

Net Profit

The Bank has recorded 33% decline in profit before income tax and 29% decline of profit after tax in 2012. The Group's profit before tax and profit after tax for the year recorded a decline of 34% and 29% respectively.

Provision for Taxation

The Income Tax rate applicable for the Bank on its operation is 28% and the Bank's operation are liable for Value Added Tax on Financial Services at the rate of 12%.

The Bank provided differed tax on all known temporary differences under the liability method. Information of Income Tax expenditure and Differed

Taxation are given in Note No13. in page 222.

Contribution to the Government

The Bank contributed Rs.5,900 Million by way of taxes and levies to the Government in 2012. (2011 - Rs.7,970 Million). This consisted of Rs.1,838 Million of Income Tax (2011 - Rs.3,193 Million), Rs.1,239 Million of Value Added Tax (2011 - Rs.1,564 Million) & Rs.2,823 Million of contribution to the Consolidated Fund (2011 - Rs.3,213 Million).

Service Charges to Postmaster General (PMG)

Service charges to the PMG for 2012 amounting to Rs.111 Million has been provided for on the same basis as in 2011.

Stated Capital

The authorised share capital of the Bank is Rs.10 Billion divided into 1 Billion ordinary shares of Rs.10/- each. The issued share capital of the Bank as at 31 December 2012 stood at Rs.3.2

Billion. The Secretary to the Treasury in his official capacity holds the entirety of the issued share capital.

Shareholding

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

THE RESULTS OF A CHALLENGING YEAR

ANNUAL REPORT OF BOARD OF DIRECTORS

Reserves

	2012	2011
	Rs.'000	Rs.'000
Reserve Fund	1,713,127	1,626,500
Revaluation Reserve	1,583,340	1,583,340
Other Reserves	17,704,205	16,296,684
Available for sale Reserve	135,119	345,959

Information on changes of reserves is given in the Statement of Changes in Equity in pages 208 and 209.

Pension Fund

A sum of Rs.705 Million (2011 - Rs.865 Million) has been provided for in the accounts on account of 2,437 employees who are eligible for the Non-Contributory Pension Scheme (including retired employees).

Property, Plant & Equipment, Leasehold Property and Intangible Assets.

The total capital expenditure incurred by the Bank on the acquisition of Property, Plant & Equipment, leasehold property and intangible assets (Including Capital Work In Progress)

during the year amounted to Rs.826 Million (2011 - Rs.826 Million) and Group amounted to Rs.826 Million (2011 - Rs.826 Million), the details of which are given in Notes 27 and 28 to the Financial Statements on pages 235 and 236 of this Annual Report.

Market Value of Free Hold Property

In accordance with Bank's policy to revalue its free hold Land & Buildings in every 3 years, the Bank revalued its Free Hold Land & Buildings on 31st December 2010 by professionally qualified independent valuers and brought in to Financial Statements.

Events after the Balance Sheet Date

No circumstances have arisen since the Balance Sheet date which would require adjustments to, or disclosure in, the accounts.

Outstanding Litigation

In the opinion of the Directors and the Bank's lawyers, outstanding litigation against the Bank disclosed in Note 44 of the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

Board of Directors

The Board of Directors comprises seven Directors including the Chairman and two Ex Officio Members representing the Ministry of Finance and Planning and the Postmaster General. The Minister of Finance appoints the Chairman and other four Directors. The Directors during the year is given on the following page and their brief profiles appear on page 86 of this Annual Report.

THE RESULTS OF A CHALLENGING YEAR

ANNUAL REPORT OF BOARD OF DIRECTORS

Name of the Director	Status
Sunil S Sirisena	NIND/NED
S.T. Abeygunawardana	NIND/WD
P.A. Abeysekera (up to 28/02/2013)	IND/NED
R.M.P. Ratnayake	IND/NED
D.L.P.R. Abeyaratne	NIND/NED
Lionel P. Fernando	NIND/NED
Priyantha Jayawardena	IND/NED
Sumith Wijesinghe	IND/NED

NIND - Non-Independent, IND - Independent,

NED - Non-Executive Director, WD - Working Director

New Appointments, Resignation & Retirements

Following new appointments were made during the year.

Sunil S Sirisena - Appointed as the Chairman on 06-08-2012.

S.T. Abeygunawardana - Re appointed on 6-08-2012

P.A. Abeysekera - Re-appointed on 22-08-2012

D.L.P.R. Abeyaratne - Appointed on 09-02-2012.

Acting Chairman from 23-5-2012 to 05-8-2012

Lionel P. Fernando - Appointed on 06-8-2012

Priyantha Jayewardena - Appointed on 06-08-2012

Sumith Wijesinghe - Appointed on 06-08-2012

R.M.P. Ratnayake - Appointed on 04-03-2013

THE RESULTS OF A CHALLENGING YEAR

ANNUAL REPORT OF BOARD OF DIRECTORS

Following Directors have resigned and retired during the year

P.G.S. Kariyawasam - Resigned on 21-5-2012

Hema Madiwela - Resigned on 18-5-2012

R.A.P. Ranawaka - Resigned on 10-6-2012

S. Shan Shanmuganathan - Resigned on 10-8-2012

M.K.B. Dissanayake - Resigned on 08-02-2012

P.A. Abeysekera - Retired on 28-02-2013

Directors' Remuneration & Other Benefits

Details of Directors' emoluments and other benefits in respect of the Bank and Group for the Financial year 2012 are given in Note 39 to the Financial Statements.

Directors' Meetings

The number of Directors' meetings which comprise Board Meetings, Audit Committee Meetings, Nomination Committee Meetings and Integrated Risk Management Committee Meetings and the attendance of Directors at these meetings are given in Corporate Governance Report on pages 58 to 59 of this Annual Report.

Directors' Interests in Contracts

Directors' interests in contracts with the Bank, both direct and indirect are referred to in Note 39 to the Financial Statements. These interests have been declared at the Board Meetings. The Directors do not have any direct or indirect interest in other contracts or proposed contracts with the Bank.

Chief Executive Officer (CEO)

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

Board Committees

The Board while assuming the overall responsibility and accountability has also appointed the following Board Sub-Committees to ensure conformity with Corporate Governance Standards of the Central Bank and other statutory compliances.

The composition of mandatory Sub Committees as at 31 December 2012 was as follows.

Board Audit Committee

Lionel P Fernando - Chairman

P.A. Abeysekera - Member
(upto 28-2-2013)

R.M.P. Ratnayake - Member
(from 04-03-2013)

Sumith Wijesinghe - Member

The Report of the Board Audit Committee is given on page 95.

THE RESULTS OF A CHALLENGING YEAR

ANNUAL REPORT OF BOARD OF DIRECTORS

Board Human Resources and Remuneration Committees

Sunil S Sirisena - Chairman

P.A. Abeyssekera - Member

(upto 28-2-2013)

R.M.P. Ratnayake - Member
(from 04-03-2013)

Priyantha Jayawardena - Member

The Report of the Board Human Resources and Remuneration Committee is given on page 98.

Board Nomination Committee

P.A. Abeyssekera - Chairman
(upto 28-2-2013)

R.M.P. Ratnayake - Chairman
(from 04-03-2013)

S.T. Abeygunawardana - Member

Sumith Wijesinghe - Member

The Report of the Board Nomination Committee is given on page 101.

Board Integrated Risk Management Committee

D.L.P.R. Abeyaratne - Chairman

Lionel P. Fernando - Member

Priyantha Jayawardena - Member

The Report of the Board Integrated Risk Management Committee is given on page 100.

Review of Operations

Branch Expansion and Developments

The Bank extended its services through the addition of 9 new branches during the period under review. At the end of the year the Bank has 219 Branches in its network. The ATM network was further expanded enhancing customer convenience. The Bank installed 10 ATMs during the year across the island bringing the total ATMs to 231 excluding peer banks' ATMs through which customers of NSB can transact.

Human Resources

The Bank continued to develop and maintain dedicated and highly motivated employees who are committed to create sustainable value through high quality service. Significant investments have been made in the development of quality of Human Capital of the Bank. The policies and procedures adopted by the Bank to upgrade Human Capital is describe in Sustainability Report on page 160.

Environmental Protection

The Bank has taken initiatives to safeguard and enhance the environment which are vital for sustainable development and growth of the Bank. The Bank and the Group have not engaged in any activity that is harmful or hazardous to environment.

THE RESULTS OF A CHALLENGING YEAR

ANNUAL REPORT OF BOARD OF DIRECTORS

Statutory Payments

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

Risk Management, Internal Controls and Management Information Systems

The Board of Directors assumes overall responsibility for managing risk. For this purpose, the Board of Directors have instituted and implemented an effective and comprehensive system of internal controls and management information systems in the Bank. Internal control systems have been redesigned to mitigate the risks to which the Bank is exposed, to provide reasonable assurance against material misstatements or loss. There is an ongoing process for identifying evaluating and managing the risks that are faced by the Bank. The specific measures taken by the Bank in mitigating the risk are detailed on pages 104 to 135 of this Report.

Corporate Governance

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

Related Party Transactions

The Directors have also disclosed the transactions if any, that could be classified as related party transactions in terms of LKAS No. 24 - 'Related Party Disclosures' which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note no. 39 to the Financial Statements forming part of the Annual Report of the Board.

Strategic Business Plan

The Bank has formulated a Strategic Business Plan for 2011 up to 2013. The Bank strived to operate within the parameters set out in the new Business Plan, which will help to accelerate the future momentum of NSB.

Compliance with Laws, Regulations and Prudential Requirements

The Bank has at all times ensured that it complied with National Savings Bank Act and all other applicable laws, regulations and prudential requirements apart from the TFC share transaction.

Corporate Sustainability and Responsibility

The programmes carried out under Corporate Social Responsibility are detailed on pages 165 to 168 in the Sustainability Report.

THE RESULTS OF A CHALLENGING YEAR

ANNUAL REPORT OF BOARD OF DIRECTORS

Future Performance

An overview of the future developments of the Bank is given in the message from the chairman (page 15), a review by General Manager/ CEO (page 19) and Management Discussion & Analysis (page 26).

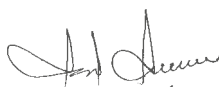
Government Guarantee

The Government of Sri Lanka guarantees the repayment of the monies deposited with the Bank together with interest thereon.

Auditors

The Auditor General carried out the audit of the Financial Statements of the Bank for the financial year ended 31 December 2012.

For and on behalf of the Board of Directors,



Suni S Sirisena

Chairman



Y E Deen

Secretary to the Board

Colombo
28 March 2013

THE RESULTS OF A CHALLENGING YEAR

STATEMENT OF DIRECTOR'S RESPONSIBILITY ON FINANCIAL REPORTING

The responsibility of the Directors towards the Financial Statements of the National Savings Bank and Consolidated Financial Statements of the Group is set out in this statement. The responsibility of the External Auditors in relation to the Financial Statements is set out in the Auditors Report in page 203.

The Directors of the Bank are responsible for ensuring that the Bank and the Group keep proper books of account of all the transactions and prepare Financial Statements in accordance with Generally Accepted Accounting Principles, Sri Lanka Accounting Standards & Sri Lanka Financial Reporting Standards that give a true and fair view of the state of affairs of the Bank and the Group at the end of each financial year in compliance with statutory requirements. The Financial Statements comprise of Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes thereto.

The Directors have ensured following in preparation of the Financial Statements:

1. The accounting policies adopted to prepare the Financial Statements were appropriate, consistently applied and adequately disclosed.
2. Reasonable and prudent judgments have been made where necessary when preparing the Financial Statements.
3. All applicable accounting standards as relevant have been followed.

As per the provisions of the Finance Act No. 38 of 1971, the Banking Act No. 30 of 1988 and Section 7 (i) of NSB Act No. 30 of 1971 the Board of Directors is required to control and administer the affairs and the business of the Bank. The Board of Directors are also responsible for ensuring that proper accounting records which correctly record and explain the Bank's financial position, with reasonable accuracy at any point of time is determined by the Bank, enabling preparation of the Financial Statements.

The Board of Directors accepts the responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

The Financial Statements for the year 2012 prepared and presented in this Annual Report are consistent with the underlying books of accounts and are conformity with the requirements of Sri Lanka Accounting Standards, Sri Lanka Financial Reporting Standards, Sri Lanka Accounting and Auditing Standards Act, Baking Act and Directions of Central Bank of Sri Lanka.

The Board of Directors has been responsible for taking reasonable measures and care to safeguard the Bank's and Group's assets and also has instituted an effective and comprehensive system of internal controls. This comprises internal check, internal audit and whole system of financial and other controls required to carry on the business of the Bank in an orderly manner; safeguard its assets, prevent and detect frauds and other irregularities.

THE RESULTS OF A CHALLENGING YEAR

STATEMENT OF DIRECTOR'S RESPONSIBILITY ON FINANCIAL REPORTING

The Directors ensure that the internal controls were reviewed by them directly at their regular meetings and also through the Board Audit Committee. The results of such reviews carried out during the year ended 31st December 2012 is given on pages 197 to 199 of the Annual Report, "Directors Statement on Internal Control". The External Auditors' Assurance Report on the Internal Control is given on page 200 of the Annual Report. The Board of Directors approves the interim Financial Statements prior to release, following a review and recommendation by Board Audit Committee.

The Board appointed Audit Committee consists of 3 Directors of the Bank. The Committee has made an independent assessment of the Financial Reporting system of the Bank and confirmed that to the best of its knowledge and belief the Financial Reporting system of the Bank has been designed to provide reasonable assurance on the reliability of Financial Statements.

The Directors confirm to the best of their knowledge and belief that all statutory payments relating to employees, the Government and the other relevant regulatory and statutory authorities which were due and payable by the Bank and its Subsidiary as at the Statement of Financial Position date have been paid or where relevant provided for. Further, the Directors have confirmed that after considering the financial position, operating conditions and regulatory factors required to be included in the Corporate Governance Code issued by the Central Bank of Sri Lanka, the Bank and its Subsidiary have adequate resources to continue in operation to justify the application of the going concern basis in preparing these Financial Statements and the Board has taken all necessary measures to comply with the directives issued by the Central Bank of Sri Lanka.

The Auditor General carries out the audit of the Bank. In 2012, the audit was carried out throughout the year. Issues identified in their reports were

submitted to the management regularly for prompt action. Having confirmed the accuracy of the financial reporting, the Financial Statements, together with the necessary data and information were made available to the Auditor General for examination. The Auditor General's opinion on the Financial Statements appears on page 203 of this Annual Report.

By Order of the Board,


Y F Deen
Secretary to the Board

Colombo
28 March 2013

THE RESULTS OF A CHALLENGING YEAR

DIRECTORS' STATEMENT ON INTERNAL CONTROLS

This report has been issued in line with the Banking Act Direction No. 11 of 2007, Section 3 (8) (11) (b), and prepared based on the guidelines issued by The Institute of Chartered Accountants of Sri Lanka.

The Board of Directors is responsible for ensuring that an adequate and effective system of internal control is established and maintained in the National Savings Bank. However, such a system is designed to manage the Bank's significant risk areas within acceptable risk parameters, rather than eliminating the risk of failure to achieve business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or frauds.

The Board of Directors has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of

internal controls as and when there are changes to the business environment or regulatory requirements and other guidelines. The process is regularly reviewed by the Board and confirm the compliance with the Guidance for Directors issued by The Institute of Chartered Accountants of Sri Lanka on the Directors Statement on Internal Controls of this Annual Report. The Board has assessed the internal control system taking into principles for the assessment of internal control system as given in that guidance.

The Board of Directors is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of Financial Reporting, and the preparation of Financial Statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing

the risks faced by the Bank, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

The Board has put in place the system of reviewing the design and the effectiveness of system of internal control periodically. The key processes, among other things include the following:

- The Board Sub-Committees have been established with defined scopes and functions to assist the Board in ensuring the effectiveness of the Bank's operations and that the Bank's operations are in accordance with the corporate objectives, strategies, and policies and business directions that have been approved.
- The Board Audit Committee (BAC) reviews periodically the internal control issues identified by the Internal Audit Division of the Bank, the External Auditors, Regulatory Authorities and corrective actions taken to rectify the deficiencies

THE RESULTS OF A CHALLENGING YEAR

DIRECTORS' STATEMENT ON INTERNAL CONTROLS

observed. The Auditor General carries out the external audit of the Bank. The Superintendent of the Government Audit is generally invited to BAC meetings.

- The BAC reviews the internal audit function with particular emphasis on the scope of audits and quality of the same. The activities attended to by the BAC during the year 2012 are set out in the Board Audit Committee Report appearing on page 95 of this Annual Report. The Internal Audit Division of the Bank carries out audits of branches, divisions and other units as per the Annual Audit Plan. The frequency of audit is determined by the level of risk assessed. The Audit Plan is approved by the BAC for implementation. The Internal Audit Division carries out audit checks to ensure compliance with policies and procedures and the effectiveness of the internal control systems and reports its findings in respect of any non-compliance. Audits are carried out to provide an independent and

objective report on operational and management activities. The findings of the audits are submitted to the BAC for review at their periodic meetings. The activities of the BAC, along with minutes of the Committee meetings are submitted for information of the Board on a periodic basis.

- The Board Integrated Risk Management Committee (BIRMC) has been established by the Board to assist the Board to oversee the overall management of principal areas of risk of the Bank. The Executive Risk Management Committee (ERMC) which includes representation from all key business and operating units of the Bank assists with the implementation of policies advocated at the BIRMC. The Board has also established an independent Compliance Unit which ensures Bank's activities are conducted in accordance with applicable laws, regulations and regulatory directives and any issues of non-compliance are reported to

BIRMC periodically. The report on the Risk Assessment is submitted by the BIRMC to the Board periodically.

- Management level Committees have also been functioning with appropriate empowerment to ensure effective management and supervision of Bank's core areas in the day-to-day business operations. The assessment covered only the process applied by the Bank and did not include the processes carried out by its Subsidiary.

The findings of the Government Audit are reported to the management periodically and the management ensures that they are rectified and responded promptly. The comments made by the Auditor General in connection with the audit on internal control system appears on page 200.

THE RESULTS OF A CHALLENGING YEAR

DIRECTORS' STATEMENT ON INTERNAL CONTROLS

Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards, Sri Lanka Financial Reporting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the Statement by the External Auditors

The External Auditors have reviewed the above Directors' Statement on Internal Controls for the year ended 31st December 2012 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process

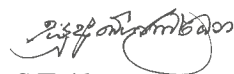
adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank.

By Order of the Board,



Sunil S Sirisena

Chairman



S.T. Abeygunawardana

Working Director



Lionel P Fernando

Director

Chairman - Board Audit Committee

28 March 2013

THE RESULTS OF A CHALLENGING YEAR
INDEPENDENT ASSURANCE REPORT ON INTERNAL CONTROLS



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



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எனது இல. FB/L/NSB/FA/2012
My No

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி 28 March 2013
Date

Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control of National Savings Bank.

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control ("Statement") of National Savings Bank included in the annual report for the year ended 31 December 2012.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' statement on Internal Control" issued in compliance with the section 3(8)(ii)(b) of the Banking Act Direction No.11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

My responsibility and compliance with SLSAE 3050

My responsibility is to issue a report to the Board of Directors on the Statement

based on the work performed. I conducted my engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control issued by Chartered Accountants of Sri Lanka.

Summary of work performed

This engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Bank.

The procedures performed are limited primarily to inquiries of bank personnel and the existence of documentation on a sample basis that supports the process adopted by the Board of Directors.

SLSAE 3050 does not require me to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures.

SLSAE 3050 also does not require me to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Conclusion

Based on the procedures performed, nothing has come to my attention that causes me to believe that the Statement included in the annual report is inconsistent with my understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control of the Bank

H A S Samaraweera
Auditor General

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THE RESULTS OF A CHALLENGING YEAR
GENERAL MANAGER / CEO'S AND DEPUTY GENERAL MANAGER'S
(FINANCE & PLANNING) STATEMENT OF RESPONSIBILITY

The Financial Statements of the National Savings Bank and the Consolidated Financial Statements of the Bank and its Subsidiary (Group) as at 31 December 2012 are prepared and presented in conformity with the requirements of the following:

- National Savings Bank Act No. 30 of 1971 and amendments thereto.
- Finance Act No. 38 of 1971.
- Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards issued by The Institute of Chartered Accountants of Sri Lanka.
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.
- Banking Act No. 30 of 1988 and amendments thereto and Directions and Guidelines issued by Central Bank of Sri Lanka.

The formats used in the preparation of the Financial Statements and disclosures made comply with the formats prescribed by the Central Bank of Sri Lanka which are also in compliance

with the disclosure requirements of the Sri Lanka Accounting Standards 1 (LKAS 1) – Presentation of Financial Statements.

The Group presents the financial results to its users on a quarterly basis.

The Bank and the Group have taken appropriate actions to design systems and procedures to meet the requirement of convergence with new Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards with effect from 01 January 2012. With this adoption Accounting Policies have been changed accordingly. For the purpose of comparison, Financial Results and Financial Position of previous year (2011) have been restated in the Financial Statements.

