

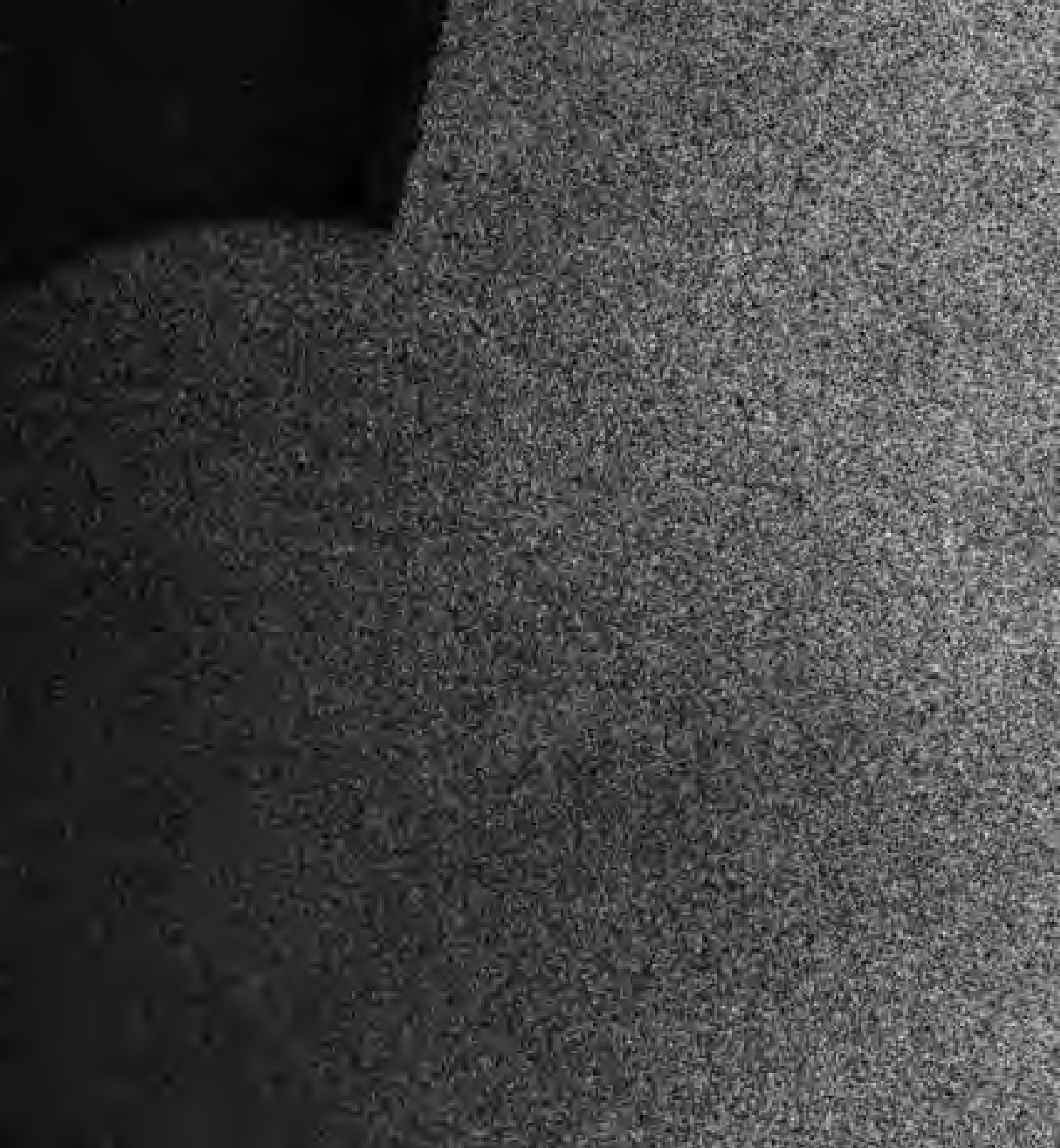
A Unique Story: The Sequel



***Annual Report
2016***

National Savings Bank







A Unique Story: The Sequel

Annual Report
2016



NATIONAL SAVINGS BANK

Vision

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

Mission

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

Values

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

Contents

A Unique Story: The Sequel 05

Prologue — 06

**NSB's Unique
Business Model — 08**

**Organisational
Structure — 20**

The 2016 Story 22

Highlights — 24

Our Protagonists — 31

Chairman's Message — 32

General Manager/CEO's Review — 36

"The Plot" — 42

Financial Capital — 43

Intellectual Capital — 66

Manufactured Capital — 69

Human Capital — 72

Social and Relationship Capital — 79

Natural Capital — 95

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A Unique Story: The Sequel

National Savings Bank

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Financial Reports 179

Governance — 99

Board of Directors — 100

Corporate Management — 104

Executive Management — 106

Chief Managers — 108

Corporate Governance — 112

Report of the Board Audit Committee — 139

*Report of the Board Human Resource
and Remuneration Committee — 142*

*Report of the Board Integrated
Risk Management Committee — 144*

*Report of the Board Nomination
Committee — 146*

Risk Management Report — 150

Supplementary Information 311



***A Unique Story:
The Sequel***

Prologue

Our Unique Story begins 44 years ago when a Parliamentary Act facilitated the amalgamation of the prevailing savings movements in the country at that time, into one establishment called the National Savings Bank. Thereby, our unique establishment inherited a savings legacy that was over a century old.

The founding principle of NSB was financial inclusion. NSB was to become the leading savings institution that would serve the needs of all Sri Lankans, irrespective of class, gender or status. 44 years later, with over 250 branches island-wide, we can assuredly declare that NSB is the bank for all segments of society.

The pillar on the cover symbolises our stability as the largest Licensed Specialised Bank in the country. It also represents our long-standing commitment to foster a savings culture in our main stakeholder; the people of Sri Lanka.

Firmly rooted in the local economy, NSB acts as a pillar of strength to the Nation. We assist the national economy via payment of taxes and dividends and contributing towards public spending, national policies and Government initiatives. We are thus committed to empowering the nation to achieve economic strength and financial security.

*In our unique way, we serve the nation and its people.
This is our unique story.*

***NSB's Unique
Business Model***

Serving the nation while fostering a savings culture is the core mission of our business model. With 44 years of pioneering service and a savings legacy which extends over a century, NSB offers something truly unique among other players in the Sri Lankan banking industry.