Significant Accounting Policies and estimates that involved a high degree of judgment and complexity were discussed with the Bank's External Auditors and the Board Audit Committee, comparative information has been reclassified wherever

necessary to comply with the current presentation and material departures, if any, have been disclosed and explained. We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and other financial information included in this Annual Report, fairly present in all material aspects of the financial position, results of the operations and the cash flows of the Group during the period under review. We also confirm that the Group has adequate resources to continue in operation and has applied the going concern basis in preparing these Financial Statements.

We are responsible for establishing, implementing and maintaining Internal Controls and Procedures of the Bank and its Subsidiary. We ensure that effective Internal Controls and Procedures are in place ensuring material information relating to the Group is made known to us for safeguarding assets, preventing and detecting fraud and/or error as well as other irregularities, which are reviewed, evaluated and updated on an ongoing

THE RESULTS OF A CHALLENGING YEAR
GENERAL MANAGER / CEO'S AND DEPUTY GENERAL MANAGER'S
(FINANCE & PLANNING) STATEMENT OF RESPONSIBILITY

basis. We are satisfied that there were no significant deficiencies and weaknesses in the design or operation of the Internal Controls and Procedures, to the best of our knowledge. We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and fraud that involved management or other employees.

The Bank's Internal Audit Division also conducts periodic reviews to ensure that the Internal Controls and Procedures are consistently followed.

The Financial Statements of the Bank and its Subsidiary were audited by the Auditor General and Messrs KPMG Ford Rhodes and Thornton Chartered Accountants. The Auditor General's Report on the Bank's Consolidated Financial Statements is given on pages 205 to 250 of this Annual Report.

The Bank's Board Audit Committee, inter alia, reviewed all the Internal Audit and Inspection Programmes, the

efficiency of Internal Control Systems and Procedures and also reviewed the Significant Accounting Policies and their adherence to statutory and regulatory requirements, the details of which are given in the Board Audit Committee Report on page 95 of this Annual Report. To ensure complete independence, the Auditor General and the Internal Auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal control and accounting. We confirm that to the best of our knowledge

○ The Bank and Group have complied with all applicable laws and regulations and guidelines and there are no material litigations against the Group other than those disclosed in Note 44 on page 244 of the Financial Statements.

○ All taxes, duties, levies and all statutory payments by the Bank and the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and the Group as at the Balance Sheet date have been paid, or where relevant provided for.



K.B. Wijeyaratne
Deputy General Manager
(Finance & Planning)



H.M. Hennayake Bandara
General Manager/CEO

Colombo
 28 March 2013

THE RESULTS OF A CHALLENGING YEAR

REPORT OF THE AUDITOR GENERAL



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கணக்காய்வாளர் தலைமை அபிவிதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



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எனது இல: FB/L/NSB/FA/2012
My No

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உமது இல: Your No.

දිනය
திகதி 27 March 2013
Date

The Chairman
National Savings Bank

**Report of the Auditor General on
the Financial Statements of the
National Savings Bank and its
subsidiaries for the year ended 31
December 2012**

The audit of the financial statements of the National Savings Bank (Bank) and the consolidated financial statements of the Bank and its subsidiary (Group) for the year ended 31 December 2012 comprising the Statement of Financial Position as at 31 December 2012, the Statement of Income, Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information, was carried out under my direction I pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The financial statements of the subsidiary was audited by a firm of Chartered Accountants in public practice appointed by the members of the respective subsidiary.

**Management's Responsibility for
the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material

misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of Accounting Policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion - Bank

In my opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

THE RESULTS OF A CHALLENGING YEAR

REPORT OF THE AUDITOR GENERAL

Opinion - Group

In my opinion, the consolidated financial statements give a true and fair view of the financial position of the Bank and its subsidiary as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirement

These financial statements had been presented the information required by the Banking Act, No.30 of 1988 and subsequent amendments.

Report to Parliament

My report to Parliament in pursuance of provisions in Article 154 (6) of the constitution will be tabled in due course.



H A S Samaraweera
Auditor General

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ஈ- மெயில் } oaggov@sltnet.lk
E-mail. }

THE RESULTS OF A CHALLENGING YEAR

STATEMENT OF COMPREHENSIVE INCOME

Bank					Group		
For the year ended 31st December							
		2012	2011	Change	2012	2011	Change
	Note	Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
Gross income	3	53,045,059	46,544,644	13.97	54,152,229	47,532,290	13.93
Interest income		52,673,261	47,095,745	11.84	53,780,431	48,083,391	11.85
Less: Interest expenses		39,142,492	29,296,099	33.61	40,065,973	29,979,305	33.65
Net interest income	4	13,530,769	17,799,646	(23.98)	13,714,458	18,104,086	(24.25)
Fee and commission income		221,709	240,768	(7.92)	221,709	240,768	(7.92)
Less: Fee and commission expenses		24,481	26,553	(7.80)	27,705	33,239	(16.65)
Net fee and commission income	5	197,228	214,215	(7.93)	194,004	207,529	(6.52)
Net gain/(loss) from trading	6	69,939	(859,727)	108.13	69,939	(859,727)	108.13
Net gain/(loss) from financial instruments designated at fair value through profit or loss	7	-	-	-	(138,710)	(135,889)	2.08
Net gain / (loss) from financial investments	8	5,481	4,111	33.33	5,481	4,111	33.33
Other operating income (net)	9	74,669	63,747	17.13	74,669	63,747	17.13
Total operating income		13,878,086	17,221,992	(19.42)	13,919,841	17,383,857	(19.93)
Less: Impairment charge for loans and other losses	10	130,935	142,632	(8.20)	130,935	142,632	(8.20)
Net operating income		13,747,151	17,079,360	(19.51)	13,788,906	17,241,225	(20.02)
Less: Expenses							
Personnel expenses	11	4,077,501	4,139,657	(1.50)	4,091,835	4,153,912	(1.49)
Other expenses	12	2,261,322	2,120,541	6.64	2,227,664	2,092,482	6.46
Operating profit before value added tax (VAT)		7,408,328	10,819,162	(31.53)	7,469,407	10,994,831	(32.06)
Less: Value added tax (VAT) on financial services		1,239,069	1,564,481	(20.80)	1,248,121	1,583,762	(21.19)
Operating profit after value added tax (VAT)		6,169,259	9,254,681	(33.34)	6,221,286	9,411,069	(33.89)
Profit Before Income Tax		6,169,259	9,254,681	(33.34)	6,221,286	9,411,069	(33.89)
Less: Income tax expenses	13	1,837,917	3,192,819	(42.44)	1,880,607	3,306,669	(43.13)
Profit for the year		4,331,342	6,061,862	(28.55)	4,340,679	6,104,400	(28.89)
Profit attributable to:							
Equity holders of the Bank		4,331,342	6,061,862	(28.55)	4,340,679	6,104,400	(28.89)
Profit for the year		4,331,342	6,061,862	(28.55)	4,340,679	6,104,400	(28.89)
Earnings per share on profit							
Basic earnings per ordinary share (Rs)	14	13.54	18.94	(28.55)	12.96	18.22	(28.89)
Diluted earnings per ordinary share (Rs)		13.54	18.94	(28.55)	12.96	18.22	(28.89)
Profit for the year		4,331,342	6,061,862	(28.55)	4,340,679	6,104,400	(28.89)
Other comprehensive income, net of tax							
Net gains/(losses) on re-measuring available-for-sale financial assets		(210,840)	(1,239,521)	(82.99)	(210,840)	(1,239,521)	(82.99)
Other comprehensive income for the year, net of taxes		(210,840)	(1,239,521)	(82.99)	(210,840)	(1,239,521)	(82.99)
Total comprehensive income for the year		4,120,502	4,822,341	(14.55)	4,129,839	4,864,879	(15.11)
Attributable to:							
Equity holders of the Bank		4,120,502	4,822,341	(14.55)	4,129,839	4,864,879	(15.11)
Total comprehensive income for the year		4,120,502	4,822,341	(14.55)	4,129,839	4,864,879	(15.11)

THE RESULTS OF A CHALLENGING YEAR

STATEMENT OF FINANCIAL POSITION

		Bank			Group		
As at 31st December		2012	2011	Change	2012	2011	Change
	Note	Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
Assets							
Cash and cash equivalents	16	1,465,542	1,398,413	4.80	1,467,042	1,399,897	4.80
Balances with Central Bank	17	-	-	-	242	117	106.84
Placements with banks	18	5,973,585	5,280,528	13.12	5,973,585	5,280,528	13.12
Derivative financial instruments	19	9,401	34,458	(72.72)	9,401	34,458	(72.72)
Other financial assets held-for-trading	20	10,823,874	11,589,525	(6.61)	10,823,874	11,589,525	(6.61)
Financial assets designated at fair value through profit or loss	21	-	-	-	5,488,970	8,599,007	(36.17)
Loans and receivables to banks	22	13,374,007	21,222,723	(36.98)	14,091,299	23,829,757	(40.87)
Loans and receivables to other customers	23	155,245,236	116,217,344	33.58	155,249,483	116,228,559	33.57
Financial investments - Available-for-sale	24	2,978,800	3,284,099	(9.30)	2,979,800	3,285,099	(9.29)
Financial investments - Held to maturity	25	309,595,845	298,134,819	3.84	313,063,745	300,916,743	4.04
Investments in subsidiaries	26	150,000	150,000	-	-	-	-
Property, plant and equipment	27	5,151,512	5,124,327	0.53	5,152,416	5,125,312	0.53
Intangible assets	28	112,101	122,782	(8.70)	112,264	123,024	(8.75)
Deferred tax assets	29	-	-	-	313	221	41.63
Other assets	30	4,814,290	3,415,416	40.96	4,857,794	3,468,834	40.04
Total assets		509,694,193	465,974,434	9.38	519,270,228	479,881,081	8.21
Liabilities							
Due to banks	31	337,014	128,948	161.36	5,603,182	8,962,642	(37.48)
Due to other customers	32	457,650,387	421,849,063	8.49	457,650,387	421,849,063	8.49
Other borrowings	33	22,620,945	16,141,529	40.14	25,628,549	19,923,444	28.64
Current tax liabilities		-	-	-	38,859	47,967	(18.99)
Deferred tax liabilities	29	123,338	95,615	28.99	123,338	95,615	28.99
Other liabilities	34	4,626,718	4,706,796	(1.70)	4,640,398	4,709,479	(1.47)
Total liabilities		485,358,402	442,921,951	9.58	493,684,713	455,588,210	8.36
Equity							
Stated capital	35	3,200,000	3,200,000	-	3,200,000	3,200,000	-
Statutory reserve fund	36	1,713,127	1,626,500	5.33	1,713,127	1,626,500	5.33
Other reserves	37	19,422,664	18,225,983	6.57	20,672,388	19,466,371	6.20
Total equity of the owners of the parent		24,335,791	23,052,483	5.57	25,585,515	24,292,871	5.32
Total equity		24,335,791	23,052,483	5.57	25,585,515	24,292,871	5.32
Total equity and liabilities		509,694,193	465,974,434	9.38	519,270,228	479,881,081	8.21
Contingent liabilities and commitments	38	6,845,410	1,730,018	295.68	6,845,410	1,730,018	295.68

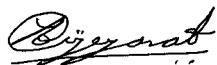
THE RESULTS OF A CHALLENGING YEAR

STATEMENT OF FINANCIAL POSITION

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 211 to 250 are integral part of these Financial Statements.

Certification

I certify that the above Financial Statements give a true and fair view of the state of affairs as at 31st December 2012 and its profit for the year ended 31st December 2012



K.B. Wijeyaratne
Deputy General Manager (Finance & 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.



Sunil S. Sirisena
Chairman



S.T. Abeygunawardana
Working Director



H.M. Hennayaka Bandara
General Manager / CEO

27th March 2013
Colombo, Sri Lanka

THE RESULTS OF A CHALLENGING YEAR
STATEMENT OF CHANGES IN EQUITY - BANK

	Stated capital	Statutory Reserve fund	Revaluation reserve	Available for sale reserve	Other reserves	Retained earnings	Total equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 01.01.2011	3,200,000	1,338,543	1,583,340	-	15,545,927	-	21,667,810
Impact of adopting SLFRS	-	-	-	1,585,480	-	(1,801,627)	(216,147)
SLFRS Balance 01.01.2011	3,200,000	1,338,543	1,583,340	1,585,480	15,545,927	(1,801,627)	21,451,663
Net profit for the year 2011	-	-	-	-	-	6,061,862	6,061,862
Other comprehensive income	-	-	-	(1,239,521)	-	-	(1,239,521)
Unclaimed deposit reserve	-	-	-	-	(8,850)	-	(8,850)
Contribution to consolidated fund	-	-	-	-	-	(3,212,671)	(3,212,671)
Transfers during year 2011	-	287,957	-	-	759,607	(1,047,564)	-
Balance as at 31.12.2011	3,200,000	1,626,500	1,583,340	345,959	16,296,684	-	23,052,483
Profit for the year 2012	-	-	-	-	-	4,331,342	4,331,342
Other comprehensive income (net of tax)	-	-	-	(210,840)	-	-	(210,840)
Total comprehensive income for the year	-	-	-	(210,840)	-	4,331,342	4,120,502
Transaction with equity holders, recognized directly in equity							
Transfers to reserves during the period	-	86,627	-	-	1,421,469	(1,508,096)	-
Contribution to consolidated fund	-	-	-	-	-	(2,823,245)	(2,823,245)
Unclaimed deposit reserve	-	-	-	-	(13,948)	-	(13,948)
Total transactions with equity holders	-	86,627	-	-	1,407,521	(4,331,342)	(2,837,194)
Balance as at 31.12.2012	3,200,000	1,713,127	1,583,340	135,119	17,704,205	-	24,335,791

THE RESULTS OF A CHALLENGING YEAR
STATEMENT OF CHANGES IN EQUITY - GROUP

	Stated capital	Statutory Reserve fund	Revaluation reserve	Available for sale reserve	Other reserves	Retained earnings	Total equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 01.01.2011	3,200,000	1,338,543	1,583,340	-	16,751,679	-	22,873,562
Impact of adopting SLFRS	-	-	-	1,585,480	-	(1,809,528)	(224,048)
SLFRS Balance 01.01.2011	3,200,000	1,338,543	1,583,340	1,585,480	16,751,679	(1,809,528)	22,649,514
Net profit for the year 2011	-	-	-	-	-	6,104,400	6,104,400
Other comprehensive income	-	-	-	(1,239,521)	-	-	(1,239,521)
Unclaimed deposit reserve	-	-	-	-	(8,850)	-	(8,850)
Contribution to consolidated fund	-	-	-	-	-	(3,212,671)	(3,212,671)
Transfers during year 2011	-	287,957	-	-	794,243	(1,082,200)	-
Balance as at 31.12.2011	3,200,000	1,626,500	1,583,340	345,959	17,537,072	-	24,292,871
Profit for the year 2012	-	-	-	-	-	4,340,679	4,340,679
Other comprehensive income (net of tax)	-	-	-	(210,840)	-	-	(210,840)
Total comprehensive income for the year	-	-	-	(210,840)	-	4,340,679	4,129,839
Transaction with equity holders, recognized directly in equity							
Transfers to reserves during the period	-	86,627	-	-	1,430,805	(1,517,432)	-
Contribution to consolidated fund	-	-	-	-	-	(2,823,245)	(2,823,245)
Unclaimed deposit reserve	-	-	-	-	(13,948)	-	(13,948)
Total transactions with equity holders	-	86,627	-	-	1,416,857	(4,340,679)	(2,837,195)
Balance as at 31.12.2012	3,200,000	1,713,127	1,583,340	135,119	18,953,929	-	25,585,515

THE RESULTS OF A CHALLENGING YEAR
STATEMENT OF CASH FLOWS

		Bank		Group	
		2012	2011	2012	2011
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
For the year ended 31st December					
	Note				
Cash flow from operating activities					
Profit before tax		6,169,259	9,254,681	6,221,286	9,411,069
Adjustment for:					
Non-cash items included in profit before tax	41	487,828	557,132	488,233	557,583
Change in operating assets	42	(44,144,956)	(64,579,569)	(42,934,983)	(67,793,455)
Change in operating liabilities	43	36,594,698	57,636,218	33,037,640	61,970,487
Net gains from investing activities		-	-	-	-
Others balances with banks		(693,057)	(1,344,536)	(693,057)	(1,344,536)
Contribution paid to defined benefit plans		(873,449)	(854,257)	(873,449)	(854,257)
Tax paid		(1,810,194)	(3,777,513)	(1,850,879)	(4,036,538)
Net cash used in operating activities					
		(4,269,871)	(3,107,844)	(6,605,209)	(2,089,647)
Cash flows from investing activities					
Purchase of property, plant and equipment		(353,729)	(665,666)	(353,975)	(742,133)
Proceeds from the sale of property, plant and equipment		-	-	-	-
Purchase of financial investment		305,299	(3,717)	305,299	(3,717)
Proceeds from the sale and maturity of financial investments		765,650	4,524,104	3,956,193	4,524,104
Net purchase of intangible assets		(19,667)	(24,701)	(19,666)	(24,701)
Contribution to Consolidated fund		(3,048,035)	(5,512,013)	(3,060,968)	(5,512,013)
Net cash (used in)/from investing activities		(2,350,482)	(1,681,993)	826,883	(1,758,460)
Cash flow from financing activities					
Other Borrowings		6,479,416	4,827,426	5,705,106	4,827,426
Net cash from financial activities		6,479,416	4,827,426	5,705,106	4,827,426
Net increase/(decrease) in cash & equivalents		(140,937)	37,589	(73,220)	979,319
Cash and cash equivalents at the beginning of the year		1,269,465	1,231,876	2,213,227	1,233,908
Cash and cash equivalents at the end of the year		1,128,528	1,269,465	2,140,007	2,213,227

THE RESULTS OF A CHALLENGING YEAR

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate Information

Reporting Entity

National Savings Bank (NSB) is a saving Bank incorporated in Sri Lanka. The registered office of the Bank is located at No. 255, 'Saving House', Galle Road, Colombo - 03, Sri Lanka. The 'Group' Financial Statements for the year ended 31 December 2012 comprise of the Bank (parent) and its fully-owned Subsidiary, NSB Fund Management Company Ltd. The Bank prepares financial statements of the 'Bank' and the 'Group' for the twelve months period ended 31 December each year to be tabled in the Parliament.

The staff strength of the Bank as at 31 December 2012 was 3,128 (2011-3,275).

The Financial Statements for the year ended 31 December 2012 were authorized for issue on 28th March 2013, by a resolution of the Board of Directors.

The Bank possesses 219 Branches, 1,185 school Bank units and 231 ATMs of its service outlets and 641 Post offices and 3,412 sub-post offices as its agency network.

2. Main Accounting Policies

2.1 Basis of Preparation

The Consolidated Financial Statements have been prepared on a historical cost basis, except for available-for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or

loss, which have all been measured at fair value. The Consolidated Financial Statements are presented in Sri Lankan Rupees (Rs.) and all values are rounded to the nearest thousand rupees, except when otherwise indicated.

2.1.1 Statement of compliance

The Financial Statements of the Bank and Group are prepared in accordance with Sri Lanka Accounting Standards (LKASs and SLFRSs) as issued by the Institute of Chartered Accountants of Sri Lanka.

2.1.2 Presentation of financial statements

The Bank and Group presents its statement of financial position broadly in order of liquidity.

2.1.3 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if and only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.1.4 Basis of consolidation

The Financial Statements of the Bank and Group comprise the financial statements of the Bank and its Subsidiary for the year ended 31 December 2012. The financial statements of the Bank's Subsidiary for the purpose of consolidation are prepared for

the same reporting year as that of National Savings Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses are eliminated in full.

Subsidiary are fully consolidated from the date on which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

2.2 Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the Bank's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgements and estimates are as follows:

2.2.1 Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.2.2 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement

THE RESULTS OF A CHALLENGING YEAR

NOTES TO THE FINANCIAL STATEMENTS

of financial position cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

2.2.3 Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the Income Statement. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilization, loan to collateral ratios, etc.) and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

2.3. Financial Instruments

2.3.1 Financial instruments - Initial recognition and subsequent measurement

i. Date of recognition

All financial assets and liabilities are initially recognized on the trade date, i.e. the date that the Bank becomes a party to the contractual provisions of the instrument.

Note: In maintaining the General Ledger, Government Securities are recognized on the settlement date which falls due after three days from the date of trade. The position is rectified in preparation of the Financial Statements.

ii. Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

iii. Derivatives recorded at fair value through profit or loss

The Bank uses derivatives such as interest rate swaps. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading income'.

iv. Financial assets or financial liabilities held-for-trading

Financial assets or financial liabilities held-for-trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognized in 'Net trading income'. Dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are Government Securities held for trading and dealing securities.

v. Financial assets and financial liabilities designated at fair value through profit or loss (FVTPL)

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition, and designation is determined on an instrument by instrument basis.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively using the effective interest rate (EIR), while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

THE RESULTS OF A CHALLENGING YEAR

NOTES TO THE FINANCIAL STATEMENTS

vi. Available-for-sale financial investments

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

Note: The Bank has not designated any loans or receivables as available-for-sale

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Equity investments under AFS that do not have quoted market price and whose fair value cannot be reliably measured shall be measured at cost.