Inputs

Financial Capital



| | | | | |
|---------------------|----------------|----------------|----------------|----------------------|
| Shareholder's Funds | Borrowings | Asset Base | Deposit Base | Economic Value Added |
| Rs. Million | Rs. Million | Rs. Million | Rs. Million | Rs. Million |
| 32,245 | 207,040 | 911,704 | 657,280 | 5,317 |

Intellectual Capital



| | | | | |
|--------------------|---------------------|------------------------------|----------------------|-----------------|
| Brand Value | Brand Ranking (LMD) | The Safest Bank in Sri Lanka | Government Guarantee | Fitch Rating |
| USD Million | 3rd Place | | 100% | AAA(Ika) |
| 202 | | | | |

Manufactured Capital



| | | | | |
|----------------|------------|--------------|----------------------|-----------------------------|
| Total Branches | ATMs | Offsite ATMs | Mobile Banking Units | New Branches Opened in 2016 |
| 250 | 279 | 22 | 5 | 5 |

Human Capital



| | | | | |
|-----------------|---------------------|--|----------------|-----------------|
| Total Workforce | New Employees hired | Investment in Training and Development | Training Hours | Retention Ratio |
| 4,384 | 923 | Rs. Million | 48,644 | 99.6% |
| | | 29.5 | | |

Social & Relationship Capital



| | | | | |
|-------------------------|-----------------------|-----------------|----------------|---------------------|
| Total Customers Million | Customer Touch Points | Exchange Houses | Postal Network | Correspondent Banks |
| 19.3 | 529 | 42 | 4,061 | 12 |

Natural Capital



| | |
|-----------|-------------------------------------|
| Eco Loans | Paper recycled on the Big Seiri day |
| 35 | 40,820 kg |

Process

Value Created

Outcomes and Impacts



Vision



Mission



Values

Key Business Lines

*Accepting Deposits (LKR/FC)
Treasury and Money Market Operations
Retail Lending
Corporate Lending
Inward and Outward Remittances*

Branches
ATMs
Internet Banking
SMS Banking
Debit Cards

Postal Banking
Point of Sale Banking
School Banking Units

Exchange Houses/
Representatives
NSB Easy Card
Call Centre

Our



Strategy

*Safest place for public savings
Enhanced public trust
Inculcating the habit of saving among Sri Lankans
Friendly customer service
Integrity
Experienced Workforce
Risk Management
Solid Corporate Governance
Strong organisational culture*



Governance



**Risk
Management**

Dividends/Levy – Shareholder Rs. 12,026 Million
Interest Paid – Customers Rs. 44,366 Million
– Borrowers Rs. 16,557 Million
Loans Disbursed Rs. 132,278 Million

Training and Development Rs. 29.5 Million
IT Enhancements Rs. 326.5 Million
Awards achieved for Financial Reporting – 3

New Branches Opened during the Year – 5
New ATMs Opened during the Year – 8
Strategic Relocations – 6
New Offsite ATMs installed during the Year – 1

Personnel Expenses Rs. 6,235 Million
No. of Promotions granted – 239
Value of Staff Housing Loans disbursed
Rs. 1,129 Million
No. of Employees with more than 15 years
of experience with the Bank – 728
New recruitments – 923

Value Distribution to Society via Government
Rs. 19,251 Million

Value of Eco Loans Rs. 22.5 Million

Employees

Investors
Customers
Business Partners
Society
Regulators

Environment

Our Core Mission is to Foster a Savings Culture in Sri Lanka

We provide customers with total financial solutions that optimally meet their savings and investment needs. With a 44 years of pioneering service and a savings legacy which extends over a century, NSB offers something truly unique among other players in the Sri Lankan banking industry.

NSB is the Safest Place for Your Savings

NSB is state-owned and it is the only bank which has 100% Government guarantee on deposits and interest.

This has been assured by Global Finance in 2016 with the recognition of NSB as the Safest Bank in Sri Lanka.

Our Customers are Our Main Focus

Customers choose NSB because we provide them value which make them happy. This has been made possible because we have an excellent understanding of our customers. We know that a combination of factors such as our proximity to the customer, quality of service, range of products and services etc. contribute to make up this value. The fact that value is delivered on a pedestal of trust and positive brand image makes it all the more attractive. We constantly track customer value through our own and independent customer satisfaction surveys. After all, presence of satisfied customers is an imperative for sustainability of our operations.

We have Optimised Customer Reach, Interaction and Convenience

We have facilitated customer interaction through a large network of customer interaction points. NSB is accessible to our customers through our 250 branches, 4,061 Post Offices, Sub-Post Offices and 2,858 school banking units across the island. Customers in rural areas can reach the Bank through postal network which results in uplifting the living conditions of rural community. We are also the savings pioneer in Sri Lanka with over 19 Million account holders.

NSB provides people with convenient and easy banking options which allow customers to freely engage in their day-to-day businesses. NSB is the leading bank in Sri Lanka that uses a Point of Sale Banking System for collection of deposits at customers' doorstep.

We are the Savings Bank for all Segments of Sri Lankan Society

Our product portfolio caters to infants, youth and teenagers, women, the self-employed, monthly income earners, pensioners, expatriates and migrant workers. The Bank grants loans to public and private sector employees, members of the armed forces, professionals and young scholars heading for universities.

We have become the leading savings institution that serves the needs of all Sri Lankans irrespective of class, gender or status. NSB is also the Bank for the whole family as it offers customers a range of products and services.

NSB is the Pillar of the Nation

With our total assets standing at Rs. 912 Billion and a deposit base of Rs. 657 Billion, we are the fourth largest bank in Sri Lanka. Thus, NSB is firmly rooted in the national economy. Being a state-owned bank, we are committed to support and implement various Government projects focused on nation building. We contribute to the Government by means of taxes, levies and dividends to ensure that funds are available for development initiatives. In our unique way, we serve the nation by:

Improving the National Savings Culture

The Government plans to increase the gross domestic savings percentage to 30% of GDP by 2020 from the current level of 23%. NSB has taken measures to assist the Government's vision by launching 'NSB Reach', which enables banking at customers' door step.

Bolstering the Nation's Corporate Sector

Bank's corporate loans encompass major financial institutions and State-Owned Enterprises (SOEs) of the country. As a percentage, the highest increase in corporate loans were loans to Banks, which rose sharply by 34.2% to Rs. 31.8 Billion, up from Rs. 8.1 Billion at the beginning of the year.

Endorsing Nation's Heroes

NSB concentrated efforts on providing loans for personnel in the Defence sector. In 2016, NSB granted over 21,900 loans amounting to Rs. 25.7 Billion. The Bank's aim was to relieve members of the Armed Forces of the burden of debt incurred from the higher interest loans obtained from commercial banks.

Developing the Nation's Infrastructure

During the year, NSB assisted a number of infrastructure projects like Kerawalapitiya Lakdhanavi Power Project, Administrative office complex at Sethsiripaya, Battaramulla and Water supply project, Bentota. The Bank also granted loans to a number of road construction projects.

Building the Nation

Being a Pillar of Strength in the Face of New Trends and Challenges

Our unique business model has equipped us to operate in a competitive market. Being a pillar of the financial system, NSB is in a unique position to respond to emerging market trends and conditions and to meet the needs of our stakeholders.

We face various challenges like interest and exchange rate fluctuations, market volatility, competitive and regulatory environment, research capability and scope, degree of automation, digital transformation, organisational capability, IT delivery and difficulty of diversifying income through fee based income which is done by commercial banks.

The ever-changing customer eco-system must also be taken into consideration. As a bank, we must realign and reposition our stance accordingly to ensure success.

NSB is Well-Poised to Capitalise on New Opportunities

We are a leading brand name in Sri Lanka that maintained AAA rating for 14th consecutive years. Our contribution towards the national economy through investments in Government Securities has further bolstered the NSB brand.