Unrealised gains and losses are recognized directly in equity (Other Comprehensive Income) in the 'Available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the Income Statement in 'Other operating income'. Where the bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is required as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognized in the Income Statement as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of

such investments are recognized in the income statement in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

vii. Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest and similar income' in the income statement. The losses arising from impairment of such investments are recognized in the Income Statement line 'Credit loss expense'.

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

viii. Due from banks and loans and advances to customers

Due from banks' and 'Loans and advances to customers', include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, amounts 'Due from banks' and 'loans and advances to customers' are subsequently measured at amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest and similar income' in the Income Statement. The losses arising from impairment are recognized in the Income Statement in 'Credit loss expense'.

ix. Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the Statement of Financial Position as the bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the Consolidated Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'Cash collateral on securities lent and repurchase agreements', reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expenses and is accrued over the life of agreement using the EIR.

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'Cash collateral on securities borrowed and reverse repurchase agreements', reflecting

THE RESULTS OF A CHALLENGING YEAR

NOTES TO THE FINANCIAL STATEMENTS

the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR.

2.3.2 Impairment of Financial Instruments

i. Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has a impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

ii. Financial assets carried at amortized cost

For financial assets carried at amortized cost (such as amounts due from banks, loans and advances to customers as well

as held-to-maturity investments), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the Income Statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the

amount of the estimated impairment loss increased or decreased because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable date to reflect the effect of current

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conditions on which the historical loss experience is based and to remove the effect of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

iii. Available-for-sale financial investments
For available-for-sale financial investments including debt securities, the Bank assesses at each Statement of Financial Position date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial asset carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the Income Statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as

part of 'Interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increased and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the Income Statement, the impairment loss is reversed through the Income Statement.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Bank treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the Income Statement is removed from equity and recognized in the Income Statement. Impairment losses on equity investments are not reversed through the Income Statement; increases in the fair value after impairment are recognized in other comprehensive income.

iv. Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria

are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

2.3.3 Recognition of income and expenses for financial instruments

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

i. Interest and similar income and expense

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is

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calculated based on the original EIR and the change in carrying amount is recorded as 'Other operating income'. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase are recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Cash and cash equivalents as referred to in the cash flow statement comprises cash in hand, non-restricted current accounts with Central Banks and amounts due from banks on demand or with an original maturity of three months or less.

ii. Fee and commission income

Fees earned for the provision of services and credit related fees are recognized in the year in which the income is received.

2.4. Property, Plant and Equipment

Property, Plant and Equipment is stated at cost or valuation excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Category of Asset	Period of Depreciation
Leasehold Property	over the period of lease
Freehold Buildings	2.5% p.a.
Office & Sundry Equipments	10% p.a.
Motor Vehicles	20% p.a.
Computer Hardware & Software	25% p.a.
Furniture and Fittings	10% p.a.

The group provide depreciation on assets from the date on which they are available for use to the date disposal.

Property, Plant and Equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the Income Statement in the year the asset is derecognised.

2.5 Intangible Assets

The Bank's other intangible assets include the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function of the intangible asset.

2.6 Pension Benefits

2.6.1 Defined benefit pension plan

The Bank operates a defined benefit pension plan, for the permanent staff members who have joined the Bank prior to 1st October 1995, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined separately using the projected benefit actuarial valuation method. Actuarial gains and losses are fully

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recognised as income or expense in the respective financial year.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of planned assets out of which the obligations are to be settled directly, less actuarial losses not yet recognised. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The latest actuarial valuation was carried out as of 31 December 2012, by Piyal S. Gunatilleke F.S.A.(USA), Member of the American Academy of Actuaries and Consulting Actuaries.

The principal financial assumptions used in the valuation as at 31.12.2012 are as follows:

- | | |
|--|-------------|
| 1. Interest/ Discount Rate | 12.5 % p.a. |
| 2. Increase in Cost of Living Allowances | 5 % p.a. |
| 3. Increase in Average Basic Salary | 5% p.a. |

The Accounts of the Pension Fund are maintained separately and are subject to annual audit by Independent External Auditors. The Statement of Accounts as well as the Auditor's Report are tabled and reviewed by the Board of Trustees. These statements of Accounts and Auditor's Report are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made

at optimum levels. Pension is payable monthly as long as the participant is alive.

Un-Funded pension Liability.

The results of the actuarial valuation indicate (as at 31-12-2010) a past service deficit of Rs.2,025 Mn, and this has been provided in full by adjusting the retained earning as at 31-12-2011. The details for Un-Funded Pension Liability are given in Note No-34(a).

The amount recognised as expense for the current year is Rs. 705 Million. (Rs.865 Million in 2011)

2.6.2 Gratuity

The employees who joined the Bank on or after 1st January 1996 will be eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, as they are not eligible to join the Pension Scheme described as above.

Other employees whose services are terminated other than by retirement are eligible to receive the terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one half of the Gross Salary applicable to the last month of the financial year in which the employment is terminated, for each year of continuous service, for those who have served in excess of 5 years.

The Bank makes a monthly provision towards such Gratuity Payment Liabilities and this value is reflected in the Financial Position of the Bank. The provision is based on the Actuarial valuation. The last Actuarial valuation was carried out as of 31 December 2011.

2.6.3 Post employment medical benefits

The Bank expenses post employment medical benefits as an annual contribution based on the annual actual expenditure and the balance of the fund made out of the Bank's contribution at the year end.

The amount recognised as expense for the current year is Rs. 25 Million. (Rs.25 Million in 2011)

2.6.4 Defined contribution plan

The Bank also operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability. The Bank contributes to the following defined contribution plans:

i. Employees' Provident Fund

The Bank and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund. The Bank's Provident Fund is an approved fund under the Employees' Provident Fund Act.

ii. Employees' Trust Fund

The Bank contributes 3% of the employee's monthly gross salary excluding overtime to the Employees' Trust Fund maintained by the Employees Trust Fund Board.

2.7 Taxation

Current Taxation

Current tax assets and liabilities consists of amounts expected to be recovered from or

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paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the date of Financial Position. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in Note 13 to the Financial Statements.

Deferred Taxation

Deferred tax is provided using the liability method on temporary differences at the Reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

Deferred tax assets are recognized for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of a deferred tax asset is reviewed at each Reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax asset are re-assessed at each Reporting date and are recognize to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected

to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the date of Financial Position.

Value Added Tax on Financial Services (VAT)

Bank's total value addition was subjected to a 12% Value Added Tax as per section 25A of the Value Added Tax Act. No. 14 of 2002 and amendments thereto.

2.8 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expenses relating to any provision is presented in the Income Statement net of any reimbursement

2.9 Contingent Liabilities

Where, as a result of past events, there may be an outflow of resources embodying future economic benefits in settlement of a present obligation or a possible obligation whose existence is confirmed only by occurrence/non occurrence of one or more uncertain future events, a provision is made if there is a present obligation that probably requires an outflow of resources.

2.10 Events after the Reporting Period

The Bank updates disclosures relating to any event occurred between the end of the reporting period and the date when the

financial statements are authorized for issue and provide evidence of the conditions that existed at the end of the reporting period.

2.11 Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the Reporting date are retranslated to Sri Lankan Rupees at the functional currency rate at the Reporting date. All exchange differences arising on the settlement of monetary items or on translating monetary items at rates different to those at which they are initially recorded are recognized in the Income Statement in the period in which they arise.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The Income Statement and the Financial Position of Foreign Currency Banking Unit is translated to Sri Lankan Rupees at the middle rate of exchange prevailed during the period.

2.12 Statement of Cash Flows

The statement of cash flows has been prepared by using the "Indirect Method" of preparing cash flows in accordance with the LKAS 7.

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03. Gross Income

	Bank		Group	
	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended 31st December</i>				
Interest Income	52,673,261	47,095,745	53,780,431	48,083,391
Fee and commission income	221,709	240,768	221,709	240,768
Net gain / (loss) from trading	69,939	(859,727)	69,939	(859,727)
Net gain / (loss) from financial investments	5,481	4,111	5,481	4,111
Other operating income (net)	74,669	63,747	74,669	63,747
Gross Income	53,045,059	46,544,644	54,152,229	47,532,290

04. Net Interest Income

04.a. Interest Income

	Bank		Group	
	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended 31st December</i>				
Interest income				
Cash and cash equivalents	7,880	7,246	7,880	7,246
Placements with banks	298,335	232,255	298,335	232,255
Derivative financial instruments	12,939	19,438	12,939	19,438
Other financial assets held-for-trading	669,215	735,190	1,605,351	1,664,919
Loans and receivables to banks	2,324,441	851,698	2,494,627	907,327
Loans and receivables to other customers	15,740,531	11,820,478	15,741,379	11,822,766
Financial investments - Held-to-maturity	33,619,920	33,429,440	33,619,920	33,429,440
Financial investments - Available-for-sale	-	-	-	-
Total Interest Income	52,673,261	47,095,745	53,780,431	48,083,391

04.b. Interest expenses

	Bank		Group	
	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended 31st December</i>				
Due to other customers	37,049,747	28,129,050	37,922,696	28,747,481
Other borrowings	1,708,887	806,736	1,759,419	871,511
Others	383,858	360,313	383,858	360,313
Total interest expenses	39,142,492	29,296,099	40,065,973	29,979,305
Net Interest Income	13,530,769	17,799,646	13,714,458	18,104,086

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04.c. Net Interest Income from Sri Lanka Government Securities

	Bank		Group	
	2012	2011	2012	2011
<i>For the year ended 31st December</i>	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest Income	34,289,135	34,164,629	35,396,305	35,152,274
(Less) : Interest expenses	-	-	923,481	683,206
Net interest income	34,289,135	34,164,629	34,472,824	34,469,068

05. Net Fee and Commission Income

	Bank		Group	
	2012	2011	2012	2011
<i>For the year ended 31st December</i>	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fee and commission income	221,709	240,768	221,709	240,768
Fee and commission expenses	(24,481)	(26,553)	(27,705)	(33,239)
Net fee and commission income	197,228	214,215	194,004	207,529
Earned from				
Loans	170,633	197,863	170,633	197,863
Cards	108	(16,143)	108	(16,143)
Others	26,487	32,495	23,263	25,809
Net fee and commission income	197,228	214,215	194,004	207,529

06. Net Gain/(Loss) from Trading

	Bank		Group	
	2012	2011	2012	2011
<i>For the year ended 31st December</i>	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Foreign exchange				
From other customers	77,215	41,929	77,215	41,929
Interest rates - Net mark to market gain / (loss)	65,179	235,839	65,179	235,839
Equities - Net mark to market gain / (loss)	23,364	(875,495)	23,364	(875,495)
Others	(95,819)	(262,000)	(95,819)	(262,000)
Total	69,939	(859,727)	69,939	(859,727)

07. Net Gain/(Loss) from Financial Instruments Designated at Fair Value Through Profit or Loss

	Bank		Group	
	2012	2011	2012	2011
<i>For the year ended 31st December</i>	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Losses on financial assets designated at fair value through Profit or loss	-	-	(138,710)	(135,889)
Total	-	-	(138,710)	(135,889)

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08. Net Gain/(Loss) from Financial Investments

	Bank		Group	
<i>For the year ended 31st December</i>	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets available-for-sale				
Equities - Dividend income	5,481	4,111	5,481	4,111
Others	-	-	-	-
Total	5,481	4,111	5,481	4,111

09. Other Operating Income (net)

	Bank		Group	
<i>For the year ended 31st December</i>	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gain on sale of property, plant and equipment	359	11,465	359	11,465
Gain/(Loss) on revaluation of foreign exchange	23,361	(1,167)	23,361	(1,167)
Others	50,949	53,449	50,949	53,449
Other Operating Income (net)	74,669	63,747	74,669	63,747

10. Impairment for Loans and other Losses

	Bank		Group	
<i>For the year ended 31st December</i>	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and receivables				
To Other customers (Refer Note 23(d))	130,935	142,632	130,935	142,632
Total	130,935	142,632	130,935	142,632

11. Personnel Expenses

	Bank		Group	
<i>For the year ended 31st December</i>	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Salary and bonus	3,119,962	2,685,523	3,131,800	2,697,043
Contributions to defined contribution/benefit plans	878,108	1,110,093	878,863	1,110,828
Others	79,431	344,041	81,172	346,041
Total	4,077,501	4,139,657	4,091,835	4,153,912

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12. Other Expenses

	Bank		Group	
	2012	2011	2012	2011
<i>For the year ended 31st December</i>	<i>Rs. '000</i>	<i>Rs. '000</i>	<i>Rs. '000</i>	<i>Rs. '000</i>
Directors' emoluments	1,008	958	1,118	1,075
Auditors' remunerations	3,336	3,184	3,803	3,375
Professional and legal expenses	4,335	5,351	4,335	5,351
Depreciation of property, plant and equipment	319,316	339,921	319,643	340,294
Amortization of leasehold property	7,228	7,228	7,228	7,228
Amortization of intangible assets	30,349	67,351	30,427	67,429
Office administration and establishment expenses	1,208,576	1,025,117	1,212,035	1,028,660
Others	687,174	671,431	649,075	639,070
Total	2,261,322	2,120,541	2,227,664	2,092,482

13. Income Tax Expenses

	Bank		Group	
	2012	2011	2012	2011
<i>For the year ended 31st December</i>	<i>Rs. '000</i>	<i>Rs. '000</i>	<i>Rs. '000</i>	<i>Rs. '000</i>
Current tax expenses				
Current year tax expenses	1,810,195	3,025,186	1,851,454	3,134,091
Prior years' (Over)/Under provision	-	99,017	1,523	104,011
Deferred tax expenses				
Temporary differences (Refer Note 13(b))	27,722	68,616	27,630	68,567
Total	1,837,917	3,192,819	1,880,607	3,306,669

13. a. Reconciliation of Tax Expenses

	Bank		Group	
	2012	2011	2012	2011
<i>For the year ended 31st December</i>	<i>Rs. '000</i>	<i>Rs. '000</i>	<i>Rs. '000</i>	<i>Rs. '000</i>
Profit before tax	6,169,259	9,254,681	6,221,286	9,411,069
IFRS Adjustments	-	302,722	-	331,938
Adjusted profit for SLFRS	6,169,259	8,951,959	6,221,286	9,079,131
Income tax for the period (Accounting profit @ 28%)	1,727,392	2,506,549	1,737,466	2,542,157
Add: Tax effect of expenses that are not deductible for tax purposes	235,749	704,324	267,391	779,104
(Less): Tax effect of expenses that are deductible for tax purposes	152,946	185,687	153,403	187,170
Tax expense for the period	1,810,195	3,025,186	1,851,454	3,134,091

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13. b. The deferred tax charge in the income statement comprise of the following.

	Bank		Group	
<i>For the year ended 31st December</i>	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Deferred tax assets	(5,294)	11,711	(5,202)	11,760
Deferred tax liabilities	22,428	80,327	22,428	80,327
Differed tax (credit)/charge to income statement	27,722	68,616	27,630	68,567

14. Earning Per Share (EPS)

	Bank		Group	
<i>For the year ended 31st December</i>	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Net profit attributable to ordinary equity holders	4,331,342	6,061,862	4,340,679	6,104,400
Adjustment for the effect of dilution	-	-	-	-
Net profit attributable to ordinary equity holders adjusted for the effect of dilution	4,331,342	6,061,862	4,340,679	6,104,400
Weighted average number of ordinary share for basic earnings per share	320,000	320,000	335,000	335,000
Weighted average number of ordinary shares adjusted for the effect of dilution	320,000	320,000	335,000	335,000
Basic earnings per ordinary shares (Rs)	13.54	18.94	12.96	18.22
Diluted earnings per ordinary share (Rs)	13.54	18.94	12.96	18.22

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15. Analysis of Financial Instruments by Measurement Basis

15. a. Bank - 2012

	HFT	HTM	Amortised cost	AFS	FVTPL	Hedging	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
ASSETS							
Cash and cash equivalents	-	-	1,465,542	-	-	-	1,465,542
Balances with central banks	-	-	-	-	-	-	-
Placement with banks	-	-	5,973,585	-	-	-	5,973,585
Derivative financial instruments	-	-	-	-	-	9,401	9,401
Other financial assets held for trading	10,823,874	-	-	-	-	-	10,823,874
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Loans and receivable to banks	-	-	13,374,007	-	-	-	13,374,007
Loans and receivable to other customers	-	-	155,245,236	-	-	-	155,245,236
Financial investments	-	309,595,845	-	2,978,800	-	-	312,574,645
Total financial assets	10,823,874	309,595,845	176,058,369	2,978,800	-	9,401	499,466,289

	HFT	Designated at Fair value	Amortized cost	FVTPL	Hedging	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
LIABILITIES						
Due to banks	-	-	337,014	-	-	337,014
Derivative financial instruments	-	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Due to other customers	-	-	457,650,387	-	-	457,650,387
Other borrowings	-	-	22,620,945	-	-	22,620,945
Debt securities issued	-	-	-	-	-	-
Total financial liabilities	-	-	480,608,345	-	-	480,608,345

Held for trading - HFT

Designated at fair value through profit or loss - Designated at fair value - FVTPL

Loans and receivables/deposits at amortized cost - Amortized cost

Held-to-maturity - HTM

Available-for-sale - AFS

Instruments of fair value and cash flow hedging - Hedging

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NOTES TO THE FINANCIAL STATEMENTS

15. b. Bank - 2011

	HFT	HTM	Amortised cost	AFS	FVTPL	Hedging	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
ASSETS							
Cash and cash equivalents	-	-	1,398,413	-	-	-	1,398,413
Balances with central banks	-	-	-	-	-	-	-
Placement with banks	-	-	5,280,528	-	-	-	5,280,528
Derivative financial instruments	-	-	-	-	-	34,458	34,458
Other financial assets held for trading	11,589,525	-	-	-	-	-	11,589,525
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Loans and receivable to banks	-	-	21,222,723	-	-	-	21,222,723
Loans and receivable to other customers	-	-	116,217,344	-	-	-	116,217,344
Financial investments	-	298,134,819	-	3,284,099	-	-	301,418,918
Total financial assets	11,589,525	298,134,819	144,119,008	3,284,099	-	34,458	457,161,909
		HFT	Designated at Fair value	Amortized cost	FVTPL	Hedging	Total
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
LIABILITIES							
Due to banks		-	-	128,948	-	-	128,948
Derivative financial instruments		-	-	-	-	-	-
Other financial liabilities at fair value through profit or loss		-	-	-	-	-	-
Due to other customers		-	-	421,849,063	-	-	421,849,063
Other borrowings				16,141,529	-	-	16,141,529
Debt securities issued		-	-	-	-	-	-
Total financial liabilities		-	-	438,119,540	-	-	438,119,540

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NOTES TO THE FINANCIAL STATEMENTS

15. c. Group - 2012

	HFT	HTM	Amortised cost	AFS	FVTPL	Hedging	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
ASSETS							
Cash and cash equivalents	-	-	1,467,042	-	-	-	1,467,042
Balances with central banks	-	-	242	-	-	-	242
Placement with banks	-	-	5,973,585	-	-	-	5,973,585
Derivative financial instruments	-	-	-	-	-	9,401	9,401
Other financial assets held for trading	10,823,874	-	-	-	-	-	10,823,874
Other financial assets at fair value through profit or loss	-	-	-	-	5,488,970	-	5,488,970
Loans and receivable to banks	-	-	14,091,299	-	-	-	14,091,299
Loans and receivable to other customers	-	-	155,249,483	-	-	-	155,249,483
Financial investments	-	313,063,745	-	2,979,800	-	-	316,043,545
Total financial assets	10,823,874	313,063,745	176,781,650	2,979,800	5,488,970	9,401	509,147,440

	HFT	Designated at Fair value	Amortized cost	FVTPL	Hedging	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
LIABILITIES						
Due to banks	-	-	5,603,182	-	-	5,603,182
Derivative financial instruments	-	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Due to other customers	-	-	457,650,387	-	-	457,650,387
Other borrowings	-	-	25,628,549	-	-	25,628,549
Debt securities issued	-	-	-	-	-	-
Total financial liabilities	-	-	488,882,117	-	-	488,882,117

THE RESULTS OF A CHALLENGING YEAR
NOTES TO THE FINANCIAL STATEMENTS

15. d. Group - 2011

	HFT	HTM	Amortised cost	AFS	FVTPL	Hedging	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
ASSETS							
Cash and cash equivalents	-	-	1,399,897	-	-	-	1,399,897
Balances with central banks	-	-	117	-	-	-	117
Placement with banks	-	-	5,280,528	-	-	-	5,280,528
Derivative financial instruments	-	-	-	-	-	34,458	34,458
Other financial assets held for trading	11,589,525	-	-	-	-	-	11,589,525
Other financial assets at fair value through profit or loss	-	-	-	-	8,599,007	-	8,599,007
Loans and receivable to banks	-	-	23,829,757	-	-	-	23,829,757
Loans and receivable to other customers	-	-	116,228,559	-	-	-	116,228,559
Financial investments	-	300,916,743	-	3,285,099	-	-	304,201,842
Total financial assets	11,589,525	300,916,743	146,738,858	3,285,099	8,599,007	34,458	471,163,690