We are proud to announce that NSB was adjudged the 3rd most valuable brand in Sri Lanka, two ranks up from 2015 ranking.

Furthermore, we have gradually built up our presence in the international markets to become a global player that can capitalise on international opportunities.

Our current position as a market leader in offering holistic savings options to customers, the sense of security and confidence that our brand carries, our savings legacy, and our wide-ranging reach with a broad network of customer interaction points position us to capitalise on new opportunities.

Operating Environment

All good stories need a proper setting to thrive on. The Bank's financial position and performance are inextricably linked to the sociopolitical, economic trends in Sri Lanka and the world. What follows is an overview of how local and global economy and emerging trends in the banking sector contributed to shaping NSB's Unique Story in 2016.

The Global Economy

Despite a slow start, the global economy accelerated in the final quarter of 2016 mainly due to improved conditions in emerging market economies and advanced economies.

The International Monetary Fund (IMF) estimates the global growth in 2016 to be 3.1% which ended up with 2.6%.

IMF forecasts a growth of 3.4% in global economy in 2017 and is projected to grow by 3.6% in 2018.

The geopolitical climate of 2016 greatly affected the global economy. Namely, the 'Brexit', volatile conditions in the Middle-East, impeachment of Dilma Rousseff in Brazil and the US elections. The Sterling Pound hit all time low in 2016 following the EU referendum.

The victory of Donald Trump in the American Presidential Election had a marked impact on markets in the latter half of 2016 affecting gold prices, and pushing the Mexican Peso to an all-time low.

As predicted at the outset of the year, the Chinese economy continued to slow down in 2016. China the world's largest trading nation posted the lowest GDP growth after 26 years of 6.7%. However, this was well within the Government's target range of 6.5% –7.0%. The Eurozone, unfazed by the Brexit, continued to gather momentum throughout 2016, ending the year on a high note.

The Sri Lankan Economy

Unfavourable weather conditions, numerous domestic challenges and sluggish global economic recovery caused the economy to grow at a slower rate of 4.4% in 2016 in real terms, in comparison to 4.8% in the previous year.

Inflation, which remained low in the first four months of the year, increased thereafter to record an annual average of 4.0% in 2016 [both National Consumer Price Index (NCPI, 2013=100) and Colombo Consumer Price Index (CCPI, 2013=100) based]. The high levels of inflation observed during some months in 2016 were mainly due to the domestic supply side disturbances, particularly due to adverse weather conditions, the increase in the Value Added Tax (VAT) and rising international commodity prices.

The Central Bank of Sri Lanka (CBSL) tightened its monetary policy stance during 2016 to restrain excessive growth of monetary and credit aggregates to contain the possible build-up of demand driven inflationary pressures in the economy. The Central Bank raised the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of Licensed Commercial Banks (LCBs) by 1.50% points to 7.5% effective January 2016, to permanently absorb a part of excess liquidity in the domestic money market. Furthermore, in view of rising inflationary pressures, the Central Bank increased its key policy interest rates, namely the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR), by 50 basis points to 7.0% and 8.5%, respectively in February 2016.

Responding to monetary tightening measures, short term interest rates increased substantially, while the Central Bank engaged in open market operations (OMO). The increase in short-term interest rates gradually transmitted to other market interest rates including lending and deposit rates of financial institutions. Interbank call money market rates adjusted upwards during 2016. By end 2016, AWCMR (Average Weighted Call Money Rate) was at 8.4%, recording an increase of 202 basis points during the year. Meanwhile, Sri Lanka Inter Bank Offered Rates (SLIBOR) also moved upwards during the year. Accordingly, by end 2016, overnight and 12-month SLIBOR stood at 8.4% and 12.0%, respectively, compared to 6.4% and 7.7%, respectively, at end 2015.

The Average Weighted Deposit Rate (AWDR), which reflects the movements in interest rates pertaining to all outstanding interest bearing deposits held with commercial banks, increased by 197 basis points to 8.2% by end 2016 from 6.2% at end 2015. Meanwhile, the Average Weighted Fixed Deposit Rate (AWFDR), which is based on interest rates pertaining to all outstanding time deposits held with commercial banks, also increased by 289 basis points to 10.5% by end 2016 from 7.6% at end 2015.

The increase in deposit rates and increased efforts of banks to mobilise deposits from the general public aggressively also resulted in a substantial increase in the deposit base during 2016. Accordingly, the Average Weighted New Deposit Rate (AWNDR), which captures interest rates pertaining to all new interest bearing deposits placed with commercial banks during a month, increased by 421 basis points to 11.1% by end December 2016 from 7.0% at end December 2015. The Average Weighted New Fixed Deposit Rate (AWNFDNR), which is based on interest rates pertaining to all new time deposits held with commercial banks during a month also increased by 431 basis points to 11.4% by end December 2016 from 7.1% recorded at end 2015.

Lending rates of commercial banks increased during 2016, reflecting the impact of the tight monetary stance, deficit liquidity conditions and increased cost of funds due to high deposit interest rates offered in view of aggressive deposit mobilisation. The Average Weighted Lending Rate (AWLR) increased by 220 basis points to 13.2% by end 2016 from 11.0% at end 2015.

The unemployment rate declined to 4.4% in 2016 from 4.7% in the previous year, while the number employed, increased by 1.5% during the year with the expansion in the industry and services related activities in the economy.

Meanwhile, Sri Lanka's gross reserve asset position declined to US dollars 6.0 Billion, as at end 2016, equivalent to 3.7 months of imports of goods and 3.1 months of imports of goods and services. The decline in gross official reserves was primarily due to foreign currency debt service payments, settlement of international foreign currency swap

arrangements, and repayment of the IMF-SBA (Stand-By Arrangement) facility and the supply of liquidity to the domestic foreign exchange market. During the year, the overall budget deficit of Rs. 640.3 Billion was largely financed from foreign sources and government debt to GDP ratio increased to 79.3% by end 2016 from 77.6% as at end 2015.

Meanwhile, in view of the deterioration in the BOP and to obtain support for the Government's reform agenda, Sri Lanka requested a three year Extended Fund Facility (EFF) of Special Drawing Rights (SDR) 1.1 Billion (approximately US dollars 1.5 Billion) from the IMF, and the first and the second tranches under this facility amounting to US dollars 332 Million were received during the year. Repayments on account of the IMF Stand-By Arrangement (SBA) facility obtained in 2009 were continued and amounted to US dollars 455 Million in 2016.

The Sri Lankan Banking Sector

Several policy measures were implemented by the Central Bank, in line with international standards and best practices, to strengthen the regulatory and supervisory framework of the banking sector. The banking sector indicators remained at healthy levels, while the non-banking sector performed well despite the strict fiscal and macro prudential measures.

The banking sector maintained its capital and liquidity levels well above the statutory minimum requirement while assets of the sector recorded a lower growth in 2016 compared to 2015.