	HFT	Designated at Fair value	Amortized cost	FVTPL	Hedging	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
LIABILITIES						
Due to banks	-	-	8,962,642	-	-	8,962,642
Derivative financial instruments	-	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Due to other customers	-	-	421,849,063	-	-	421,849,063
Other borrowings	-	-	19,923,444	-	-	19,923,444
Debt securities issued	-	-	-	-	-	-
Total financial liabilities	-	-	450,735,149	-	-	450,735,149

THE RESULTS OF A CHALLENGING YEAR

NOTES TO THE FINANCIAL STATEMENTS

16. Cash and Cash Equivalents

	Bank		Group	
<i>For the year ended 31st December</i>	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash in hand	445,465	428,142	445,470	428,147
Balances with banks	994,789	950,289	996,284	951,768
Money at call and short notice	25,288	19,982	25,288	19,982
Total	1,465,542	1,398,413	1,467,042	1,399,897

17. Balances with Central Banks

	Bank		Group	
<i>For the year ended 31st December</i>	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Statutory balances with Central Bank of Sri Lanka	-	-	242	117
Total balances with Central Bank	-	-	242	117

18. Placement with Banks

	Bank		Group	
<i>For the year ended 31st December</i>	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Placement with Banks - Sri Lanka	5,973,585	5,280,528	5,973,585	5,280,528
Total	5,973,585	5,280,528	5,973,585	5,280,528

19. Derivative Financial Instruments

	Bank		Group	
<i>For the year ended 31st December</i>	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest rate derivatives				
Interest rate swaps	9,401	34,458	9,401	34,458
Total	9,401	34,458	9,401	34,458

THE RESULTS OF A CHALLENGING YEAR

NOTES TO THE FINANCIAL STATEMENTS

20. Other Financial Assets Held For Trading

	Bank		Group	
	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended 31st December</i>				
Held for trading				
Sri Lanka Government Securities				
Treasury Bill	1,746,470	390,998	1,746,470	390,998
Treasury Bond	4,624,652	6,108,538	4,624,652	6,108,538
Equity securities (Refer - Note 20 (a))	4,452,752	5,089,989	4,452,752	5,089,989
Total	10,823,874	11,589,525	10,823,874	11,589,525

20.(a) Equity Securities (Quoted) - Bank & Group

	31-12-2012			31-12-2011			01-01-2011		
	No. of Shares	Cost	Market Value	No. of Shares	Cost	Market Value	No. of Shares	Cost	Market Value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000		Rs. '000	Rs. '000
1. Banks, Finance & Insurance									
Commercial Bank of Ceylon PLC	1,729,591	152,916	176,153	1,699,424	152,916	168,209	788,000	142,626	202,790
DFCC Bank	1,342,024	194,396	149,950	1,342,024	194,396	149,969	1,092,124	146,510	215,656
HNB Assurance PLC	105,332	6,556	5,103	105,332	6,556	5,943	768,600	55,778	59,339
Hatton National Bank PLC (NV)	1,103,175	138,244	122,717	1,072,500	138,244	91,082	650,000	126,593	137,938
Janashakthi Insurance Company PLC	1,699,500	26,322	17,813	1,699,500	26,322	25,569	1,538,400	23,833	24,516
National Development Bank PLC	1,554,882	169,806	212,170	1,662,000	181,505	230,307	831,000	181,505	287,472
Nations Trust Bank PLC	355,200	27,962	19,668	355,200	27,962	20,040	330,200	26,040	27,290
Pan Asia Banking Corporation PLC	570,200	16,269	10,712	570,200	16,269	14,110	285,100	16,269	14,674
Seylan Bank PLC (NV)	1,496,666	59,466	51,797	1,496,666	59,466	45,331	1,122,500	46,370	54,219
Lanka Orix Leasing Company PLC	606,900	68,594	32,406	606,900	68,594	50,099	-	-	-
Lanka Orix Finance PLC	4,550,000	50,340	17,096	4,550,000	50,340	37,380	-	-	-
People's Finance PLC	142,504	8,392	4,861	142,504	8,392	5,036	-	-	-
Ceylinco Insurance	-	-	-	-	-	-	276,700	117,225	104,074
Hatton National Bank PLC	-	-	-	-	-	-	5,578,200	1,118,183	2,207,969
Lanka Ventures	-	-	-	-	-	-	308,700	11,265	9,564
Singer Finance	-	-	-	-	-	-	26,200	393	389
		919,263	820,448		930,962	843,073		2,012,590	3,345,890
2. Beverage, Food & Tobacco									
Cargills (ceylon) PLC	543,800	106,584	78,237	543,800	106,584	109,265	1,000,000	195,999	193,011
Lanka Milk Foods (CWE) PLC	311,300	39,457	30,781	311,300	39,457	32,969	221,000	19,160	24,718
		146,041	109,018		146,041	142,235		215,159	217,729
3. Chemical & Pharmaceuticals									
CIC Holdings PLC (NV)	183,700	17,302	10,027	183,700	17,302	14,001	469,500	42,972	45,123
Haycarb PLC	502,800	93,793	85,066	502,800	93,793	77,139	405,800	77,350	67,680
		111,096	95,092		111,095	91,140		120,322	112,803

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	31-12-2012			31-12-2011			01-01-2011		
	No. of Shares	Cost	Market Value	No. of Shares	Cost	Market Value	No. of Shares	Cost	Market Value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000		Rs. '000	Rs. '000
4. Construction & Engineering									
Colombo Dockyard PLC	642,075	162,381	142,722	611,500	162,381	144,416	380,400	100,503	103,543
		162,381	142,722		162,381	144,416		100,503	103,543
5. Diversified Holdings									
Aitken Spence PLC	450,700	77,044	53,478	450,700	77,044	55,763	150,000	25,457	25,420
C T Holdings PLC	440,400	83,598	53,998	440,400	83,598	78,028	284,200	53,934	51,197
Hemas Holdings PLC	1,112,300	53,158	29,696	1,112,300	53,158	36,772	1,112,300	53,158	48,882
John Keells Holdings PLC	3,659,056	723,824	795,615	4,259,056	842,515	720,870	1,612,642	383,525	475,825
Sunshine Holdings PLC	318,200	15,038	8,810	318,200	15,038	9,134	232,100	11,989	10,499
Browns Investments PLC	93,606,200	468,031	370,231	93,606,200	468,031	389,136	-	-	-
Expolanka Holdings PLC	4,318,800	57,379	30,320	4,318,800	57,379	37,190	-	-	-
Free Lanka Capital Holdings PLC	2,900,000	13,279	7,169	2,900,000	13,279	9,185	-	-	-
Richard Pieris & Company PLC	5,323,900	63,909	41,588	5,323,900	63,909	47,426	-	-	-
		1,555,260	1,485,363		1,673,951	1,383,504		528,063	611,823
6. Footware & Textile									
Heyleys MGT Knitting Mills PLC	1,202,700	21,321	13,795	400,900	14,104	11,309	375,700	13,316	11,900
		21,321	13,795		14,104	11,309		13,316	11,900
7. Health Care									
Asiri Hospitals PLC	-	-	-	880,400	8,021	7,494	1,100,000	10,021	9,581
Nawaloka Hospitals PLC	17,789,400	79,421	52,770	17,789,400	79,421	68,671	1,630,000	6,184	5,808
		79,421	52,770		87,442	76,165		16,205	15,389
8. Hotels & Travels									
Eden Hotels Lanka PLC	477,900	25,837	17,012	477,900	25,837	17,975	371,000	21,422	21,152
Ceylon Hotels Corporation PLC	3,304,900	116,264	74,508	3,304,900	116,264	90,285	3,599,400	126,625	131,107
Hotel Services (Ceylon) PLC	2,707,100	74,428	45,773	2,707,100	74,428	54,929	1,748,900	52,609	45,008
John Keells Hotels PLC	3,473,800	72,296	47,402	3,473,800	72,296	46,074	3,473,800	72,296	68,767
Lighthouse Hotels PLC	1,900,000	115,539	103,330	1,900,000	115,539	100,613	1,900,000	115,539	118,749
Mahaweli Reach Hotels PLC	133,300	4,884	2,807	133,300	4,884	3,694	343,100	12,571	12,395
Marawila Resorts PLC	702,750	9,413	5,073	702,750	9,413	6,956	562,200	8,007	8,236
Asian Hotels & Properties PLC	441,000	42,526	33,097	441,000	42,526	34,789	-	-	-
Aitken Spence Hotel Holdings PLC	1,613,400	153,681	117,735	1,613,400	153,681	110,988	-	-	-
Confifi Hotels	-	-	-	-	-	-	54,600	11,604	13,138
Riverina Hotels	-	-	-	-	-	-	58,700	5,944	6,118
		614,869	446,736		614,868	466,304		426,617	424,670
9. Investment Trusts									
Renuka Holdings PLC	2,678,073	178,838	94,272	2,678,073	178,838	144,466	-	-	-
Renuka Holdings PLC (NV)	148,406	5,789	3,537	148,406	5,789	4,847	-	-	-
		184,626	97,808		184,627	149,314		-	-

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	31-12-2012			31-12-2011			01-01-2011		
	No. of Shares	Cost	Market Value	No. of Shares	Cost	Market Value	No. of Shares	Cost	Market Value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000		Rs. '000	Rs. '000
10. Land & Property									
Overseas Reality (Ceylon) PLC	5,591,100	105,684	79,057	5,591,100	105,684	78,030	5,591,100	105,684	84,671
		105,684	79,057		105,684	78,030		105,684	84,671
11. Manufacturing									
ACL Cables PLC	1,275,200	116,643	84,986	1,275,200	116,643	93,402	1,270,000	116,253	107,050
Dipped Products PLC	1,000,000	124,636	108,768	1,000,000	124,636	105,414	1,000,000	124,636	118,776
Chevron Lubricants PLC	-	-	-	1,276,200	219,801	214,741	1,276,200	219,801	201,478
Tokyo Cement Company (Lanka) PLC	1,213,200	68,723	34,669	1,213,200	68,723	52,836	-	-	-
Lanka Ceramic PLC	446,000	60,350	27,342	446,000	60,350	37,523	-	-	-
Lanka Walltile PLC	619,700	68,290	36,766	619,700	68,290	57,964	-	-	-
Royal Ceramics Lanka PLC	747,700	119,581	73,193	747,700	119,581	103,610	-	-	-
Tokyo Cement Company (Lanka) PLC(NV)	2,335,000	99,706	44,561	2,335,000	99,706	70,491	830,200	42,988	45,606
Lanka Tiles	-	-	-	-	-	-	100,250	10,733	14,388
		657,929	410,285		877,730	735,982		514,411	487,298
12. Plantation									
Watawala Plantation PLC	419,500	11,250	4,895	419,500	11,250	5,855	-	-	-
Horana Plantation	-	-	-	-	-	-	595,900	18,539	21,823
Kegalle Plantation	-	-	-	-	-	-	285,100	42,547	45,151
		11,250	4,895		11,250	5,855		61,086	66,974
13. Power & Energy									
Lanka IOC PLC	15,365,100	567,966	294,744	15,365,100	567,966	281,355	15,365,100	567,966	287,438
Laugfs Gas PLC	154,900	5,801	3,906	154,900	5,801	5,811	634,700	15,021	16,397
Hemas Power PLC	424,800	15,605	9,367	424,800	15,605	11,353	-	-	-
Laugfs Gas (NV)	-	-	-	-	-	-	523,100	7,972	9,527
Panasian Power	-	-	-	-	-	-	1,413,300	4,240	4,197
		589,371	308,017		589,372	298,518		595,199	317,559
14. Telecommunication									
Dialog Telecom Ltd.	-	-	-	-	-	-	6,790,960	168,982	79,988
Sri Lanka Telecom	-	-	-	-	-	-	13,158,700	445,643	625,175
Dialog Axiata PLC	6,790,960	168,982	55,734	6,790,960	168,982	53,101	-	-	-
		168,982	55,734		168,982	53,101		614,625	705,163
15. Trading									
Browns & Company PLC	1,000,000	319,948	122,611	1,000,000	319,948	232,405	-	-	-
		319,948	122,611		319,948	232,405		-	-
16. Unit Trust									
Com Trust Equity Fund	556,793	10,000	10,089	556,793	10,000	11,684	556,793	10,000	15,123
Ceybank Unit Trust	7,455,661	81,382	198,312	6,880,297	67,622	212,464	6,880,297	67,622	271,290
Pyramid	-	-	-	1,573,620	15,000	49,498	1,573,620	15,000	56,808
NAMAL	-	-	-	3,961,965	50,000	104,992	3,961,965	50,000	124,762
		91,382	208,401		142,622	378,638		142,622	467,983
Total		5,738,826	4,452,752		6,141,059	5,089,989		5,466,402	6,973,395

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21. Financial Assets Designated at Fair Value Through Profit or Loss

	Bank		Group	
<i>For the year ended 31st December</i>	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sri Lanka Government securities				
Treasury Bills	-	-	1,009,739	942,162
Treasury Bonds	-	-	4,772,781	7,863,271
Less: Increase/(decrease) in falling value of securities	-	-	(293,550)	(206,426)
Sub total	-	-	5,488,970	8,599,007

22. Loans and Receivables to Banks

	Bank		Group	
<i>For the year ended 31st December</i>	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross loans and receivables	13,374,007	21,222,723	14,091,299	23,829,757
(Less): Individual impairment	-	-	-	-
Net loans and receivables	13,374,007	21,222,723	14,091,299	23,829,757

22. (a) Analysis by products

	Bank		Group	
<i>For the year ended 31st December</i>	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and advances				
Short-term loans	3,390,319	5,379,973	3,390,319	5,379,973
Long-term loans	9,983,688	15,842,750	9,983,688	15,842,750
Securities purchased under resale agreements	-	-	717,292	2,607,034
Gross total	13,374,007	21,222,723	14,091,299	23,829,757

22. (b) All loan and receivable to Banks are in Sri Lankan Rupees.

23. Loans and Receivables to other Customers

	Bank		Group	
<i>For the year ended 31st December</i>	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross loans and receivables	155,871,009	116,712,806	155,875,256	116,724,021
(Less): Individual impairment	-	-	-	-
Collective Impairment (Refer 23 (d))	625,773	495,462	625,773	495,462
Net Loans and receivables	155,245,236	116,217,344	155,249,483	116,228,559

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NOTES TO THE FINANCIAL STATEMENTS

23. a. Analysis by product

	Bank		Group	
	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended 31st December</i>				
Loans and advances				
Trade finance	9,224,151	6,905,245	9,224,151	6,905,245
Pawning	51,797,586	38,775,926	51,797,586	38,775,926
Staff loans	2,578,573	1,930,332	2,578,573	1,930,332
Term loans				
Short-term	24,967,583	18,690,855	24,971,830	18,702,070
Long-term	52,266,089	39,126,650	52,266,089	39,126,650
Securities purchased under resale agreements	980,930	734,329	980,930	734,329
Others				
Sri Lanka Government Securities	7,057,898	5,283,577	7,057,898	5,283,577
Administrative Borrowings	6,141,815	4,597,793	6,141,815	4,597,793
Others	230,611	172,637	230,611	172,637
Gross total	155,245,236	116,217,344	155,249,483	116,228,559

23. b. Analysis by industry

	Bank		Group	
	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended 31st December</i>				
Agriculture and fishing	756,004	565,948	756,004	565,948
Transport	146,146	109,406	146,146	109,406
Construction	42,968,115	32,166,142	42,968,115	32,166,142
Traders	9,224,151	6,905,245	9,228,398	6,916,460
New economy	7,451,931	5,578,552	7,451,931	5,578,552
Others	94,698,889	70,892,051	94,698,889	70,892,051
Gross total	155,245,236	116,217,344	155,249,483	116,228,559

23. (c) All Loan and receivable to other customers are in Sri Lankan Rupees.

23. (d) Movements in Collective Impairment Charges during the Year

	Bank		Group	
	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended 31st December</i>				
Collective impairment				
Opening balance	495,462	352,830	495,462	352,830
Charge to income statement	130,935	142,632	130,935	142,632
Net write-off during the year	(624)	-	(624)	-
Closing balance	625,773	495,462	625,773	495,462

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NOTES TO THE FINANCIAL STATEMENTS

24. Financial Investments-Available-for-Sale

	Bank		Group	
	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended 31st December</i>				
Equity securities	2,978,800	3,284,099	2,979,800	3,285,099
(Less) : Impairment	-	-	-	-
Net Available-for-sale Investments	2,978,800	3,284,099	2,979,800	3,285,099

(a) There were no Financial investments-Available-for-sale pledged as collateral.

25. Financial Investments-Held-to-Maturity

	Bank		Group	
	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended 31st December</i>				
Sri Lanka Government Securities				
Treasury Bill	58,239,257	57,267,114	58,239,257	57,267,114
Treasury Bond	251,356,478	240,867,705	254,824,378	243,649,629
Debt securities	-	-	-	-
Others	110	-	110	-
(Less): Impairment	-	-	-	-
Net Held-to-Maturity Investments	309,595,845	298,134,819	313,063,745	300,916,743

26. Investments in Subsidiaries

	Holding		Bank			
	2012	2011	2012	2011		
			Cost	Directors' Valuation	Cost	Directors' Valuation
	%	%	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Unquoted equity share						
NSB Fund Management Company Ltd. (15,000,000 Ordinary Shares)	100%	100%	150,000	150,000	150,000	150,000
(Less): Impairment			-	-	-	-
Net total			150,000	150,000	150,000	150,000

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NOTES TO THE FINANCIAL STATEMENTS

27. Property, Plant and Equipment**27. a. Property, Plant and Equipment - Bank**

	Land and Buildings	Leasehold properties	Computer Hardware	Office Equipment, furniture and fittings	Others	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Bank 2012						
Cost/Valuation						
Opening balance at 01.01.2012	3,765,766	475,549	1,560,272	1,100,156	185,728	7,087,471
Additions	583,918	-	35,813	171,770	14,568	806,069
Disposals	(444,426)	-	(17,803)	(7,347)	(717)	(470,293)
Adjustments	-	-	(39)	(7,295)	-	(7,334)
Closing balance at 31.12.2012	3,905,258	475,549	1,578,243	1,257,284	199,579	7,415,913
(Less): Accumulated depreciation						
Opening balance at 01.01.2012	31,756	30,248	1,221,533	550,555	129,050	1,963,142
Charge for the year	39,780	7,228	172,871	91,840	15,451	327,170
Additions	-	-	-	-	-	-
Disposals	-	-	(17,729)	(6,843)	(713)	(25,285)
Adjustments	-	-	(21)	(605)	-	(626)
Closing balance at 31.12.2012	71,536	37,476	1,376,654	634,947	143,788	2,264,401
(Less): Impairment	-	-	-	-	-	-
Net book value at 31.12.2012	3,833,722	438,073	201,589	622,337	55,791	5,151,512
Bank 2011						
Cost/Valuation						
Opening balance at 01.01.2011	3,585,463	475,549	1,495,928	947,989	139,741	6,644,670
Additions	473,795	-	107,550	160,843	58,773	800,961
Disposals	(135,063)	-	(43,206)	(8,676)	(12,786)	(199,731)
Adjustments	(158,429)	-	-	-	-	(158,429)
Closing balance at 31.12.2011	3,765,766	475,549	1,560,272	1,100,156	185,728	7,087,471
(Less): Accumulated depreciation						
Opening balance at 01.01.2011	158,429	23,020	1,060,166	472,390	124,854	1,838,859
Charge for the year	31,756	7,228	204,573	86,609	16,983	347,149
Additions	-	-	-	-	-	-
Disposals	-	-	(43,206)	(8,444)	(12,787)	(64,437)
Adjustments	(158,429)	-	-	-	-	(158,429)
Closing balance at 31.12.2011	31,756	30,248	1,221,533	550,555	129,050	1,963,142
(Less): Impairment	-	-	-	-	-	-
Net book value at 31.12.2011	3,734,010	445,301	338,739	549,601	56,678	5,124,327