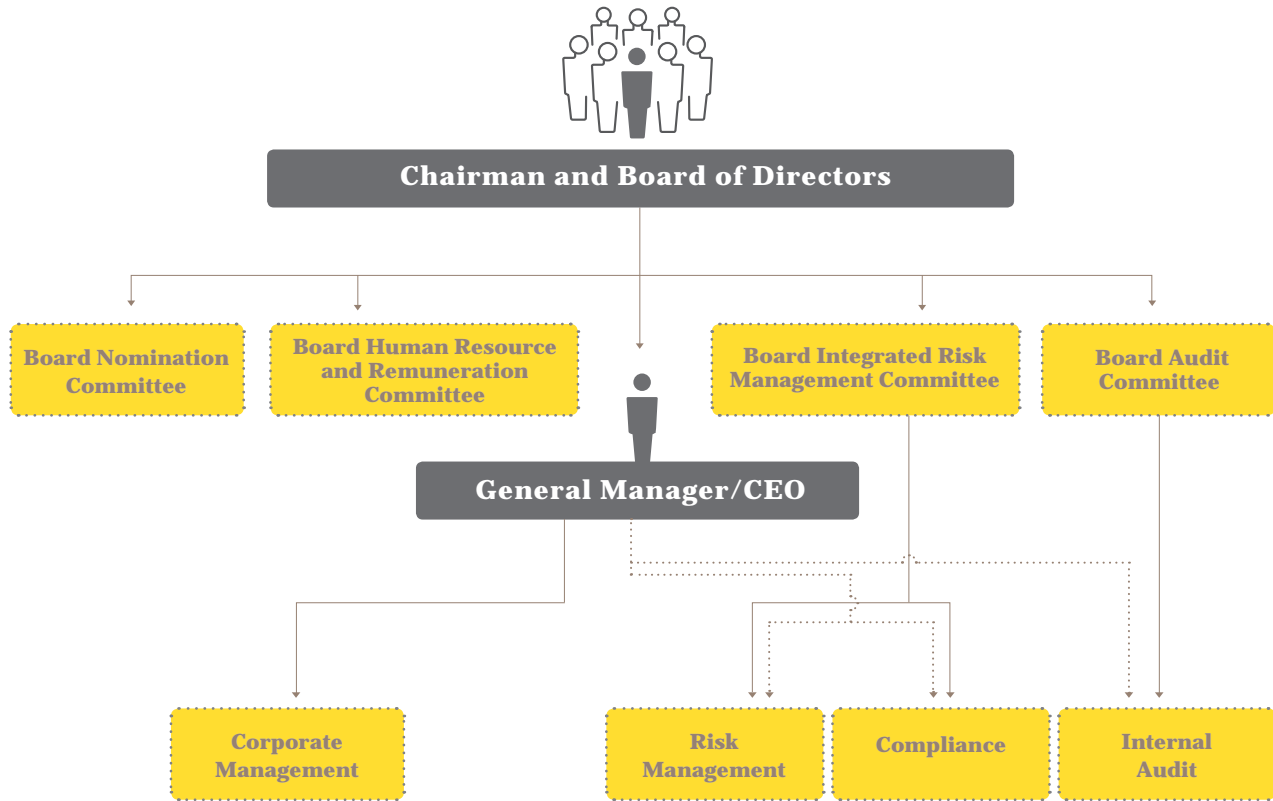
The increase in interest income of the banking sector mainly contributed to the higher profitability of the banking sector as reflected in Return on Assets (ROA) and Return on Equity (ROE). The asset base of the banking sector expanded by Rs. 969 Billion during the year surpassing Rs. 9 Trillion by end December 2016 albeit at a slower growth of 12.0% (year on year) in 2016 compared to 15.9% reported in 2015. The asset portfolio mainly consisted of loans and advances, which accounted for 61.2% of the banking assets.

The customer deposits continued to be the major source of liabilities which accounted for 69.6% of the total liabilities of the banking sector. The deposit base of the banking sector increased during the year mainly due to the increase in term deposits denominated in Sri Lankan Rupees. Time deposits reported an increase of 23.8% in 2016 compared to an increase of 13.9% in the previous year. As a consequence, the share of time deposits as a percentage of total deposits increased to 60.6% in 2016 from 57.0% in 2015. The increase in term deposits was partly attributed to the upward movement in interest rates during the year. The Current Accounts and Savings Accounts (CASA) ratio decreased to 37.1% by end 2016 from 40.3% in 2015 indicating a decline in low cost funding. Meanwhile, asset quality measured by the Non-Performing Loans (NPL) ratio recorded its lowest level for the last two decades, due to aggressive credit recovery policies adopted by banks. The NPL ratio declined further to 2.6% in 2016 from 3.2% in 2015 due to a decline in NPLs by an absolute amount of Rs. 10.6 Billion.

The Statutory Liquid Assets Ratios (SLARs) of the Domestic Banking Units (DBUs) and Off-shore Banking Units (OBUs) were maintained well above the minimum statutory level at 30.0% and 35.3%, respectively. The loans to deposits ratio increased to 88.0% in 2016 from 87.3% in 2015. The Liquidity Coverage Ratio (LCR) for rupee liquidity requirements and all currency liquidity requirements of the banking sector were 199.2% and 152.8%, respectively, remaining well above the stipulated minimum requirement of 70.0% as at end December 2016.

The net interest income of the banking sector increased at a slower rate than in 2015 recording a growth of 14.4%, mainly due to the increase in interest expenses by 39.4%. However, the net interest income as a percentage of average assets increased marginally during 2016. Non-interest income increased by about 6% during the year despite a negative growth in foreign exchange income.

Organisational Structure



The 2016 Story

Our 2016 Story is set in the backdrop of a volatile market where major political events in the world shaped the local and global economy. 2016 also saw the National Savings Bank celebrating 44 years of pioneering service.

The General Manager/CEO in his review outlines that the Bank's keen focus on good governance, risk management and compliance were key contributors to its success in 2016. The Bank's outstanding financial results are just one chapter in its unique story. Our 2016 Story was coloured by NSB being bestowed with coveted banking accolades: NSB was named as the safest bank in Sri Lanka by Global Finance and NSB is the only local bank to receive 'AAA (lka)' by Fitch Ratings Lanka Ltd. for the 14th consecutive year.

Another important chapter in our 2016 Story is our focus on the implementation and proliferation of renewable energy, mentioned in the Chairman's message. We are one of the official banks for the new community-based power generation project titled *Soorya Bala Sangramaya* (Battle for Solar Energy) launched by the Ministry of Power and Renewable Energy. NSB is proud to serve the nation in promoting the national deployment of renewable energy which will pave the way for sustainable development.

The 2016 Annual Report captures significant moments of our growth and evolution within the past year. Our achievements in 2016 amidst a volatile economic backdrop display our stability and fortitude. It also shows that we are strongly poised to face the global, local economic challenges of 2017.

With that thought, we invite you to glimpse into what shaped our unique story in 2016.