THE RESULTS OF A CHALLENGING YEAR

NOTES TO THE FINANCIAL STATEMENTS

27. b. Property, Plant and Equipment - Group

	Land and Buildings	Leasehold properties	Computer Hardware	Office Equipment, furniture and fittings	Others	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Group 2012						
Cost/Valuation						
Opening balance at 01.01.2012	3,765,766	475,549	1,562,234	1,101,477	185,728	7,090,754
Additions	583,918	-	36,058	171,770	14,568	806,314
Disposals	(444,426)	-	(17,998)	(7,347)	(717)	(470,488)
Adjustments	-	-	(39)	(7,295)	-	(7,334)
Closing balance at 31.12.2012	3,905,258	475,549	1,580,255	1,258,605	199,579	7,419,246
(Less): Accumulated depreciation						
Opening balance at 01.01.2012	31,756	30,248	1,223,197	551,190	129,050	1,965,441
Charge for the year	39,780	7,228	173,198	91,840	15,451	327,497
Additions	-	-	-	-	-	-
Disposals	-	-	(17,926)	(6,843)	(713)	(25,482)
Adjustments	-	-	(21)	(605)	-	(626)
Closing balance at 31.12.2012	71,536	37,476	1,378,448	635,582	143,788	2,266,830
(Less): Impairment	-	-	-	-	-	-
Net book value at 31.12.2012	3,833,722	438,073	201,805	623,023	55,791	5,152,416
Group 2011						
Cost/Valuation						
Opening balance at 01.01.2011	3,585,463	475,549	1,497,885	949,015	139,741	6,647,653
Additions	473,795	-	107,555	161,138	58,773	801,261
Disposals	(135,063)	-	(43,206)	(8,676)	(12,786)	(199,731)
Adjustments	(158,429)	-	-	-	-	(158,429)
Closing balance at 31.12.2011	3,765,766	475,549	1,562,234	1,101,477	185,728	7,090,754
(Less): Accumulated depreciation						
Opening balance at 01.01.2011	158,429	23,020	1,061,547	472,935	124,854	1,840,785
Charge for the year	31,756	7,228	204,856	86,699	16,983	347,522
Additions	-	-	-	-	-	-
Disposals	-	-	(43,206)	(8,444)	(12,787)	(64,437)
Adjustments	(158,429)	-	-	-	-	(158,429)
Closing balance at 31.12.2011	31,756	30,248	1,223,197	551,190	129,050	1,965,441
(Less): Impairment	-	-	-	-	-	-
Net book value at 31.12.2011	3,734,010	445,301	339,037	550,287	56,678	5,125,312

THE RESULTS OF A CHALLENGING YEAR

NOTES TO THE FINANCIAL STATEMENTS

28. Intangible Assets

	Bank		Group	
	2012	2011	2012	2011
<i>For the year ended 31st December</i>	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/Valuation				
Opening balance	416,307	391,606	418,277	393,576
Additions	19,668	24,701	19,667	24,701
Disposals	-	-	-	-
Closing balance	435,975	416,307	437,944	418,277
(Less): Accumulated Amortisation				
Opening balance	293,525	226,174	295,253	227,824
Charge for the Year	30,349	67,351	30,427	67,429
Disposals	-	-	-	-
Closing balance	323,874	293,525	325,680	295,253
Net book value	112,101	122,782	112,264	123,024

29. Deffered Tax Assets/Liabilities

	Bank		Group	
	2012	2011	2012	2011
<i>For the year ended 31st December</i>	Rs. '000	Rs. '000	Rs. '000	Rs. '000
29.(a) Differed tax assets				
Deffered Tax Assets	-	-	221	172
Income Statement	-	-	92	49
Deffered Tax Assets	-	-	313	221
29.(b) Deffered Tax Liabilities				
Differed tax liabilities	95,615	26,999	95,615	26,999
Income statement	27,722	68,616	27,722	68,616
Net Deffered Tax Liabilities	123,338	95,615	123,338	95,615

30. Other Asset

	Bank		Group	
	2012	2011	2012	2011
<i>For the year ended 31st December</i>	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Receivables	3,134,283	2,223,563	3,152,532	2,253,016
Deposits and Prepayments	87,180	61,849	113,151	87,059
Sundry debtors	16,113	11,431	16,113	11,431
Other	1,576,714	1,118,573	1,575,998	1,117,328
Total	4,814,290	3,415,416	4,857,794	3,468,834

THE RESULTS OF A CHALLENGING YEAR

NOTES TO THE FINANCIAL STATEMENTS

31. Due to Banks

	Bank		Group	
	2012	2011	2012	2011
<i>For the year ended 31st December</i>	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Securities sold under repurchase (repo) agreements	-	-	5,266,168	8,833,694
Other facility	337,014	128,948	337,014	128,948
Total	337,014	128,948	5,603,182	8,962,642

32. Due to Other Customers

	Bank		Group	
	2012	2011	2012	2011
<i>For the year ended 31st December</i>	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Amount due to other customers	457,650,387	421,849,063	457,650,387	421,849,063
Total	457,650,387	421,849,063	457,650,387	421,849,063

	Bank		Group	
	2012	2011	2012	2011
<i>For the year ended 31st December</i>	Rs. '000	Rs. '000	Rs. '000	Rs. '000
32. (a) Analysis by product				
Savings deposits	108,139,999	106,026,686	108,139,999	106,026,686
Fixed deposits	349,510,388	315,822,377	349,510,388	315,822,377
Total	457,650,387	421,849,063	457,650,387	421,849,063
32. (b) Analysis by Currency				
Sri Lankan Rupee	451,970,975	416,677,115	451,970,975	416,677,115
United States Dollar	2,816,044	2,570,586	2,816,044	2,570,586
Great Britain Pound	1,034,042	938,167	1,034,042	938,167
Others	1,829,326	1,663,195	1,829,326	1,663,195
Total	457,650,387	421,849,063	457,650,387	421,849,063

33. Other Borrowings

	Bank		Group	
	2012	2011	2012	2011
<i>For the year ended 31st December</i>	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Securities sold under repurchase (repo) agreements	22,620,945	16,141,529	25,628,549	19,923,444
Total	22,620,945	16,141,529	25,628,549	19,923,444

THE RESULTS OF A CHALLENGING YEAR

NOTES TO THE FINANCIAL STATEMENTS

34. Other Liabilities

	Bank		Group	
	2012	2011	2012	2011
<i>For the year ended 31st December</i>	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sundry creditors	272,194	276,906	272,194	277,048
Interest payable	125,822	128,000	125,822	128,000
Other payables (Refer Note 34.(a))	4,228,702	4,301,890	4,242,382	4,304,431
Total	4,626,718	4,706,796	4,640,398	4,709,479

34 (a) Provision for Un-Funded Pension Scheme

	Bank		Group	
	2012	2011	2012	2011
<i>As at 31st December</i>	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Opening balance	2,025,553	-	2,025,553	-
Amount Recognised in the Income Statement	(126,935)	2,025,553	(126,935)	2,025,553
Closing balance	1,898,618	2,025,553	1,898,618	2,025,553

35. Stated Capital/Assigned Capital

	Bank		Group	
	2012	2011	2012	2011
<i>For the year ended 31st December</i>	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Authorised				
1 Billion Ordinary Shares of Rs.10/= each	10,000,000	10,000,000	10,000,000	10,000,000
Issued and fully Paid				
320 Million Ordinary Shares of Rs.10/= each	3,200,000	3,200,000	3,200,000	3,200,000
Total	3,200,000	3,200,000	3,200,000	3,200,000

36. Statutory Reserve Fund

	Bank		Group	
	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Opening balance	1,626,500	1,338,543	1,626,500	1,338,543
Transfer during the period	86,627	287,957	86,627	287,957
Closing balance	1,713,127	1,626,500	1,713,127	1,626,500

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NOTES TO THE FINANCIAL STATEMENTS

37. Other Reserves**37. a. Bank 2012**

	Opening balance at 01-01-2012	Movement/ Transfers	Closing balance at 31-12-2012
	Rs. '000	Rs. '000	Rs. '000
General reserve	14,474,432	272,968	14,747,400
Revaluation reserve	1,583,340	-	1,583,340
Available-for-sale reserve	345,959	(210,840)	135,119
Others (Refer Note 01)	1,822,252	1,134,553	2,956,805
Total	18,225,983	1,196,681	19,422,664

37. b. Bank 2011

	Opening balance at 01-01-2011	Movement/ Transfers	Closing balance at 31-12-2011
	Rs. '000	Rs. '000	Rs. '000
General reserve	13,608,293	866,139	14,474,432
Revaluation reserve	1,583,340	-	1,583,340
Available-for-sale reserve	834,824	(488,865)	345,959
Others (Refer Note 01)	1,822,252	-	1,822,252
Total	17,848,709	377,274	18,225,983

37. c. Group - 2012

	Opening balance at 01-01-2012	Movement/ Transfers	Closing balance at 31-12-2012
	Rs. '000	Rs. '000	Rs. '000
General reserve	15,419,489	279,970	15,699,459
Revaluation reserve	1,583,340	-	1,583,340
Available-for-sale reserve	345,959	(210,840)	135,119
Others (Refer Note 01)	2,117,583	1,136,887	3,254,470
Total	19,466,371	1,206,017	20,672,388

37. d. Group - 2011

	Opening balance at 01-01-2011	Movement/ Transfers	Closing balance at 31-12-2011
	Rs. '000	Rs. '000	Rs. '000
General reserve	14,521,447	898,042	15,419,489
Revaluation reserve	1,583,340	-	1,583,340
Available-for-sale reserve	834,824	(488,865)	345,959
Others (Refer Note 01)	2,106,947	10,635	2,117,583
Total	19,046,558	419,812	19,466,371

THE RESULTS OF A CHALLENGING YEAR

NOTES TO THE FINANCIAL STATEMENTS

37 - Note - 01 Investment Fund Reserve

	Bank		Group	
	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended 31st December</i>				
Opening balance	1,581,572	-	1,581,572	-
Add: Transferred during the year	1,248,427	1,581,572	1,248,427	1,581,572
Closing balance	2,829,999	1,581,572	2,829,999	1,581,572

As required by the Government Budget 2011 and subsequent direction from Central Bank of Sri Lanka, with effect from January 1, 2011 the bank is required to transfer an amount equivalent to 8% of the VAT on Financial services and 5% of the Income Tax to an Investment Fund Account.

Investment made under Investment Fund Account

	Interest Rate	Tenure	Bank		Group	
			2012	2011	2012	2011
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended 31st December</i>						
Loan - Road Development Authority	9.0%	14.5 Years	384,250	-	384,250	-
Long - Term Agriculture Loan	10.5%	5 Years	3,270	4,300	3,270	4,300
Long - Term Government Bonds 1	7.5%	7 Years	8,024	193,600	8,024	193,600
Long - Term Government Bonds 2	7.0%	12 Years	539,650	353,400	539,650	353,400
Short - Term Government Securities	-	-	1,746,470	559,893	1,746,470	559,893
Total Investment			2,681,664	1,111,193	2,681,664	1,111,193

38. Contingent Liabilities and Commitments

	Bank		Group	
	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended 31st December</i>				
Guarantees	293,060	266,298	293,060	266,298
Other contingent items	163,200	178,000	163,200	178,000
Undrawn loan commitments	6,389,150	1,285,720	6,389,150	1,285,720
Total	6,845,410	1,730,018	6,845,410	1,730,018

THE RESULTS OF A CHALLENGING YEAR

NOTES TO THE FINANCIAL STATEMENTS

39. Related Party Disclosures**39. a Transactions with State and State Controlled Entities**

	Bank	
	2012	2011
<i>For the year ended 31st December</i>	Rs. '000	Rs. '000
Assets		
Loans to Government	13,199,713	9,168,000
Investments made on Government Securities	315,966,000	304,955,942
Investments on State and State Controlled Entities	18,115,000	16,144,008
Security bought under Resale Agreements	980,506	3,794,296
Tax Receivable	1,469,022	128,137
Postmaster-General's Current Account	155,990	253,075
	349,886,231	334,443,458
Liabilities		
Securities sold under Repurchase Agreements	22,620,945	16,042,215
Taxes paid		
Income Tax	1,837,917	3,192,819
Value Added Tax	1,239,069	1,564,481
Contribution to Consolidated Fund	2,823,245	3,212,671
	5,900,231	7,969,971

39. b Transactions with Subsidiary Company (NSB Fund Management Company Ltd.)

The Bank has contributed Rs.150 Mn towards the share capital of the Company. The Company invested its funds in Treasury Bills, Bonds and Repo during the year on a regular basis. All investment in Treasury Bills and Treasury Bonds of the Bank are being made through the NSB Fund Management Co. Ltd. on which a service charge of **Rs. 40 Mn** has been made (Rs. 33 Mn. in 2011).

39. c Transactions with Key Managerial Persons

- (i) Key managerial persons include members of the Board of Directors of the Bank and key employees of the Bank holding directorships in subsidiary, NSB Fund Management Company of the Bank.
- (ii) Loans and advances in the names of key managerial persons are given below:

	2012	2011
<i>For the year ended 31st December</i>	Rs. '000	Rs. '000
Loans & Advances	204	468

- (iii) Chairman's, Directors' and G.M.'s /CEO's emoluments and fees amounted to **Rs. 7.965 Mn** in 2012 (Rs.8.092 Mn in 2011).

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NOTES TO THE FINANCIAL STATEMENTS

39. d Net Accommodation Granted to Related Parties

(Disclosure under rule 3 (8) (ii) (e) of the Governance Direction of No. 12 of 2007 issued by the Central Bank of Sri Lanka.)

	Bank	
	2012	2011
<i>For the year ended 31st December</i>	Rs. '000	Rs. '000
Key Managerial Persons		
Loan & Advances	204	468
Total net accommodation	204	468
Regulatory Capital	17,683,326	15,824,323
Net accommodation as a % of the Bank's Regulatory Capital	0.001%	0.003%

40. Net Assets Value per Ordinary Share

	Bank		Group	
	2012	2011	2012	2011
<i>For the year ended 31st December</i>	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Amount used as the numerator				
Share holders Funds	24,335,791	23,052,483	25,585,515	24,292,871
Number of Ordinary Shares used as the denominator				
Total Number of shares	320,000	320,000	335,000	335,000
	Rs.	Rs.	Rs.	Rs.
Net Assets Value per Ordinary Share	76.04	72.03	76.37	72.51

41. Non-Cash Items Included in Profit Before Tax

	Bank		Group	
	2012	2011	2012	2011
<i>For the year ended 31st December</i>	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Depreciation of property, plant and equipment	319,316	339,921	319,643	340,294
Amortization of leasehold property	7,228	7,228	7,228	7,228
Amortization of intangible assets	30,349	67,351	30,427	67,429
Impairment losses on loans and advances	130,935	142,632	130,935	142,632
Total	487,828	557,132	488,233	557,583

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NOTES TO THE FINANCIAL STATEMENTS

42. Change in Operating Assets

	Bank		Group	
	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended 31st December</i>				
Change in derivative financial instruments	25,057	12,672	25,057	12,672
Net increase in debt securities, treasury bills & bonds and equity shares held at fair value through profit or loss	(11,461,026)	(38,531,002)	(12,147,002)	(38,531,002)
Net increase in loans and advances to banks	7,717,781	(17,039,655)	9,607,523	(17,039,655)
Net increase in loans and advances to customers	(39,027,894)	(8,339,239)	(39,020,926)	(7,251,239)
Change in other assets	(1,398,874)	(682,345)	(1,399,635)	(4,984,231)
Total	(44,144,956)	(64,579,569)	(42,934,983)	(67,793,455)

43. Change in Operating Liabilities

	Bank		Group	
	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended 31st December</i>				
Change in deposits from banks, customers and debt securities issued	35,801,324	57,419,070	32,233,798	57,419,070
Change in other liabilities	793,374	217,148	803,842	4,551,417
Total	36,594,698	57,636,218	33,037,640	61,970,487

44. Litigation Against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonably estimated, the bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. The unresolved court cases against the Bank as at the year end for which adjustments to the Financial Statements have not been made due to the uncertainty of its outcome are as follows.

	2012	2011
	Rs. '000	Rs. '000
<i>For the year ended 31st December</i>		
Tribunal / Court		
Labour Tribunal	8	9
District Court	16	17
Commercial High Court	11	10
Court of Appeal	0	1
Supreme Court	1	1
Magistrate's Court	3	3

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45. Explanation of Transition to New Sri Lanka Accounting Standards (SLFRS and LKAS)

As Stated in Accounting policies the Bank's first Financial Statements prepared in accordance with new Sri Lanka Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS), promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL).

The Accounting Policies set out in Note 2.1 to 2.3.3 have been applied in preparing the Financial Statements for the year ended December 31, 2012 the comparative information presented in these Financial Statements for the year ended December 31, 2011 and in the preparation of an opening Statement of Financial Position as at January 1, 2011 (the Bank's date of transition).

In preparing its opening new SLFRS/LKAS Statement of Financial Position, the Bank has adjusted amounts reported previously in Financial Statements prepared in accordance with previous SLAS. An explanation of how the transition from previous SLASs has affected the Bank's Financial Position and financial performance is set out in the following tables and notes that accompany the tables.

45.1. Reconciliation of Equity - Bank

		January 01, 2011				December 31, 2011			
	Notes	SLAS	Reclassifi- cations	Remeasu- rements	SLFRS	SLAS	Reclassifi- cations	Remeasu- rements	SLFRS
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets									
Cash and cash equivalents		1,354,733	-	-	1,354,733	1,398,413	-	-	1,398,413
Balances with central bank		-	-	-	-	-	-	-	-
Government securities held for Trading		11,608,618	(11,608,618)	-	-	6,302,255	(6,302,255)	-	-
Placements with banks		-	3,935,992	-	3,935,992	-	5,280,528	-	5,280,528
Government securities bought under Resale Agreement		6,981,347	(6,981,347)	-	-	3,794,296	(3,794,296)	-	-
Derivative financial instruments	1	-	47,130	47,130	47,130	-	34,458	34,458	34,458
Dealing Securities		5,466,402	(5,466,402)	-	-	7,776,419	(7,776,419)		-
Other financial assets held-for-trading	2	-	15,886,036	227,212	16,113,248	-	11,359,901	229,624	11,589,525
Financial assets designated at fair value through profit or loss		-	-	-	-	-	-	-	-
Loans and receivables to banks		-	4,325,700	-	4,325,700	-	21,222,723	-	21,222,723
Placement with and Loans to Banks and Financial Institutions		12,373,050	(12,373,050)	-	-	33,222,070	(33,222,070)	-	-
Loans and Advances		81,477,833	(81,477,833)	-	-	93,060,080	(93,060,080)	-	-
Loans and receivables to other customers	3	-	108,379,863	(502,381)	107,877,482	-	117,083,056	(865,712)	116,217,344
Rupee Loans		12,168,000	(12,168,000)	-	-	9,168,000	(9,168,000)	-	
Financial investments - Available-for-sale	4	-	2,831,402	448,980	3,280,382	-	4,190,021	(905,922)	3,284,099
Treasury Bills held to Maturity		48,647,272	(48,647,272)	-	-	55,580,567	(55,580,567)	-	-
Treasury Bonds held to Maturity		202,690,744	(202,690,744)	-	-	233,905,120	(233,905,120)	-	-
Financial investments - Held to maturity	5	-	260,401,592	(797,775)	259,603,817		298,621,786	(486,967)	298,134,819
Investment Securities		1,677,266	(1,677,266)	-	-	1,791,657	(1,791,657)	-	-
Investments in subsidiaries		150,000	-	-	150,000	150,000	-	-	150,000
Interest Receivable		12,670,054	(12,670,054)	-	-	13,157,554	(13,157,554)	-	-
Investments in associates and joint ventures		-	-	-	-	-	-	-	-
Property, plant and equipment		4,612,632	193,178	-	4,805,810	4,935,037	189,290	-	5,124,327

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NOTES TO THE FINANCIAL STATEMENTS

45.1. Reconciliation of Equity - Bank

	Notes	January 01, 2011				December 31, 2011			
		SLAS	Reclassifi- cations	Remeasu- -rements	SLFRS	SLAS	Reclassifi- cations	Remeasu- -rements	SLFRS
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Leasehold Property		193,178	(193,178)	-	-	189,290	(189,290)	-	-
Investments properties		-	-	-	-	-	-	-	-
Goodwill and intangible assets		165,432	-	-	165,432	122,782	-	-	122,782
Deferred tax assets		-	-	-	-	-	-	-	-
Other assets	6	1,742,742	-	990,329	2,733,071	2,080,996	-	1,334,420	3,415,416
Total assets		403,979,303	47,130	413,495	404,392,798	466,634,532	34,458	(660,099)	465,974,434
Liabilities									
Due to banks		-	122,857	-	122,857	-	128,948	-	128,948
Due to other customers	7	-	364,671,398	(241,405)	364,429,993	-	422,154,301	(305,238)	421,849,063
Deposits		355,364,179	(355,364,179)	-	-	411,012,699	(411,012,699)	-	-
Government Securities Sold under Repurchase Agreements		-	-	-	-	-	-	-	-
		11,164,103	(11,164,103)	-	-	16,042,515	(16,042,515)	-	-
Other borrowings		-	11,314,103	-	11,314,103	-	16,141,529	-	16,141,529
Debt securities issued		-	-	-	-	-	-	-	-
Current tax liabilities		653,310	-	-	653,310	-	-	-	-
Deferred tax liabilities		26,999	-	-	26,999	95,615	-	-	95,615
Other provisions		-	-	-	-	-	-	-	-
Other liabilities	8	15,102,902	(9,580,076)	(179,924)	5,342,902	15,278,274	(11,369,563)	798,085	4,706,796
Due to subsidiaries		-	-	-	-	-	-	-	-
Subordinated term debts		-	-	-	-	-	-	-	-
Total liabilities		382,311,493	-	(421,329)	381,890,164	442,429,103	-	492,847	442,921,951
Equity									
Stated capital / Assigned capital		3,200,000	-	-	3,200,000	3,200,000	-	-	3,200,000
Statutory reserve fund		1,338,543	-	-	1,338,543	1,626,500	-	-	1,626,500
Other reserves		17,129,267	-	834,824	17,694,091	19,378,929	-	(1,152,946)	18,225,983
Total shareholders' equity		21,667,810	-	834,824	22,502,634	24,205,429	-	(1,152,946)	23,052,483
Non-controlling interests		-	-	-	-	-	-	-	-
Total Equity		21,667,810	-	834,824	22,502,634	24,205,429	-	(1,152,946)	23,052,483
Total equity and liabilities		403,979,303	-	413,495	404,392,798	466,634,532	-	(660,099)	465,974,434

THE RESULTS OF A CHALLENGING YEAR

NOTES TO THE FINANCIAL STATEMENTS

45.2. Reconciliation of Equity - Group

		January 01, 2011				December 31, 2011			
	Notes	SLAS	Reclassifi- cations	Remeasu- rements	SLFRS	SLAS	Reclassifi- cations	Remeasu- rements	SLFRS
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets									
Cash and cash equivalents		1,356,765	-	-	1,356,765	1,400,013	(117)	-	1,399,897
Balances with central bank		-	-	-	-	-	117	-	117
Government securities held for trading		12,634,374	(12,634,374)	-	-	8,896,527	(8,896,527)	-	-
Placements with banks		-	3,935,992	-	3,935,992	-	5,280,528	-	5,280,528
Government securities bought under Resale Agreement		16,398,397	(16,398,397)	-	-	14,842,869	(14,842,869)	-	-
Derivative financial instruments	1	-	47,130	47,130	47,130	-	34,458	34,458	34,458
Dealing Securities		5,466,402	(5,466,402)	-	-	7,776,419	(7,776,419)	-	-
Other financial assets held-for-trading	2	-	15,886,036	227,212	16,113,248	-	11,359,901	229,624	11,589,525
Financial assets designated at fair value through profit or loss		-	7,999,023	(74,038)	7,924,985	-	8,800,736	(201,730)	8,599,007
Loans and receivables to banks		-	5,354,602	(33)	5,354,569	-	23,829,757	-	23,829,757
Placement with and Loans to Banks and Financial Institutions		12,373,050	(12,373,050)	-	-	33,222,070	(33,222,070)	-	-
Loans and Advances		81,477,833	(81,477,833)	-	-	93,060,096	(93,060,096)	-	-
Loans and receivables to other customers	3	-	108,379,863	(502,381)	107,877,482	-	117,083,056	(854,497)	116,228,559
Rupee Loans		12,168,000	(12,168,000)	-	-	9,168,000	(9,168,000)	-	-
Financial investments - Available-for-sale	4	-	2,832,402	448,980	3,281,382	-	4,190,021	(904,922)	3,285,099
Treasury Bills held to maturity		48,647,272	(48,647,272)	-	-	55,580,567	(55,580,567)	-	-
Treasury Bonds held to maturity		202,690,744	(202,690,744)	-	-	233,905,120	(233,905,120)	-	-
Financial investments - held to maturity	5	-	262,156,293	(735,620)	261,420,673	-	301,227,053	(310,310)	300,916,743
Investment Securities		1,678,266	(1,678,266)	-	-	1,792,657	(1,792,657)	-	-
Investments in subsidiaries		-	-	-	-	-	-	-	-
Interest Receivable		13,009,874	(13,009,874)	-	-	13,526,730	(13,526,730)	-	-
Property, plant and equipment		4,613,691	193,178	-	4,806,869	4,936,022	189,290	-	5,125,312
Leasehold Property		193,178	(193,178)	-	-	189,290	(189,290)	-	-
Investments properties		-	-	-	-	-	-	-	-
Goodwill and intangible assets		165,752	-	-	165,752	123,024	-	-	123,024
Deferred tax assets		-	-	-	-	-	-	221	221
Other assets	6	1,748,240	-	1,023,836	2,772,076	2,106,190	-	1,362,644	3,468,834
Total assets		414,621,836	47,130	435,086	415,056,924	480,525,591	34,458	(643,489)	479,881,081

THE RESULTS OF A CHALLENGING YEAR

NOTES TO THE FINANCIAL STATEMENTS

45.2. Reconciliation of Equity - Group

		January 01, 2011				December 31, 2011			
	Notes	SLAS	Reclassifi- -cations	Remeasu- -rements	SLFRS	SLAS	Reclassifi- -cations	Remeasu- -rements	SLFRS
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Liabilities									
Due to banks		-	122,857	-	122,857	-	8,962,642	-	8,962,642
Due to other customers	7	-	364,671,398	(241,405)	364,429,993	-	422,154,301	(305,238)	421,849,063
Deposits		355,364,179	(355,364,179)	-	-	411,012,699	(411,012,699)	-	-
Government Securities Sold under Repurchase Agreements		20,284,835	(20,284,835)	-	-	28,508,153	(28,508,153)	-	-
Other borrowings		-	20,543,403	(2,366)	20,541,037	-	19,926,499	(3,055)	19,923,444
Debt securities issued		-	-	-	-	-	-	-	-
Current tax liabilities		847,805	-	33,507	881,312	18,514	-	29,453	47,967
Deferred tax liabilities		26,827	-	-	26,827	95,394	221	-	95,615
Other provisions		-	-	-	-	-	-	-	-
Other liabilities	8	15,222,979	(9,688,642)	(179,924)	5,354,413	15,435,228	(11,523,834)	798,085	4,709,479
Due to subsidiaries		-	-	-	-	-	-	-	-
Subordinated term debts		-	-	-	-	-	-	-	-
Total liabilities		391,746,625	-	(390,188)	391,356,439	455,069,988	-	519,245	455,588,210
Equity									
Stated capital / Assigned capital		3,200,000	-	-	3,200,000	3,200,000	-	-	3,200,000
Statutory reserve fund		1,338,543	-	-	1,338,543	1,626,500	-	-	1,626,500
Other reserves		18,336,668	-	825,274	19,161,942	20,629,103	-	(1,162,732)	19,466,371
Total shareholders' equity		22,875,211	-	825,274	23,700,485	25,455,603	-	(1,162,732)	24,292,871
Non-controlling interests		-	-	-	-	-	-	-	-
Total Equity		22,875,211	-	825,274	23,700,485	25,455,603	-	(1,162,732)	24,292,871
Total equity and liabilities		414,621,836	-	435,086	415,056,924	480,525,591	-	(643,489)	479,881,081

THE RESULTS OF A CHALLENGING YEAR

NOTES TO THE FINANCIAL STATEMENTS

45.3. Reconciliation of Comprehensive Income for the year ended 31st December 2011

	Notes	Bank				Group			
		SLAS	Reclassifi- cations	Remeasu- rements	SLFRS	SLAS	Reclassifi- cations	Remeasu- rements	SLFRS
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Interest income	5	46,376,790	19,498	699,457	47,095,745	47,330,576	19,498	733,317	48,083,391
Interest expenses	7	(29,434,417)	-	138,318	(29,296,099)	(30,118,312)	-	139,007	(29,979,305)
Net interest income		16,942,373	19,498	837,776	17,799,646	17,212,264	19,498	872,325	18,104,086
Fee and commission income		-	240,768	-	240,768	-	240,768	-	240,768
Fee and commission expenses		-	(26,553)	-	(26,553)	-	(33,239)	-	(33,239)
Net fee and commission income		-	214,215	-	214,215	-	207,529	-	207,529
Net gain/(loss) from trading	2	-	(734,187)	(125,540)	(859,727)	-	(734,187)	(125,540)	(859,727)
Net gain / (loss) from financial instruments designated at fair value through profit or loss		-	-	-	-	-	-	(135,889)	(135,889)
Net gain / (loss) from financial Investments		-	4,111	-	4,111	-	4,111	-	4,111
Other operating income (net)		766,850	(703,103)	-	63,747	634,560	(570,813)	-	63,747
Total operating income		17,709,223	(1,199,466)	712,235	17,221,992	17,846,824	(1,073,862)	610,895	17,383,857
Provision for Loan Losses		78,272	(78,272)	-	-	78,272	(78,272)	-	-
Impairment for loans and other losses	3	-	-	142,632	142,632	-	-	142,632	142,632
Net operating income		17,630,951	(1,121,194)	569,603	17,079,360	17,768,552	(995,590)	468,263	17,241,225
Personnel expenses		2,930,665	(2,930,665)	-	-	2,944,482	(2,944,482)	-	-
Personnel expenses	6	-	3,795,616	344,041	4,139,657	-	3,795,616	358,296	4,153,912
Provision for Staff Retirement Benefits		864,951	(864,951)	-	-	865,389	(865,389)	-	-
Premises, Equipment and Expenses		1,383,703	(1,383,703)	-	-	1,385,840	(1,385,840)	-	-
Fee & Commission		453,316	(453,316)	-	-	427,620	(427,620)	-	-
Provision/(Reversal) for fall in value in Dealing Securities		1,170,706	(1,170,706)	-	-	1,170,706	(1,170,706)	-	-
Other Overheads		311,171	(311,171)	-	-	311,623	(311,623)	-	-
Other expenses		-	2,120,541	-	2,120,541	-	2,092,482	-	2,092,482
Operating profit/(loss) before value added tax (VAT)		10,516,440	77,161	225,563	10,819,162	10,662,892	221,972	109,968	10,994,831
Value added tax (VAT) on financial services		(1,564,481)	-	-	(1,564,481)	(1,583,762)	-	-	(1,583,762)
Operating profit/(loss) after value added tax (VAT)		8,951,959	-	-	9,254,681	9,079,130	-	331,939	9,411,069
Profit/(loss) before tax		8,951,959	-	-	9,254,681	9,079,130	-	331,939	9,411,069
Tax expenses		(3,192,819)	-	-	(3,192,819)	(3,277,216)	-	(29,453)	(3,306,669)
Profit/(loss) for the year		5,759,140	-	-	6,061,862	5,801,914	-	302,486	6,104,400

THE RESULTS OF A CHALLENGING YEAR

NOTES TO THE FINANCIAL STATEMENTS

45.4 - Notes to the reconciliation

Note 01.

Derivative financial instruments

Under SLFRS/LKAS derivative financial instruments are recorded on the statement of financial position at fair value. Derivatives with a positive fair value are recorded as assets, the effect of reclassification of derivative assets are as follows.

	01 January 2011	31 December 2011
	Rs. '000	Rs. '000
Increase in derivative assets	47,130	34,458

Note 02

Other financial assets held-for-trading

Impact of fair value change in dealing securities which are quoted in Colombo Stock Exchange were stated at lower of cost or market value, under SLAS are now being re-measured at marked to mark valuation.

Note 03

Loans and receivables to other customers/Impairment allowances

Specific & general provisions for bad debt were previously recognized under SLAS. The impairment approach under SLFRS differs to SLAS, as general provision is no longer permitted and impairment losses can only be provided for when there is objective evidence of an incurred loss.

Note 04

Financial investments - Available-for-sale (AFS)

The Impact of fair value change in AFS securities are recognised under shareholders equity.

Note 05

Financial investments - Held to maturity

Financial assets where the Bank has the ability and intention to hold to maturity were classified as Held-to-Maturity & measured at amortized cost using the Effective Interest Rate method.

Note 06

Other assets

Impact of recognition of day one difference on staff loan given at concessionary rates are re-measured to determine the difference between the outstanding loan balance and the present value of the total repayment, discounted at market interest rates.

Note 07

Due to other customers

The interest expense recognized under straight line basis as long term Fixed Deposit (maturity over one year) is now accounted by applying Effective Interest Rate method.

Note 08

Other liabilities

Impact of derecognition of contingency losses on pawning/provision and recognition of liability.

46. Events After the Reporting Period

No circumstances have arisen since the reporting date which would require adjustments to or disclosure in the Financial Statements.



CHAPTER 7

ANNEXURES

STATEMENT OF COMPREHENSIVE INCOME IN US DOLLARS

	Bank			Group		
For the year ended 31st December	2012	2011	Change	2012	2011	Change
	US\$ '000	US\$ '000	%	US\$ '000	US\$ '000	%
Gross income	424,191	411,900	2.98	433,045	420,640	2.95
Interest income	421,218	416,777	1.07	430,071	425,517	1.07
Less: Interest expenses	313,015	259,258	20.74	320,400	265,304	20.77
Net interest income	108,203	157,519	(31.31)	109,672	160,213	(31.55)
Fee and commission income	1,773	2,131	(16.79)	1,773	2,131	(16.79)
Less: Fee and commission expenses	196	235	(16.69)	222	294	(24.68)
Net fee and commission income	1,577	1,896	(16.80)	1,551	1,837	(15.53)
Net gain/(loss) from trading	559	(7,608)	107.35	559	(7,608)	107.35
Net gain / (loss) from financial instruments designated at fair value through profit or loss	-	-	-	(1,109)	(1,203)	(7.76)
Net gain / (loss) from financial investments	44	36	20.48	44	36	20.48
Other operating income (net)	597	564	5.85	597	564	5.85
Total operating income	110,980	152,407	(27.18)	111,314	153,839	(27.64)
Impairment change for loans and other losses	1,047	1,262	(17.05)	1,047	1,262	(17.05)
Net operating income	109,933	151,145	(27.27)	110,267	152,577	(27.73)
Personnel expenses	32,607	36,634	(10.99)	32,722	36,760	(10.99)
Other expenses	18,083	18,766	(3.64)	17,814	18,518	(3.80)
Operating profit before value added tax (VAT)	59,243	95,745	(38.12)	59,731	97,299	(38.61)
Value added tax (VAT) on financial services	9,909	13,845	(28.43)	9,981	14,016	(28.79)
Operating profit after value added tax (VAT)	49,334	81,900	(39.76)	49,750	83,284	(40.26)
Profit before tax	49,334	81,900	(39.76)	49,750	83,284	(40.26)
Tax expenses	14,697	28,255	(47.98)	15,039	29,263	(48.61)
Profit for the year	34,637	53,645	(35.43)	34,712	54,021	(35.74)
Profit attributable to:						
Equity holders of the Bank	34,637	53,645	(35.43)	34,712	54,021	(35.74)
Profit for the year	34,637	53,645	(35.43)	34,712	54,021	(35.74)
Earnings per share on profit						
Basic earnings per ordinary share	13.54	18.94	(28.55)	12.96	18.22	(28.89)
Diluted earnings per ordinary share	13.54	18.94	(28.55)	12.96	18.22	(28.89)
Profit/(loss) for the year	34,637	53,645	(35.43)	34,712	54,021	(35.74)
Other comprehensive income, net of tax						
Less: Gains and losses on re-measuring available-for-sale financial assets	(1,686)	(10,969)	(84.63)	(1,686)	(10,969)	(84.63)
Other comprehensive income for the year, net of taxes	(1,686)	(10,969)	(84.63)	(1,686)	(10,969)	(84.63)
Total comprehensive income for the year	32,951	42,676	(22.79)	33,026	43,052	(23.29)
Attributable to:						
Equity holders of the Bank	32,951	42,676	(22.79)	33,026	43,052	(23.29)
Total comprehensive income for the year	32,951	42,676	(22.79)	33,026	43,052	(23.29)
US Dollar Conversion Rate (Rs)	125.05					

STATEMENT OF FINANCIAL POSITION IN US DOLLARS

As at 31st December	Bank			Group		
	2012	2011	Change	2012	2011	Change
	US\$ '000	US\$ '000	%	US\$ '000	US\$ '000	%
Assets						
Cash and cash equivalents	11,720	12,375	(5.30)	11,732	12,388	(5.30)
Balances with central bank	-	-	-	2	1	86.91
Placements with bank	47,770	46,730	2.22	47,770	46,730	2.22
Derivative financial instruments	75	305	(75.35)	75	305	(75.35)
Other financial assets held-for-trading	86,556	102,562	(15.61)	86,556	102,562	(15.61)
Financial assets designated at fair value through profit or loss	-	-	-	43,894	76,097	(42.32)
Loans and receivables to banks	106,949	187,812	(43.06)	112,685	210,883	(46.56)
Loans and receivables to other customers	1,241,465	1,028,472	20.71	1,241,499	1,028,571	20.70
Financial investments - Available-for-sale	23,821	29,063	(18.04)	23,829	29,072	(18.03)
Financial investments - Held to maturity	2,475,776	2,638,361	(6.16)	2,503,509	2,662,980	(5.99)
Investments in subsidiaries	1,200	1,327	(9.64)	-	-	-
Property, plant and equipment	41,196	45,348	(9.16)	41,203	45,357	(9.16)
Intangible assets	896	1,087	(17.50)	898	1,089	(17.54)
Deferred tax assets	-	-	-	3	2	27.98
Other assets	38,499	30,225	27.37	38,847	30,698	26.55
Total assets	4,075,923	4,123,668	(1.16)	4,152,501	4,246,735	(2.22)
Liabilities						
Due to banks	2,695	1,141	136.17	44,808	79,315	(43.51)
Due to other customers	3,659,739	3,733,178	(1.97)	3,659,739	3,733,178	(1.97)
Other borrowings	180,895	142,845	26.64	204,946	176,314	16.24
Current tax liabilities	-	-	-	311	424	(26.79)
Deferred tax liabilities	986	846	16.56	986	846	16.56
Other liabilities	36,999	41,653	(11.17)	37,108	41,677	(10.96)
Total liabilities	3,881,315	3,919,663	(0.98)	3,947,899	4,031,754	(2.08)
Equity						
State capital	25,590	28,319	(9.64)	25,590	28,319	(9.64)
Statutory reserve fund	13,700	14,394	(4.82)	13,700	14,394	(4.82)
Other reserves	155,319	161,292	(3.70)	165,313	172,269	(4.04)
Total equity of the owners of the parent	194,608	204,004	(4.61)	204,602	214,981	(4.83)
Total equity	194,608	204,004	(4.61)	204,602	214,981	(4.83)
Total equity and liabilities	4,075,923	4,123,668	(1.16)	4,152,501	4,246,735	(2.22)
Contingent liabilities and commitments	54,741	15,310	257.56	54,741	15,310	257.56
US Dollar Conversion Rate (Rs)	125.05	113.00		125.05	113.00	

TEN YEARS AT A GLANCE

(Rs Mn)

Year Ended December	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Operating Results													
Gross Income	12,597	15,862	17,746	19,948	19,347	21,213	24,439	30,830	41,247	49,803	50,070	46,545	53,045
Interest Income	12,428	15,594	16,839	19,287	19,046	20,196	23,956	30,370	40,834	49,046	48,142	47,096	52,673
Interest Expenses	9,692	13,349	13,191	12,587	11,333	13,480	16,536	22,188	31,190	36,067	31,487	29,296	39,142
Net Interest Income	2,736	2,245	3,648	6,700	7,713	6,716	7,420	8,182	9,643	12,979	16,655	17,800	13,531
Other Income	169	268	907	661	301	1,017	483	460	413	757	1,929	(577)	347
Operating Expenses, provisions & VAT	1,654	1,537	2,171	3,215	3,897	4,276	4,402	5,340	6,956	6,792	8,807	7,968	7,709
Profit before Tax	1,251	976	2,384	4,146	4,117	3,457	3,501	3,302	3,100	6,943	9,777	9,255	6,169
Income Tax	455	301	817	612	1,002	1,351	1,616	1,729	2,041	3,229	4,386	3,193	1,838
Profit after Tax	796	675	1,567	3,534	3,115	2,106	1,885	1,573	1,059	3,714	5,391	6,062	4,331
Contribution to the Government	1,449	1,532	1,735	2,280	3,235	3,100	3,573	3,974	4,287	7,277	10,107	7,970	5,900
Assets													
Cash & Short Term Funds	749	1,896	591	498	950	861	480	533	1,146	855	1,355	1,398	1,466
Loans & Investments	109,322	121,871	141,113	168,960	188,849	212,116	224,642	256,705	277,157	335,520	395,334	455,914	498,151
Property, Plant & Equipment/Lease hold Property/Intangible Assets	595	682	756	1,382	1,470	1,564	1,934	2,513	3,006	3,584	4,971	5,247	5,264
Other Assets	4,442	6,139	6,313	6,608	6,945	7,574	8,522	10,453	13,010	14,463	2,733	3,415	4,814
Total	115,108	130,588	148,773	177,448	198,214	222,115	235,578	270,204	294,319	354,422	404,393	465,974	509,694
Liabilities & Shareholder's Funds													
Total Deposits	105,131	118,809	134,555	161,162	180,156	202,424	212,233	235,304	259,562	313,007	364,430	421,849	457,650
Repo/Borrowings	-	-	-	-	-	22	2,075	10,789	6,205	8,730	11,436	16,270	22,958
Differed Taxation	55	44	46	46	32	16	29	56	84	27	96	123	
Other Liabilities	5,623	6,570	7,383	6,450	6,603	7,116	8,274	10,819	13,497	14,841	5,997	4,707	4,627
Shareholders' Funds	4,354	5,154	6,790	9,791	11,409	12,521	12,979	13,263	15,000	17,760	22,503	23,052	24,336
Total	115,108	130,588	148,773	177,448	198,214	222,115	235,578	270,204	294,319	354,422	404,393	465,974	509,694