Highlights

Financial Highlights

| <i>For the year ended 31st December</i> | Bank | | | Group | | |
|---|---------|---------|-------------|---------|---------|-------------|
| | 2016 | 2015 | Change % | 2016 | 2015 | Change % |
| Results for the Year (Rs. Million) | | | | | | |
| Gross income | 87,399 | 79,282 | 10.24 | 88,039 | 79,890 | 10.20 |
| Profit before Financial VAT and Taxation | 16,094 | 15,471 | 4.03 | 16,209 | 15,745 | 2.95 |
| Profit Before Taxation (PBT) | 13,303 | 13,034 | 2.07 | 13,397 | 13,272 | 0.94 |
| Income Tax Expenses | 3,805 | 4,361 | (12.75) | 3,835 | 4,440 | (13.62) |
| Profit After Taxation (PAT) | 9,498 | 8,672 | 9.52 | 9,562 | 8,832 | 8.27 |
| Position at the Year end (Rs. Million) | | | | | | |
| Shareholders' funds (Total Equity) | 32,246 | 32,424 | (0.55) | 33,787 | 34,005 | (0.64) |
| Due to other customers/deposits from customers | 657,280 | 595,776 | 10.32 | 657,280 | 595,776 | 10.32 |
| Financial investment – Held-to-maturity | 505,824 | 515,303 | (1.84) | 507,625 | 517,514 | (1.91) |
| Gross loans and receivable | 325,543 | 274,843 | 18.45 | 324,744 | 274,866 | 18.15 |
| Total assets | 911,704 | 848,079 | 7.50 | 921,603 | 856,484 | 7.60 |
| Information per Ordinary Share (Rs.) | | | | | | |
| Earnings (Basic) | 29.68 | 27.10 | 9.52 | 29.88 | 27.60 | 8.26 |
| Earnings (Diluted) | 29.68 | 27.10 | 9.52 | 29.88 | 27.60 | 8.26 |
| Net assets value | 52.01 | 101.32 | (48.67) | 54.49 | 106.26 | (48.72) |
| Ratios | | | | | | |
| Net Interest Margin (NIM) (%) | 2.89 | 3.32 | (12.95) | 2.89 | 3.32 | (12.95) |
| Return on average shareholder's funds (ROE) (%) | 29.37 | 31.15 | (5.71) | 28.21 | 29.92 | (5.73) |
| Return on average assets (ROA) (%) | 1.51 | 1.60 | (5.63) | 1.51 | 1.62 | (6.71) |
| Year-on-year growth in earnings (%) | 9.52 | 26.29 | (63.80) | 8.27 | 25.22 | (67.22) |
| Statutory Ratios: | | | | | | |
| Liquid assets (%) – Minimum requirement 20% | 72.56 | 81.08 | (10.51) | 72.56 | 81.08 | (10.51) |
| Capital adequacy ratios: (Under Basel II) | | | | | | |
| Tier I (%) – Minimum requirement 5% | 12.53 | 17.90 | (30.00) | 13.08 | 18.72 | (30.13) |
| Tier I & II (%) – Minimum requirement 10% | 14.68 | 16.40 | (10.49) | 15.22 | 17.30 | (12.02) |

Financial Goals and Achievements – Bank

| Financial Indicator | Goals | Achievement | | | | |
|--|----------|-------------|-------|--------|---------|---------|
| | | 2016 | 2015 | 2014 | 2013 | 2012 |
| Net Interest Margin (NIM) (%) | 2.97 | 2.89 | 3.32 | 2.98 | 1.74 | 2.75 |
| Return on average assets (ROA) (%) | 1.51 | 1.51 | 1.60 | 1.46 | 0.39 | 1.30 |
| Return on average shareholder's funds (ROE) (%) | 27.44 | 29.37 | 31.15 | 30.20 | 5.15 | 16.07 |
| Growth in income (%) | 9.15 | 10.24 | 1.79 | 18.78 | 23.95 | 13.66 |
| Growth in profit for the year (PAT) (%) | 9.11 | 9.52 | 26.29 | 480.04 | (68.54) | (37.92) |
| Growth in total assets (%) | 9.64 | 7.50 | 8.80 | 19.12 | 28.61 | 9.19 |
| Capital Adequacy Ratios: (Under Basel II) | | | | | | |
| Tier I (%) – Minimum requirement 5% | Over 10% | 12.53 | 17.90 | 20.45 | 18.50 | 20.36 |
| Tier I & II (%) – Minimum requirement 10% | Over 14% | 14.68 | 16.40 | 18.97 | 16.72 | 19.08 |

Non-Financial Highlights



Financial and Manufactured Capital

Direct Economic Value:

| | | | |
|--|---|--|--|
| <i>Generated Rs. Million 87,399</i> | <i>Impairment Charge Rs. Million (100)</i> | <i>Retained Rs. Million (2,623)</i> | <i>Economic Value Added Rs. Million 5,317</i> |
|--|---|--|--|

Distributed to:

***Rs. Million
90,122***

| | | | |
|---|---|---|---|
| <i>Depositors Rs. Million 60,923</i> | <i>Employees Rs. Million 6,235</i> | <i>Government Rs. Million 19,251</i> | <i>Community Rs. Million 3,713</i> |
|---|---|---|---|



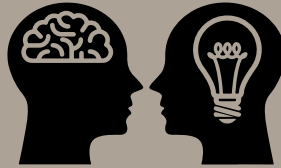
Social and Network Capital

| | | | |
|---|--|--|--|
| <i>Inquiries Received Over the Phone</i> | <i>Inquiries Over Web Chats</i> | <i>Debit Cards Issued during the Year</i> | <i>Total Number of Cards Issued as at 31st December</i> |
| <i>Nos.</i> | <i>Nos.</i> | <i>Nos.</i> | <i>Nos.</i> |
| <i>200,045</i> | <i>40,009</i> | <i>225,524</i> | <i>1,749,294</i> |

| | | |
|--|---|--|
| <i>Newly Registered Customers for SMS Banking during the Year</i> | <i>Newly Registered Customers for Internet Banking during the Year</i> | <i>Non-Compliance with Laws and Regulations</i> |
| <i>Nos.</i> | <i>Nos.</i> | <i>Nos.</i> |
| <i>2,974</i> | <i>4,604</i> | <i>Nil</i> |

Customer Touch Points:

| | | | | |
|------------------------|---------------------------------|--------------------------------|--------------------|------------------------------------|
| <i>Branches</i> | <i>Main Post Offices</i> | <i>Sub-Post Offices</i> | <i>ATMs</i> | <i>School Banking Units</i> |
| <i>Nos.</i> | <i>Nos.</i> | <i>Nos.</i> | <i>Nos.</i> | <i>Nos.</i> |
| <i>250</i> | <i>651</i> | <i>3,410</i> | <i>279</i> | <i>2,858</i> |



Intellectual Capital

***Brand Value
USD Million 202***

***Brand Ranking
No. 3rd***

***Fitch Rating
AAA (Ika)***

***S & P Rating – International Credit Rating
B+ negative***

***Fitch Rating – International Credit Rating
B+ negative***

***Employees with a period
of experience over 15 years with the Bank
No. 728***



Human Capital

**Total
Employees
Nos.
4,384**

**New
Employees
Recruited
Nos.
923**

**Graduates
Nos.
801**

**Return to
Work after
Maternity
Leave
100%**

**Training
Hours
48,644**

**Training
Programmes
Nos.
273**

**Employee
Turnover during
the Year:**

Retirements
**Nos.
116**

Resignations
**Nos.
12**



Natural Capital

***Eco Loans
Nos.
35***

***Value of Eco
Loans
Rs. Million
22***

***Paper Recycled
on Big
Seiri day
40,820 kg***

***Our
Protagonists***



Chairman's Message

The year 2016 marked another gripping chapter in our unique story. It was a year of continued delivery and improved performance. Amidst the volatile global economic climate, NSB was able to record the highest growth in deposits of the year at 10% and improvement in asset quality second to none in Sri Lankan banking industry.

That's why Global Finance rated us as the Safest Bank in Sri Lanka in 2016. These favourable results were brought about by the culmination of the Bank's triennial business plan 2014-2016. Equipped with a sound business plan which charts our course for the coming three years, NSB is geared for the future.

Strengthening the Financial Position

The financial position of the Bank was enhanced by the increase in business volumes and the remarkable improvement of asset quality, when we reached the lowest NPA in the entire banking sector to 1.55% at the year end. Stated capital too increased by Rs. 3 Billion to reach Rs. 6.2 Billion as at 31st December 2016.

In a landmark achievement, the Bank raised Rs. 6 Billion via issuance of debenture to improve Basel II and III capital requirement guidelines, resulting in a Capital Adequacy Ratio being the best in the state sector.

I am proud to announce that NSB was bestowed with numerous accolades in the year 2016. We received 'AAA (Ika)' rating from Fitch Ratings Lanka Ltd. for the 14th consecutive year. I am also happy to announce that we were rated 'The Safest Bank in Sri Lanka' by Global Finance for the year 2016. These accolades are testament to the already cemented position of our brand in Sri Lanka.

While we are proud of our achievements in 2016, we will not rest on our laurels. We will continue to deliver value to our stakeholders in the next phase of our development.

Cultivating a Savings Culture

NSB is unique. With 44 years in operation as the largest specialised bank in the country and a savings legacy of over a century old, NSB is committed to cultivate the practice of savings with all Sri Lankans. Our diverse product portfolio is aimed at achieving this core objective of fostering a culture of saving in our customers.

Serving the Nation

NSB represents the values of our multicultural, multi-ethnic, multi religious nation. We have embraced diversity and inclusiveness to become a microcosm of the nation. This is reflected in our customer base, our employees and our overall strategy. Firmly rooted in the national economy, NSB serves the nation by contributing to the National Treasury. This year alone, Rs. 19.2 Billion was transferred in the form of taxes, levies, fees and dividend compared to Rs. 11 Billion in 2015.

As the only state guaranteed bank, NSB offers 100% security to its customers. NSB supports economic and social projects of the Government. Thus, our customers participate in nation building. We are a pillar of strength to the Government of Sri Lanka, helping the Government to maintain stability and sustainability of the financial system.

Progressing through Sustainability

In 2016, the Government emphasised the significance of environmental and economic sustainability to face the biggest global challenge of the 21st century: climate change. At NSB, we recognise that the future is renewable energy and we are engaged to assist the Government's initiatives on sustainability. In pursuance of this, NSB became the official bank for *Soorya Bala Sangramaya* (Battle for Solar Energy), an island-wide, community-based, solar power generation project, launched by the Ministry of Power and Renewable Energy.

Looking Forward

We will continue on our path of decisively reorganising and optimising our product portfolio to maximise our offering to our customers. With a view to diversify the products portfolio, the sources of revenue and to better manage the available capital, the Bank has drawn up meticulous plans to expand its international banking operations. We will also focus on investing to further modernise our technology and infrastructure. In conclusion, we will continue to work on diversity and openness to be an even more inclusive bank.

Expressing Appreciation

The stellar performance and continued success of NSB in 2016 could not have been achieved but for the commitment and dedication of the General Manager and his management team and our dedicated and loyal staff. I would like to thank my fellow Directors, for their astute guidance and advice and our customers and external stakeholders, whose trust and contribution we deeply appreciate.

I would also like to extend our appreciation to the Postmaster General, officials of the Postal Department, postmasters, sub-postmasters and other officials for their vital assistance to make sure we stay relevant at grass root level.

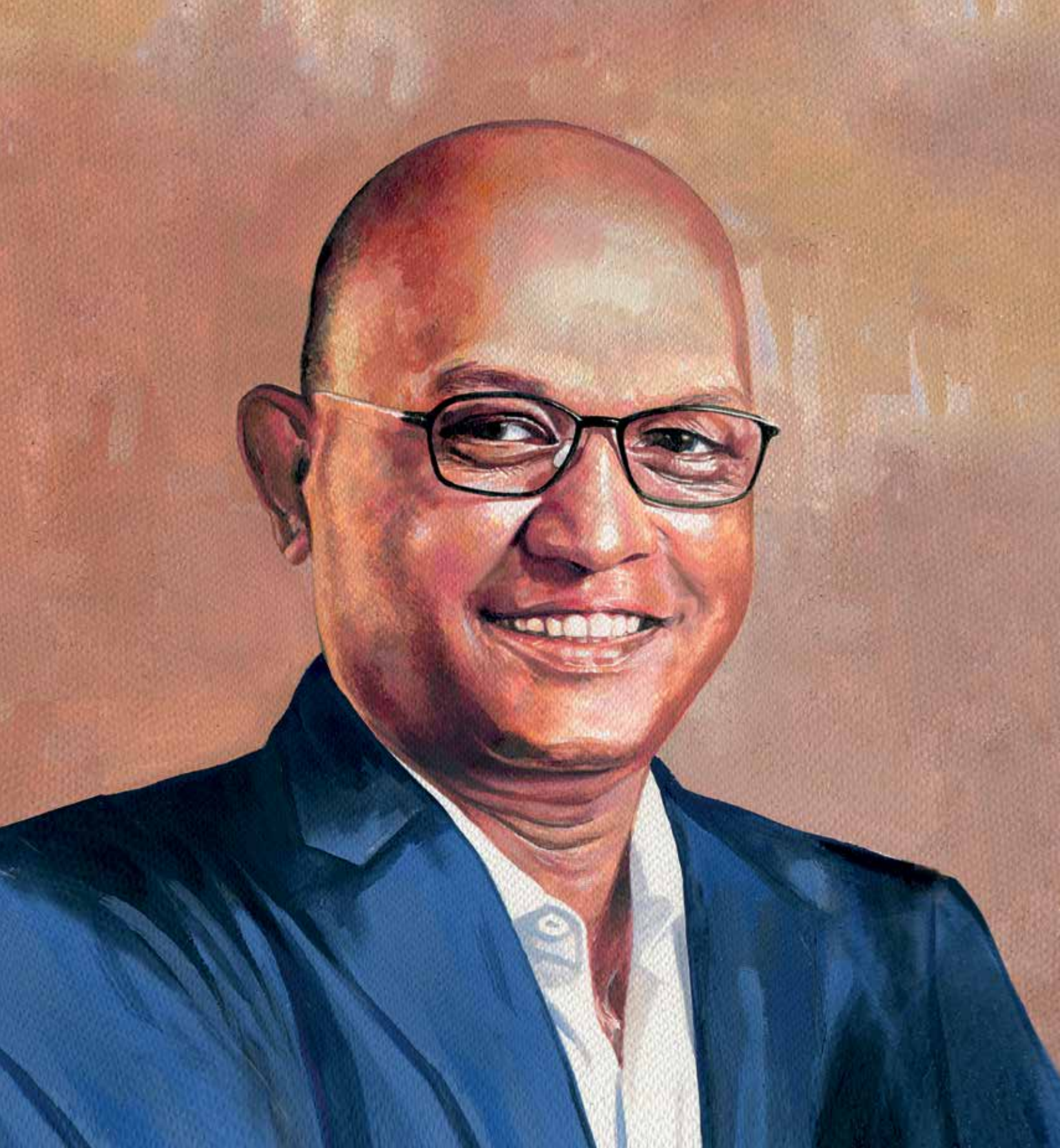
In conclusion, I would like to thank the Hon. Minister of Public Enterprise Development, Hon. Deputy Minister of Public Enterprise Development, Secretary to the Ministry of Public Enterprise Development and the officials, the Hon. Minister of Finance, the Hon. State Minister of Finance, the Secretary to the Treasury and the officials, the Governor and officials of the Central Bank of Sri Lanka, the Attorney General, the Auditor General and his team and heads of other regulatory bodies and their teams for their continued support and guidance.