TEN YEARS AT A GLANCE

(Rs Mn)

Year Ended December	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Ratios													
Income Growth	12.32	25.92	11.88	12.41	(3.01)	9.64	15.21	26.15	33.79	20.74	0.54	(7.04)	13.96
Interest Margin		1.7	2.6	4.1	4.1	3.2	3.2	3.2	3.4	4.0	4.4	4.1	2.8
NIM/Gross Income		14.2	20.6	33.6	39.9	31.7	30.4	26.5	23.4	26.1	33.3	38.2	25.5
Personnel Cost/Gross Income		6.9	9.2	10.3	11.5	10.5	11.2	8.8	7.5	6.9	7.4	8.9	7.7
Overheads (Excluding Prov.) /Gross Income		9.7	12.2	13.6	15.7	14.4	15.1	12.6	11.2	10.7	12.0	13.5	12.0
Profit Before Tax/Gross Income		6.2	13.4	20.8	21.3	16.3	14.3	10.7	7.5	13.9	19.5	19.9	11.6
Contribution to the GOSL/Gross Income		9.7	9.8	11.4	16.7	14.6	14.6	12.9	10.4	14.6	20.2	17.1	11.1
Cost to Deposits		1.4	1.7	2.2	2.2	2.0	2.3	2.2	2.4	2.7	2.7	2.0	1.7
Cost to Income with VAT		61.2	47.7	43.5	47.0	50.4	59.4	56.5	58.5	55.5	48.9	45.4	54.6
Cost to Income without VAT		61.2	47.7	36.9	37.9	39.4	46.7	44.9	46.1	38.8	32.4	36.4	45.7
Return on average Shareholder's Funds (ROE)		14.2	26.2	42.6	29.4	17.6	14.8	12.0	7.5	22.7	27.3	26.61	18.28
Return on average Assets (ROA)	1.2	0.8	1.7	2.5	2.2	1.6	1.5	1.3	1.1	2.1	2.6	2.13	1.26
Deposits as % of Assets	91.3	91.0	90.4	90.8	90.9	91.1	90.1	87.1	88.2	88.3	88.0	90.5	89.8
Profit per Employee (Rs. '000)	456	359	893	1,545	1,551	1,196	1,207	1,152	1,077	2,382	3,205	2,826	1,972
Deposit per Employee (Rs. '000)	38,341	43,728	50,395	60,068	67,855	70,043	73,184	82,073	90,157	107,378	116,513	128,809	146,308

Other Information

No of Employees	2,742	2,717	2,670	2,683	2,655	2,890	2,900	2,867	2,879	2,915	3,050	3,275	3,128
No of Branches	100	11	116	119	128	128	130	130	137	157	186	210	219
Post Offices/Sub Post Offices	3	4042	4049	4045	4056	4043	4048	4042	4,045	4,055	4,053	4,058	4,053
Account Holders (Million)	12.9	13.1	13.5	13.7	14.2	14.6	15.1	15.5	15.6	16.3	16.7	17.0	17.4

* Note: Highlighted information is based on LKAS/SLFRS

ANALYSIS OF DEPOSITS

	2008	2009	2010	2011	2012
	Rs Mn	Rs Mn	Rs Mn	Rs Mn	Rs Mn
Local Currency Deposits					
Savings	71,667	79,280	94,118	105,108	106,177
Time	185,755	230,147	266,007	311,569	345,794
	257,422	309,427	360,125	416,677	451,971
Growth %	(99.9%)	20.2%	13.5%	15.7%	8.5%
Foreign Currency Deposits					
Savings	826	1,255	1,517	1,750	1,963
Time	1,314	2,325	2,788	3,422	3,717
	2,140	3,580	4,305	5,172	5,679
Growth %	(99.8%)	67.3%	20.3%	20.1%	9.8%
Total Deposits	259,562	313,007	364,430	421,849	457,650
Growth %	(99.9%)	20.6%	13.5%	15.8%	8.5%

* Note: Highlighted information is based on LKAS/SLFRS

OUR PRODUCTS AND SERVICES

SAVINGS ACCOUNTS

**01. Ordinary Savings Account**

Any person over 7 years of age can open these accounts with an initial minimum deposit of Rs. 100/-. Ordinary savings accounts can be opened on behalf of individuals/special funds/social organisations/bank guarantees/legal compensations, and as joint accounts. Using Post Office passbook savings accounts depositors can deposit or withdraw money through any Post Office or Sub-Post Office situated island-wide and NSB branch network.

**02. Hapan Children's Savings Account**

The 'Hapan' account is meant for kids between 7 years and 16 years of age. The minors can open and operate 'Hapan' accounts by themselves, whereas 'Punchi Hapan' accounts are for infants below 7 years of age and can be maintained by the parents/guardians.

**03. Ithuru Mithuru Savings Account**

The account caters to the needs of any young person between 16 and 30 years of age and can continue the account until the age of 35. Interest rate on this product is 0.5% higher than the interest rate on ordinary savings accounts.

**04. Sthree Savings Account**

This is a scheme exclusively designed for ladies over 16 years of age. Reduced rates of interests are applicable on personal loans and pawning advances to the account holders.

05. NSB Pension + Account

A contributory retirement benefit scheme with a higher rate of return along with a free life Insurance cover up to Rs. 1 Million and a medical cover up to Rs. 1 Million.

06. Smile Savings Account

Sri Lankan citizen above the age of 16 years and can operate the account

individually or jointly. Accompanied prizes are available for this accounts.

**07. Gift Tokens**

This is a way available to give gifts which are available in various denominations and easy to purchase and encash whenever needed.

LONG TERM DEPOSIT SCHEMES

**08. NSB Fixed Deposit**

Individuals can open a fixed deposit at NSB whom are over 16 years of age/minors below 16 years of age in care of their parents/guardians or as jointaccounts/special funds/on behalf of social organizations can open a fixed deposits at NSB.

09. Triple A Fixed - Fixed Deposit

Triple A Fixed Deposits are 3 year or 5 year long-term deposits with high interest. Loans against the deposits or credits through NSB Easy Card are accompanied facilities.

OUR PRODUCTS AND SERVICES

**10. Gaurawa Fixed Deposit**

Senior citizens over 55 years of age can open Gaurawa Fixed Deposit Accounts that pay a monthly interest, which will always be 1.5% more than that of normal monthly Fixed Deposits.

**11. Prarthana Children's Savings Certificate**

A long-term deposit scheme for kids with attractive interest rates paid in upfront. The 'Prarthana' Savings Certificate matures when the account holder reaches 16 years of age.

SAVINGS CERTIFICATES

12. NSB National Savings Certificate

National Savings Certificate pays a high interest upfront and is available for periods from 3 months to 4 years. Anyone over 7 years can purchase NSB National Savings Certificates in values of Rs. 500/=-, Rs. 1,000/=-, Rs. 5,000/=-, Rs. 10,000/=- and Rs. 25,000/=-.

**13. Ridee Rekha Premium Savings Certificate**

Savings Certificates which can be purchased at the values of Rs. 50/-, Rs. 100/-, Rs. 250/-, Rs. 500/-, Rs. 1,000/- and Rs. 5,000. As long as the 'Ridee Rekha' Premium Savings Certificate is not encashed it is entitled for quarterly draws to win a prize.

CREDIT SERVICES

14. Mihindu Sevana Housing Loans

A loan scheme that provides facilities to construct, renovate, purchase or repair houses, purchase bare land or redeem an existing housing loan obtained from a reputed financial organization.

**MIHINDU SEVANA**

இதற்கும் நிவாஸ ITHURUM NIVASA
தி ல ன ஸ டி ரி கி ரி மீ து ம்

15. Ithurum Nivasa Housing Loans

Ithurum Nivasa Housing Loan is for the self-employed and for seasonal

income earners aged between 18 years and 55 years. After opening Ithurum Nivasa Housing Loan Savings Account and depositing a monthly sum a loan can be obtained based on deposit value and repayment capacity.

16. NSB Auto Loans

Auto Loans are granted up to 75% of the purchasing price of unregistered vehicles and up to 60% of the purchasing price of registered vehicles for personal use.

SPEED LOAN
Loans Against Deposit**17. Speed Loans**

Loans up to 90% of your deposits in the Bank could be obtained against the security of such deposits.

**PERSONAL
LOAN
SCHEME****18. Personal Loans**

A loan for personal needs can be obtained against the security of the primary mortgage of immovable property, surrender value of Life Policies, Government Securities and also on Personal Guarantors.

OUR PRODUCTS AND SERVICES

**19. Ran Sahana Pawning Service**

An instant loans for short-term credit needs at comparatively low rates of interest, against the security of jewellery.

20. Project Loans

Loans are granted for infrastructure and other development projects for the purposes of Direct lending to Financial Institutions, Loan Syndication and Project Lending. Prospective clients can meet our Senior Management to discuss the facilities expected.

E-CARD FACILITIES**21. NSB Easy Card**

NSB Easy is a Master / Visa Card Credit Facility which will be issued against your fixed deposit at a low annual interest rate of only 2.5 % above the FD rate.

22. Shopping Card

Anytime anywhere money: NSB enables to make use of the ATM facility 24 hours a day, 7 days a week with Master / Visa Card facility. You can withdraw up to Rs. 40,000/= from a Shopping Card and Rs. 80,000/=

from a Platinum Card or purchase goods from any merchant with Master / Visa Card International Network up to Rs. 100,000/= within 24 hours.

FOREIGN CURRENCY PRODUCTS**23. NSB Ranmasu Non-Resident Foreign Currency Account (NRFC)**

Sri Lankan nationals employed abroad and those who hold foreign passports are eligible to open NRFC accounts with NSB in the form of Savings or Fixed Deposits for periods of 1, 3, 6 or 12 months in US Dollars (USD), Euros (EUR), Sterling Pounds (GBP) and Australian Dollars (AUD).

24. NSB Ranmasu Resident Foreign Currency Account (RFC)

Sri Lankan nationals residing in Sri Lanka who are in possession of foreign currency or who receive remittances in foreign currency are eligible to open RFC Accounts in the form of Savings and Fixed Deposits for periods of 1, 3, 6 and 12 months in US Dollars (USD), Euros (EUR), Sterling Pounds (GBP) and Australian Dollars (AUD).

25. Special Foreign Investment Deposit Account (SFIDA)

Special Foreign Investment Deposit Account could be opened as Savings and Fixed Deposit Account in the currencies of USD, EUR, GBP and AUD or Sri Lanka Rupees by citizens of foreign states, Sri Lankan citizens resident abroad, corporate bodies incorporated outside Sri Lanka and Foreign Institutional Investors such as Country funds, Mutual funds and Regional funds. Minimum Initial Deposit is USD 10,000 or equal.

26. Loans against NRFC/RFC/SFIDA Deposits

NRFC/RFC/SFIDA Account holders are entitled to Rupee Loans up to 80% of the Rupee Value of the NRFC/RFC Fixed Deposits & SFIDA against the security of the deposit at concessionary rates.

27. Treasury Bill / Treasury Bond Investment External Rupee Account (Formerly TIERA-D)

Non-resident Sri Lankans and Sri Lankan citizens with Dual Citizenship can invest in Government-guaranteed Treasury Bills and Bonds and contribute to the economic development of the country.

OUR PRODUCTS AND SERVICES

28. Travelers' Cheques and Foreign Currency Notes

Travelers' Cheques and Foreign Currency Notes are accepted as deposits to Rupee Accounts at attractive foreign exchange rates.

29. Foreign Inward Remittances

Sri Lankan nationals living/employed abroad could remit funds to their own family members' and relatives' LKR/ NRFC/RFC Accounts at NSB or to any other account with any other Bank in Sri Lanka via Exchange Houses and Banks with whom the NSB has already established the relationship for fund transfer.

30. Eurogiro

NSB joined the Eurogiro Network in early 2008 and prides itself of being the sole Eurogiro Member in Sri Lanka. Eurogiro is a low cost electronic money transfer system pioneered by the Western Postal Organizations and Banks. Under the Eurogiro, funds could be transferred through Deutsche Postbank (Germany), Korea Post (Korea), Israel Post (Israel), Poste Italiane (Italy), Thai Post Bank (Thailand) and La Banque Postale (France).

**31. Web-based Remittances**

We are also agents in Sri Lanka for global money transfer channels such as "INSTANT CASH", "XPRESS MONEY", "UNISStream", "EzRemit", and "Transfast".

32. Money Changing Business

The Bank commenced money changing business in selected branches to encash foreign currency as well as to issue foreign currency.

OTHER SERVICES

33. Speed Cash

NSB Speed cash is a secured and fast over-the-counter fund transfer service which facilitates transfer of funds between any two parties.

34. Investments in Government Securities

Investment in Treasury Bills and Treasury Bonds as facilitated at any NSB branch or NSB Fund Management Company.

35. Standing Orders

Standing Orders authorize the Bank to make a series of payment on behalf of the customers to a named payee or benefiting by debiting there Saving account or fixed payment account.

36. Mail Transfer Orders

It is authorize the bank to transfer funds even one branch to another branch of the Bank.

**37. Safety Deposit Lockers**

NSB provides a safe and trusted place for safekeeping valued belongings.

38. Gratuity Payment Scheme

NSB also offers a Gratuity Payment Scheme up to Rs. One Million where payments are made at the death of account holders to their nominee/s or heir/s. On the basis of the balance in their accounts, any active account holder aged between 18 to 70 years with a minimum balance of Rs. 15,000/= will be entitled to this facility.

39. Guarantees

This is an instrument, which amounts to an unconditional undertaking by the Bank, to discharge the liability of a depositor; in the event of his / her failing to discharge the obligation.

40. Utility Bill Payments

Utility Bill Payment Services are available at NSB and you can pay utility bills at any of our branches. Bills will be updated online as soon as you pay your bill.

OUR PRODUCTS AND SERVICES

OUR EXTENDED CHANNEL NETWORK**41. 24 / 7 NSB Call Centre**

NSB Call Centre is to facilitate customers who contact the Bank for enquiries related to their banking activities. Customers could obtain information related to Bank Products and Services by contacting the Call Centre by telephone, e-mail, Skype or Web chat.

42. Post Office Savings

The facility of depositing money at NSB through any Post Office / Sub Post Office. is available customer can open Thepal Hapan Children's Savings Accounts, Sthree Thepal Savings Accounts, Ordinary Savings Accounts, and Fixed Deposits Accounts and purchase Ridhee Rekha Premium Savings Certificates at Post / Sub Post Offices. is also available Ran Sahana pawning facility at selected Post Offices / Sub Post Offices.

as transfer of funds among savings accounts are accompanied in this facility.

44. SMS Banking

Viewing of Account balance at anytime from mobile phone is provided. The SMS Banking is available for Savings Accounts holders and payment of Utility Bills and transfer funds among Savings Accounts are additional features.

45. Mobile Banking

Point of Sale Banking (POS) or Door Step Banking is open with the latest technology. Facilitated the money depositing with NSB while being at home, school or workplace.

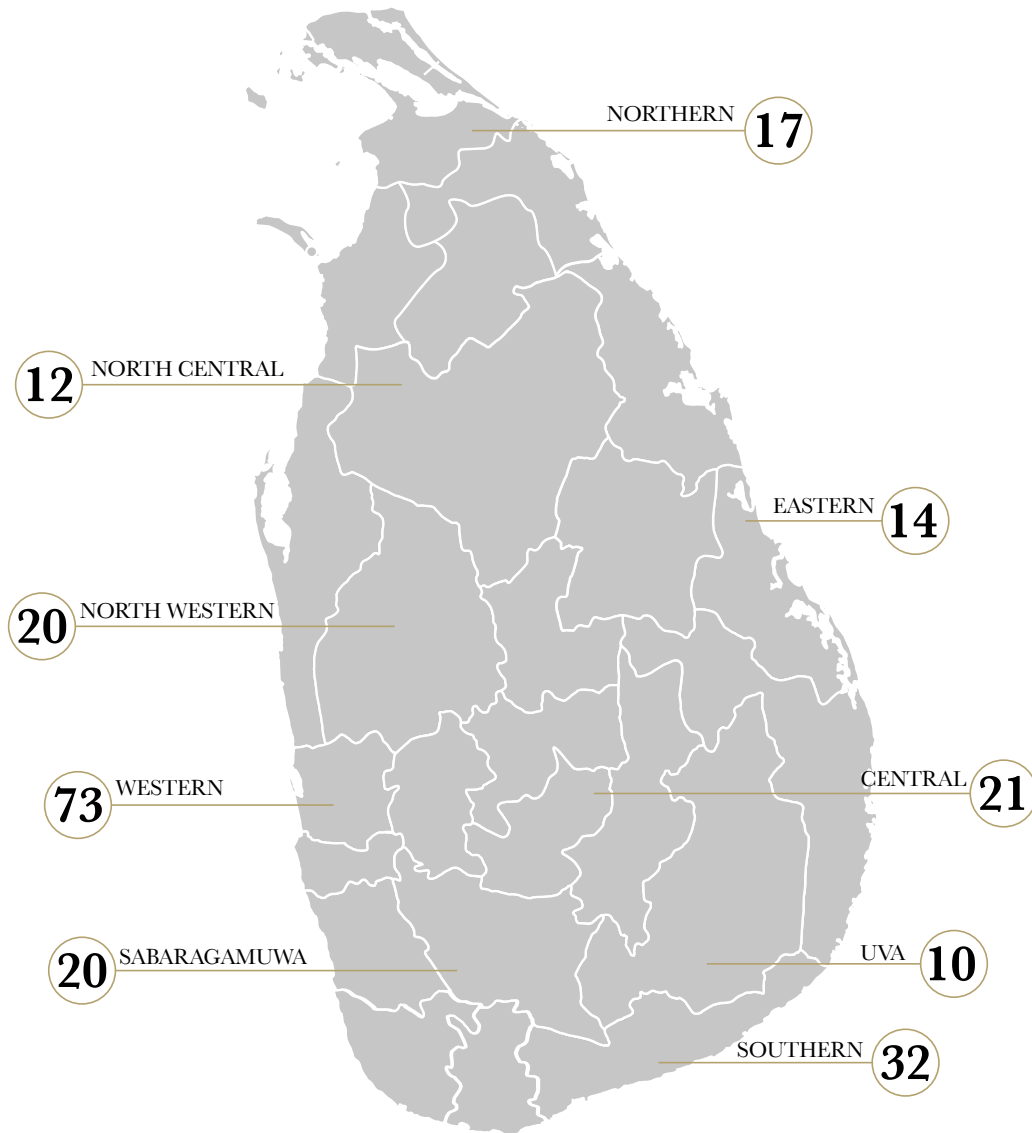
46. School Banks

NSB was involved in establishing School Banks, where school children learn the habit of savings and get used to the leadership role within the school.