Aswin De Silva

Chairman

28th March 2017



General Manager/ CEO's Review

Our commitment and consistent strategic focus in 2016 have resulted in a vast improvement of the asset quality of the Bank. Our exemplary financial results were brought about by adopting global best practices and our commitment to good governance.

A Show of Strength

With total assets at Rs. 912 Billion, as at end 2016, we are the fourth largest bank in the country. Reflecting customer confidence, business volumes continued to grow during the year. Deposits recorded the highest growth for the year of 10.32% and reached Rs. 657 Billion, while interest earning assets grew to Rs. 870 Billion by 7.37%.

These resulted in total assets recording a growth of 7.50%. The Bank has been in the forefront of financial sector with its strong presence in Government Securities market.

Nevertheless, the growth in profit before tax to Rs. 13,303 Million, a growth of 2.02% was not commensurate with the growth in business volumes mainly, due to the net interest margin reducing to 2.89% during the year, compared to 3.32% in 2015. Profit after tax for the year recorded 9.52% growth to Rs. 9,498 Million.

An Exemplary Asset Quality

During the year, the Bank devoted significant attention and resources to improve its asset quality. We strengthened the entire process of loan evaluation and post sanction monitoring along with recovery efforts. Consequently, non-performing advances was at 1.55% at end of 2016 compared to 3.5% in 2015, the Bank's asset quality recorded a remarkable improvement and reached the lowest NPA, one of the lowest in the banking sector.

To further strengthen the supplementary capital, the Bank raised Rs. 6 Billion by way of a debenture issue.

A Commitment to Good Governance

The highest standards of corporate governance is critical to the success of any business. The Board, led by the Chairman has adopted global best practices in corporate governance, risk management and compliance, which are integrated in the systemic processes of the Bank. The Bank's principal strategy is geared towards generating sustainable returns for our shareholder. Our highly skilled, experienced management team is committed to good governance that delivers sustainable returns.

Our team of dedicated staff is extremely loyal to the Bank. The Bank continues to support professional development of its employees. Every year, NSB invests in mandatory local and overseas training programmes.

The Bank also maintains a cordial relationship with all employee unions.

A Glimpse into the Future

The Bank has commenced an expansion drive in all key business areas to focus on driving key strategic business and support service units. Our pivotal focus points are Branch banking and IT infrastructure development to stay abreast with the diverse improvements in technology. Our customers are the lifeblood of NSB and we are committed to uphold our reputation as the Bank for all segments of society. Our broad customer base uniquely positions us in the paradigm shift we are in, which makes it easier to meet their needs.

Appreciation

In conclusion, it is vital to remember those who were instrumental in the success story of NSB in 2016.

First, I would like to thank the Chairman, the Board of Directors and my management team.

I would also extend my gratitude to Hon. Minister of Public Enterprise Development, Hon. Deputy Minister of Public Enterprise Development, Secretary to the Ministry of Public Enterprise Development and the Officials, Hon. Minister of Finance, the Hon. State Minister of Finance, Secretary to the Treasury and the Officials, the Governor and Officials of the Central Bank of Sri Lanka, the Postmaster General and his Staff, the Attorney General, the Auditor General and his team, Heads of other regulatory bodies and their teams.

As a Bank of the people for the people, we are deeply humbled by the confidence that our customers continue to place on us. I also would like to thank all our stakeholders for their unstinting support.

Finally, I would like to express my gratitude for the loyalty and commitment of every member of the NSB team and especially of those who have retired during 2016.

Thank you all for making 2016 a captivating chapter in our unique story.



S. D. N. Perera
General Manager/CEO
28th March 2017

Scopic Veins

The pillar and the roots symbolise our stability as the largest Licensed Specialised Bank in the country. It also represents our long-standing commitment to foster a savings culture in our main stakeholder; the people of Sri Lanka.



The Plot

Financial Capital

Overview

As a bank, financial capital is the most critical to our business which is directly linked with all other capitals within our value creation process. This chapter shows how the Bank has sustained growth in the past and its plans for the future. Banking industry changes day-to-day with new regulations and challenges. NSB made use of these challenges to create value for the Bank which is represented through financial indicators.

Analysis of Financial Performance

A Summary of the Income Statement

| Item | 2016 | 2015 | Increase/ Decrease | Growth |
|---------------------------------|-------------|-------------|-----------------------|---------|
| | Rs. Million | Rs. Million | Rs. Million | % |
| Interest income | 86,390 | 78,128 | 8,262 | 10.6 |
| Interest expense | 60,923 | 51,146 | 9,777 | 19.1 |
| Non interest income | 872 | 1,043 | (171) | (16.4) |
| Operating expenses | 10,344 | 10,415 | (71) | (0.7) |
| Impairment charges | (100) | 2,140 | (2,240) | (104.7) |
| Profit before tax | 13,303 | 13,034 | 269 | 2.1 |
| Taxation (VAT, NBT, Income Tax) | 6,596 | 6,798 | (202) | (3.0) |
| Profit after tax | 9,498 | 8,672 | 826 | 9.5 |

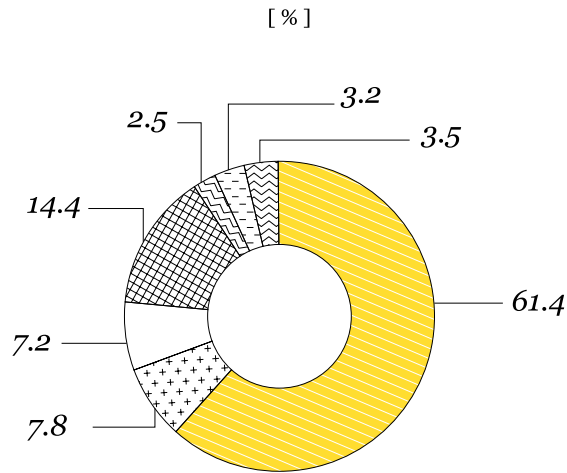
Profitability

Profit Before Tax and Profit After Tax



Despite the challenges of operating environment, the Bank continued with its growth and recorded an admirable profitability performance. The profit before tax for 2016 reached Rs. 13,303 Million and profit after tax Rs. 9,498 Million compared with Rs. 13,034 Million and Rs. 8,672 Million respectively recorded in 2015. This was the highest ever post-tax profit of the Bank. A strong top line, attributable to expanding volumes with decreased impairment charges, combined with curtailed expense growth drove the increased profitability.