**43. Virtual NSB - Internet Banking**

NSB customers can view your account balance and past transactions at anytime anywhere using Internet Banking. Easy Card and payment of bills online at anytime as well

BRANCH NETWORK



BRANCH NETWORK

Central Province

1. Dambulla
2. Digana
3. Galewela
4. Gampola
5. Hatton
6. Kandy
7. Kandy City Centre
8. Kandy 2
9. Kandy 3
10. Katugastota
11. Matale
12. Mulgampola
13. Nawalapitiya
14. Nuwara-Eliya
15. Naula
16. Pilimatalawa
17. Pundaluoya
18. Pussellawa
19. Rikillagaskada
20. Talawakelle
21. Wattagama

Eastern Province

22. Akkaraipattu
23. Ampara
24. Ampara 2
25. Arayampathy
26. Batticaloa
27. Chenkaladi
28. Kalawanchikudi
29. Kalmunai
30. Kantale

31. Palugamam
32. Pothuvil
33. Sammanthurai
34. Trincomalee
35. Valaichchenai

Northern Province

36. Atchuvely
37. Chankanai
38. Chavakachcheri
39. Chunnakam
40. Jaffna
41. Jaffna 2
42. Karainagar
43. Kayts
44. Kilinochchi
45. Manipay
46. Mannar
47. Nelliady
48. Point Pedro
49. Thirunalveli
50. Vavuniya
51. Vankalai
52. Mallavi

North Western Province

53. Alawwa
54. Anamaduwa
55. Chilaw
56. Galgamuwa
57. Hettipola
58. Ibbagamuwa
59. Kuliyapitiya

60. Kurunegala
61. Kurunegala 2
62. Madampe
63. Marawila
64. Mawathagama
65. Melsiripura
66. Narammala
67. Nattandiya
68. Nikaweratiya
69. Polgahawela
70. Puttalam
71. Wariyapola
72. Wennappuwa

North Central Province

73. Anuradhapura
74. Anuradhapura 2
75. Galnewa
76. Hingurakgoda
77. Kaduruwela
78. Kahatagasdigiliya
79. Kebithigollewa
80. Kekirawa
81. Medawachchiya
82. Medirigiriya
83. Nochchiyagama
84. Tambuttegama

Sabaragamuwa Province

85. Aranayake
86. Balangoda
87. Bulathkohupitiya
88. Deraniyagala

89. Eheliyagoda
90. Embilipitiya
91. Kahawatta
92. Kalawana
93. Kegalle
94. Kegalle 2
95. Kiriella
96. Kuruwita
97. Mawanella
98. Nivithigala
99. Pelmadulla
100. Rambukkana
101. Ratnapura
102. Ruwanwella
103. Warakapola
104. Yatiyantota

Southern Province

105. Akuressa
106. Ambalangoda
107. Ambalantota
108. Angunakolapelessa
109. Baddegama
110. Beliatte
111. Deniyaya
112. Devinuwara
113. Dickwella
114. Elpitiya
115. Galle
116. Galle 2
117. Habaraduwa
118. Hakmana
119. Hambanthota

BRANCH NETWORK

120. Hikkaduwa	<i>Western Province</i>	176. Kalutara 2	206. Peliyagoda
121. Imaduwa	147. Aluthgama	177. Katubedda	207. Pettah
122. Kamburupitiya	148. Athurugiriya	178. Katunayake	208. Piliyandala
123. Karapitiya	149. Avissawella	179. Kelaniya	209. Puwakaramba
124. Kekanadura	150. Bambalapitiya	180. Kiribathgoda	210. Raddolugama
125. Matara	151. Bandaragama	181. Kirindiwela	211. Ragama
126. Matara 2	152. Battaramulla	182. Kirulapone	212. Rajagiriya
127. Middeniya	153. Beruwala	183. Kochchikade	213. Veyangoda
128. Morawaka	154. Boralesgamuwa	184. Kollupitiya 2	214. Wadduwa
129. Neluwa	155. Borella	185. Kotahena	215. Wattala
130. Sooriyawewa	156. Bulathsinhala	186. Kottawa	216. Wellampitiya
131. Tangalle	157. City	187. Mahabage	217. Wellawatta
132. Tissamaharamaya	158. Dehiwela	188. Maharagama	218. World Trade Center
133. Urugasmanhandiya	159. Delgoda	189. Malabe	219. Yakkala
134. Walasmulla	160. Delkanda	190. Maligawatta	
135. Weeraketiya	161. Divulapitiya	191. Matugama	
136. Weligama	162. Gampaha	192. Meegoda	
	163. Gampaha 2	193. Minuwangoda	
<i>Uva Province</i>	164. Ganemulla	194. Mirigama	
137. Badulla	165. Hanwella	195. Moratumulla	
138. Bandarawela	166. Head Office	196. Moratuwa	
139. Bibile	167. Homagama	197. Mt. Lavinia	
140. Buttala	168. Horana	198. Mulleriyawa	
141. Haliela	169. Ingiriya	199. Mutwal	
142. Mahiyanganaya	170. Ja-Ela	200. Narahenpita	
143. Moneragala	171. Kadawatha	201. Nawala	
144. Passara	172. Kaduwela	202. Negombo	
145. Welimada	173. Kahathuduwa	203. Nittambuwa	
146. Wellawaya	174. Kalubowila	204. Nugegoda	
	175. Kalutara	205. Panadura	

CORRESPONDENT BANKS

Citi Bank NA,

Wall Street, New York,
NY 10005, USA.

Tel: 12125591000
www.citibank.com
SWIFT: CITIUS33

**Deutsche Bank Trust Company
Americas,**

No 60 Wall Street,
New York, NY 10005,
USA.

Tel: 1 212 2502500
Tel: 1 2127970291
www.deutsche-bank.com
SWIFT: BKTRUS33

Deutsche Bank AG

P.O.B60202
Frankfurt am Main Germany.

Tel: 496991000
Tel: 49 6991034225
www.deutsche-bank.com
SWIFT: DEUTDEFF

National Australia Bank

330, Collins Street
Melbourne, VIC 3000.
Australia.

Tel: 61386413500
www.national.com.au
SWIFT: CTBAU2S

Commonwealth Bank

Sydney, NSW 2001.

Australia

GPO Box 5227,

Tel: 61 293782000
www.commbank.com.au
SWIFT: CTBAU2S

Deutsche Postbank

AG.,Friedrich-Ebert-Allee
53113 Bonn,
Germany.

Tel: 114-126, 492289200
www.postbank.de
SWIFT: PBNKDEFF

Bank of Ceylon

No 01,
Devonshire Square London
EC2M4WD

Tel: 0207 377 1888
Tel: 44 2073775430
www.info@bankofceylon.co.uk
SWIFT: BCEYGB2L

Banca Popolari Di Sondrio

Piazza Garibaldi 16
23100,
Sondrio SO,
Italy

Tel: 390 342 528.111
Tel: 390 342 528 204
www.info@popso.it
SWIFT: POSOIT22

Unicredito SPA

Estero F.S.D.-Via Volta 1, 20093 Colonna
Monzese, MI, Italy

Tel: 390288621
Tel: 39 02 88623340
WNW. unicreditgroup.eu
SWIFT: UNCRITMM

Woori Bank

1-203, Hocheon-dong, Jun9-9u, Seoul

Tel: 82 - 2 -21252001
www.wooribank.com
SWIFT: HVBK KR SE

EXCHANGE COMPANIES

Al Ahalia Exchange

P.O. Box 2419,
Abu Dhabi, U.A.E.
Tel: 97126269341
www.alahaliamoneyexchange.com

Al Ansari Exchange

P. O. Box 325,
Abu Dhabi, U.A.E.
Tel: 97126108 888
www.alansariexchange.com
info@alansari.ae

Al Dar For Exchange Works

P.O.Box 24048,
Doha State of Qatar
Tel: 9744550455

Al Fardan Exchange-Abu Dhabi

P.O.Box 498, Amin Khourl Building, Liwa
Street, Abu Dhabi, U.A.E.
Tel: 971026223222
exchange@alfardangroup.com
farhaj.ali@alfardanexchange.com

Al Fardan Exchange-Qatar

Alfardan Centre, Grand Hamad Avenue,
P.O.Box 339, Doha, Qatar.
Tel: 97444408408
afx@alfardan.com.qa

Al Mulla International

Al Mulla Group Head Office,
Free Trade Zone,
Shuwaikh, Kuwait
Tel: 96522250888

Al Rajhi Bank

P.O.Box 28,
Riyadh 11411,
Kingdom of Saudi Arabia.
Tel: 96612116000
www.alrajhibank.com.sa

Al Rostamani International Exchange

Al Rostamani International Exchange,
P.O.Box 10072, Dubai, U. A. E.
Tel: 97146098152
www.alrostamaniexchange.com
ariemgt@alrostamanigroup.ac

Arabian Exchange Co.

P.O.Box 3535,
Doha-Qatar.
Tel: 9744438200
www.arabianex.com
arabianex@qatar.net.qa

Asia Express Exchange

P.O. Box 881-RUWI,
PC 112,Muscat,
Sultanate of Oman.
Tel: 96824781727
slankaex@omantel.net.com

Baharain Exchange

P.O. Box 29149,
Safat 13152, Kuwait.
Tel: 965824000
www.bec.com.kw
baexco@bec.com.kw

Baharain Finance Co.

P.O. Box 243, Manama
Kingdom of Baharain

Bank Al Bilad

P.O.Box 140,
Riyadh-11411, Saudi Arabia.
Tel: 96614798888
www.bankalbilad.com.sa

CB Unistream Bank

20, Verhnyaya Maslovka str,
bldg 2, 127083,
Moscow, Russia
Tel: 74957445555
www.unistream.com
relations@unistream.com

Citi Global Remittance

Baharan Financing Co.
P.O.Box 243, Manemo
Kingdom of Baharain

City International Exchange

Abdullah Dashti Building,
Abdullah Mubarak Street,
P.O.Box 21804,
Safar 13079, Kuwait
Tel: 9652448507
citex@qualitynet.net

Colombo International Money Transfer

Colombo Money Transfer Services Pty
Ltd,3 Clow st, Dandenong,
Victoria 3175,
Australia.
Tel: (03)97923065
info@colombomoneytransfer.com.au

Dalil Exchange

P.O.Box 20404,Manama,
Kingdom Of Bahrain.
Tel: 17223464
www.dalil.com.bh
dalilint@batelco.com.bh

Dollarco Exchange

P.O.Box 26270,
Safat 13123, Kuwait.
9652412767
dollarco@qualitynet.net

Emirates International Exchange

P.O. Box 7190,
Dubai, U.A.E.
Tel: 600522248
www.emiratesexchange.ac

Habib Exchange-Abu Dhabi

Central Office, Hamdan Street,
P.O.Box 2370,Abu Dhabi, U.A.E.
Tel: 6272316
www.habibexchange.com
hecoad@emirates.net.ae

EXCHANGE COMPANIES

Habib Qatar International Exchange

P.O.Box 1188, Mushirib Street,
Doha Qatar.

Tel: 974424373
www.habibqatar.com
habib@qatar.net.qa

IME (M) SDN.BHD

Ground Floor,
No 22, Jalan Medan Pasar 50050,
Kuala Lumpur, Malaysia.

Tel: 03-20727260
www.ime-txnremit.com

Instant Cash Exchange

East Wing, Building 2,
Office No.203,DAFZA,
P.O. Box 3014, Dubai, U. A. E.

Tel: 97143602288
www.instantcashworldwide.com
rahat@instantcashworldwide.com

Kapruka (PVT) Ltd

1/1324, Centre Road,
Clayton, VIC 3168, Australia.

Tel: 610395445060
www.kapruka.com.au

Kuwait Asian**International Exchange**

Kuwait Asian International Exchange,
Qaiseria No.1, Shop Number 48,
Fahaheel, Kuwait.

Tel: 96523910522
kuaiew@yahoo.com

Majan Exchange

P.O.Box 583, Postal Code :117,
Sultanate of Oman

Tel: 24794017
majanech@omantel.net.om

Money Gram

1550, Utica Avenue South,
Minneapolis, MN 555416, U.S.A.

Tel: 9525913000

National Exchange Co.

Via Ferruccio, 3000185,
Roma, Italy.

Tel: 390644341221
www.nationalexchange.it
nec@nationalexchange.it

National Money Exchange

P.O.Box 29760, Safat 13158 Kuwait, State
Of Kuwait.

Tel: 2462680
nmekwt@qualitynet.net

Oman & UAE Exchange Centre

P.O.Box 1116, Postal Code: 131, Al
Hamriyah, Sultante of Oman.

Tel: 96824796533
omanuaex@omantel.net.om

Samba Financial Group

King Abdulaziz Road, P.O.Box 833,
Riyadh 11421, Saudi Arabia.

Tel: 96614774770
www.samba.com.sa

Trans Fast Remittance LLC

Ammus, Paptamali Road, Irianjala Kuda,
Trichur District, Kerala, India.

Tel: 919946000780

UAE Exchange Centre-Abu Dhabi

P.O.Box 170, Level 02,
Al Sayegh Center, Sheikh Hamdan Street,
Abu Dhabi, U.A.E.

Tel: 97126105555
www.uaexchange.com
hq@uaexchange.com

UAE Exchange Centre-Kuwait

P.O.Box 26155, Safat 13122, Kuwait.

Tel: 9652459417
www.uaexchangekuwait.com
kuwait.ho@uaexchange.com.kw

ValuTrans SPA

Via Melchiorre Gioia 168, Milano, Italia.

Tel: 390291431300
www.valutrans.it

Wallstreet Exchange

P.O.Box 3014, Dubai U. A. E.

Tel: 97142284889
www.wallstreet.corp.com
info@wallstreet.ae

Xpress Money Exchange

3rd Floor, Al Sayegh Building,
Hamdan Street,
P.O.Box 170, Abu Dhabi,
U.A.E.

Tel: 97126105691
www.expressmoney.com

GLOSSARY

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised Cost

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or uncollectability.

Available for Sale Financial Assets

Available for sale financial Assets are those non derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Bills Sent for Collection

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

Capital Adequacy Ratios

The relationship between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Capital Expenditure

Total of additions to property and equipment.

Capital Reserves

Reserves identified for specific purposes and considered not available for distribution.

Cash Equivalents

High liquid investments which are readily convertible to cash with no significant loss in value.

Collective Agreement

A tripartite agreement entered into among the NSB, Ministry of Finance and Trade Unions.

Collectively Assessed loan impairment Provisions

Also known as portfolio provisions, Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Loans and advances are assessed on portfolio basis.

Commercial Paper

Short-term instrument issued in the open market by creditworthy entities with the standby credit facility.

Commitments

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

Compounded Annual Growth Rate (CAGR)

The rate at which it would have grown if it grew at an even rate compounded annually.

Contingencies

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Contractual Maturity

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

Cost/Income Ratio

Operating expenses excluding loan loss provision and provisioning for fall in value in dealing securities as a percentage of net income.

GLOSSARY

Credit Ratings

An evaluation of a corporate's ability to repay its obligation or the likelihood of not defaulting, carried out by an independent rating agency.

Credit Risk

Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Dealing Securities

Marketable securities that are acquired and held with the intention of reselling them in the short term.

Debenture

A medium-term debt instrument issued by a Corporate entity.

Deferred Taxation

Sum set aside for tax in the Financial Statements that will become payable in a financial year other than the current financial year.

Derivative

Financial contract of which the value is derived from the value of underlined assets.

De recognition

Removal of previously recognized financial assets or financial liability from an entity's statement of financial position.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Economic Value Added

A measure of productivity which takes into consideration cost of total invested equity

Effective Interest Rate

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability

Equity Method

The equity method is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Effective Tax Rate

Provision for taxation excluding deferred tax divided by the profit before taxation.

Fair Value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Asset or Financial Liability at Fair Value through Profit or Loss

Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as 'at fair value through profit or loss'.

Financial Instrument

Financial Instrument is any contract that gives rise to a financial asset of one entity

and a financial liability or equity instrument of another entity.

Foreclosed Properties

Properties acquired in full or partial; satisfaction of debts.

Foreign Exchange Profit

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/ last Balance Sheet date and the settlement/Balance Sheet date.

General Provisions

These are provisions made on loans and advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

Group

A group is a parent and all its subsidiaries.

Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

Held to Maturity Investments

Non derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Impaired assets portfolio

Impaired Assets Portfolio is the total of the individually significant impaired loans and

GLOSSARY

individually insignificant loans which are overdue above 180 days.

Impairment Allowances

Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).

Intangible Asset

An intangible asset is an identifiable non-monetary asset without a physical substance.

Interest in Suspense

Interest suspended on nonperforming loans and advances.

Interest Margin

Net interest income expressed as a percentage of average interest earning assets.

Interest Rate Swap

An interest rate Swap is a derivative in which one party exchanges a stream of interest payments for another party's stream of cash flows.

Interest Spread

Represents the difference between the average interest rate earned and the average interest rate paid on interest earning assets and interest bearing liabilities, respectively. variables such as interest rates, exchange rates, credit spreads and other asset prices.

Investment Securities

Securities acquired and held for yield or capital growth purposes and are usually held for maturity.

Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director.

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange and treasury bills.

Loans and Receivables

Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

Loss Given Default (LGD)

LGD is the percentage of an exposure that a lender expects to loose in the event of obligor default.

Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of Financial Statements.

Net Interest Income

The difference between the interest income from investment portfolio and the interest paid on deposits.

Non-Performing Loans (NPL)

The loans which are in default for more than three months.

NPL Ratio

Total non-performing loans and advances (net of Interest in Suspense) divided by total loans and advances portfolio (net of Interest in Suspense).

Off Balance Sheet Transactions

Transactions that are not recognised as assets or liabilities in the Statement of Financial Position, but which give rise to contingencies and commitments.

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Parent

A parent is an entity that has one or more subsidiaries.

Portfolio

A pool of investments including investment in Government Securities, loans and advances, equities, etc.

Promissory Note

A short-term instrument whereby the borrower promises to pay the borrowed money on the production of the instrument.

Probability of Default (PD)

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation

GLOSSARY

Return on Average Assets (ROAA)

Net income expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

Return on Average Equity (ROAE)

Net income, less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly as per the Sri Lanka Accounting Standard No. 30 on 'Related Party Disclosures'.

REPOs

Repurchase agreements. Securities sold to lenders with the commitment to buy back on a later date at a fixed price plus interest.

Revenue Reserve

Reserves set aside for future distribution and investment.

Rupee Loan

Rupee securities issued by Central Bank of Sri Lanka on behalf of the Government of Sri Lanka.

Risk-Weighted Assets

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per rupee among all types of assets. The risk inherent in off-balance sheet instruments is also recognised, first by adjusting notional values to balance sheet (or credit) equivalents and

then by applying appropriate risk weighting factors.

Shareholders' Funds

A Capital Reserve created as per the provisions of the Banking Act No. 30 of 1988.

Single Borrower Limit

33% of the regulatory capital base.

Statutory Reserve Fund

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Subsidiary

An entity, including an unincorporated entity such as a partnership, which is controlled by another entity known as the parent.

Tier I Capital

Consists of the sum total of ordinary share capital, statutory reserve fund and general reserves.

Tier II Capital

Supplementary capital representing 50% of the revaluation reserve and general provisions.

Total Capital

The sum of Tier I and Tier II Capital.

Treasury Bill

A short-term debt instrument issued on auction basis by the Central Bank of Sri Lanka on behalf of the Government of Sri Lanka.

Treasury Bond

A long-term debt instrument issued on auction basis by the Central Bank of Sri Lanka on behalf of the Government of Sri Lanka, which carries an interest coupon.

Unit Trust

An undertaking formed to invest in securities under the terms of a trust deed.

Value Added

Value added wealth created by providing the services to customers, less the cost of such services. The value so added is distributed among the employees, Government by way of taxes and levies and the balance retained for expansion and growth.

CORPORATE INFORMATION

NAME OF THE BANK

National Savings Bank

LEGAL FORM

A Government-owned Bank incorporated in Sri Lanka by the National Savings Bank Act No.30 of 1971 and was granted the status of the Licensed Specialized Bank in terms of the Banking Act No. 30 of 1988.

REGISTERED OFFICE AND HEAD OFFICE

‘Savings House’,
No. 255, Galle Road,
Colombo 03, Sri Lanka.
Tel: 94-11-2573008-15
Fax: 94-11-2573178
E-mail: nsbgen@nsb.lk
Website: www.nsb.lk
Swift Code: NSBALKLX

SERVICE OUTLETS

219 Branches
1185 School Bank Units
231 ATMs

AGENCY NETWORK

641 Post Offices
3,412 Sub-Post Offices throughout the island.

CREDIT RATING

The Bank has been assigned AAA (lka) long-term credit rating by the Fitch Rating Lanka (Pvt) Ltd.

INTERNATIONAL MEMBERSHIP

World Savings Bank's Institute (WSBI)
International Union for Housing Finance
Society for Worldwide Interbank Financial
Telecommunication (SWIFT)
Eurogiro Global Payment Community

BOARD OF DIRECTORS

Sunil S Sirisena - Chairman
S T Abeygunawardana - Working Director
D L P R Abeyaratne - Director
P A Abeysekera - Director (up to 28.02.2013)
R M P Ratnayake - Director (from 04.03.2013)
Lionel P Fernando - Director
Priyantha Jayawardena - Director
Sumith Wijesinghe - Director

GENERAL MANAGER/CEO

H M Hennayake Bandara

BOARD SECRETARY

Ms. Y F Deen

BOARD AUDIT COMMITTEE

Lionel P Fernando - Chairman
P A Abeysekera (up to 28.02.2013)
R M P Ratnayake (from 4.3.2013)
Sumith Wijesinghe

HUMAN RESOURCES & REMUNERATION COMMITTEE

Sunil S Sirisena - Chairman
P A Abeysekera (up to 28.02.2013)
R M P Rathnayake (from 04.03.2013)
Priyantha Jayawardane

BOARD NOMINATION COMMITTEE

P A Abeysekera - Chairman (up to 28.02.2013)
R M P Ratnayake - Chairman (from 04.03.2013)
S T Abeygunawardana
Sumith Wijesinghe

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

D L P R Abeyaratne - Chairman
Lionel P Fernando
Priyantha Jayawardena

CORPORATE INFORMATION

COMPLIANCE OFFICER

R M Gunathilaka

AUDITORS

Auditor General

SUBSIDIARY

NSB Fund Management Co. Ltd.

REGISTERED OFFICE AND HEAD OFFICE

1st Floor, 'Savings House' National Savings Bank,
No. 255, Galle Road, Colombo 03, Sri Lanka.
Tel: 94-11-2564601, 2467731
Fax: 94-11-2564706
E-mail: nsbfmc@nsb.lk
Swift Code: NSBFLKLXXXX

BOARD OF DIRECTORS

Sunil S Sirisena - Chairman
S T Abeygunawardana
D L P R Abeyaratne
Lionel P Fernando
H M Hennayake Bandara

CHIEF EXECUTIVE OFFICER

N K Dahanayake

AUDITORS

KPMG

COMPANY SECRETARY

Ms. Y F Deen



National Savings Bank

Savings House
No. 255, Galle Road,
Colombo 03,
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nsbgen@nsb.lk

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