Interest Income Composition – 2016



■ Government Securities
 ▨ Loans against Deposits

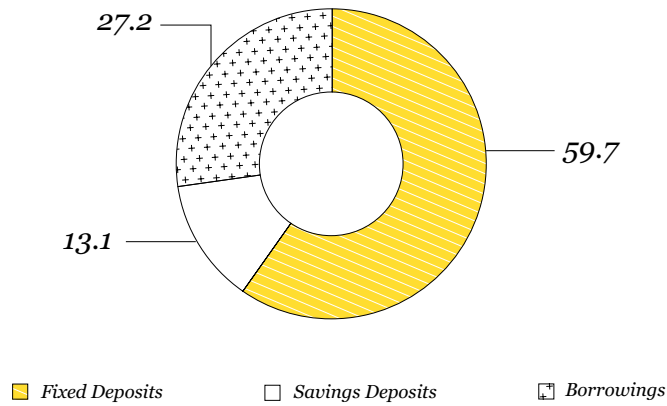
▤ Housing Loans
 ▩ Pawning

□ Personal Loans
 ▨ Other Loans and Investments

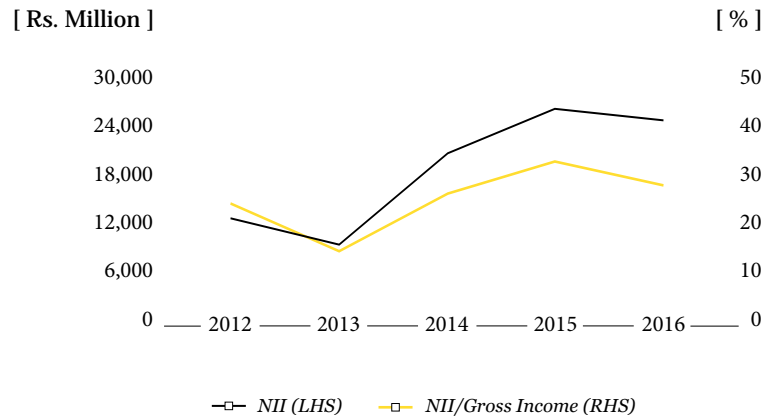
▩ Project and Corporate Loans

Interest Expenses Composition – 2016

[%]



Net Interest Income (NII)



| Years | NII | NII/Gross |
|-------------|---------------|-------------|
| | Rs. Million | Income % |
| 2012 | 13,389 | 25.3 |
| 2013 | 10,107 | 15.4 |
| 2014 | 21,380 | 27.4 |
| 2015 | 26,983 | 34.0 |
| 2016 | 25,467 | 29.1 |

Net Interest Income (NII) of the Bank reached Rs. 25,467 Million which is a slight decrease of Rs. 1,516 Million or 5.6% against Rs. 26,983 Million of 2015. This was mainly due to the increase in cost of deposits.

During the year under review, Government Securities took the top spot among income-generating assets with a contribution of 61.4% of the total interest income.

This is as a result of complying with regulations on the Bank which requires us to invest minimum 60% of deposits in Government Securities. Since those instruments are risk free, Bank is not exposed to higher credit risk compared to other banks or financial institutions.

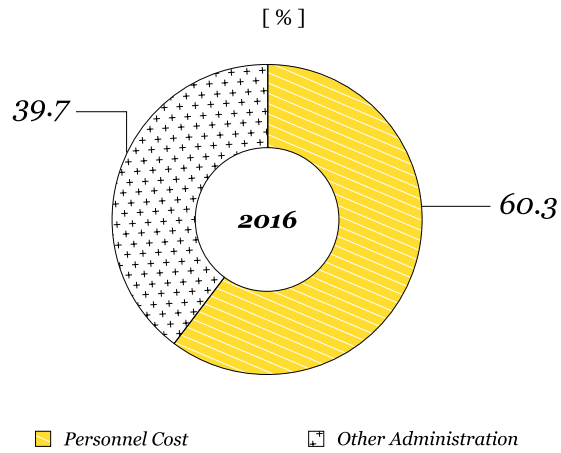
Total deposits contributed 72.8% to the Bank's total interest expenses, accounting for 72.1% of the funding mix. A substantial portion of this was short tenured and was sensitive to the changes in the market interest rates due to repricing.

Non-Interest Income

Non-interest income comprises fee and commission, net trading income, Net gain/(loss) from financial investments, and other operating income. Fee and commission income is the principal component of non-interest income which includes fees charged from lending, card operations and remittances services etc. Net fee and commission income which grew by 40.9% over the previous year stood at Rs. 513 Million against Rs. 364 Million in 2015. Net gain from trading portfolio recorded a decrease of 113.2% which turned to Rs. 39 Million loss in 2016 from a profit of Rs. 298 Million in 2015. The main reasons for the decrease in net trading income for the period were the increase in mark to market losses and decrease in realised capital gains on both equity and Government Securities in trading portfolio. Net gain/(loss) from financial investments of the Bank reached Rs. 41 Million which is an increase of 47.0% against Rs. 28 Million of 2015. This is mainly due to disposal of investments available for sale at a profit. Other Operating Income rose up to Rs. 357 Million, showing marginal increase of 1.1% on Rs. 353 Million in 2015.

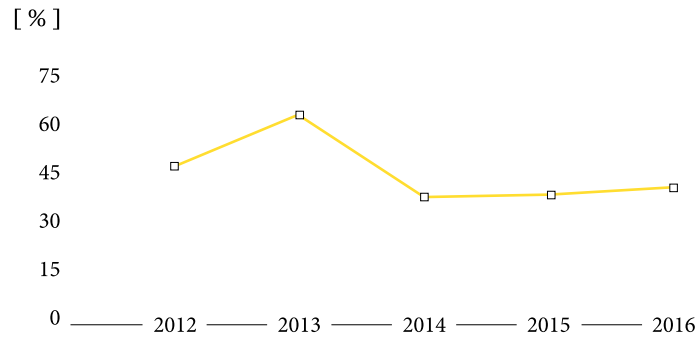
Operating Expenses

Operating Expenses Composition



| Expenses | Amount Rs. Million | % |
|-----------------------------|-----------------------|-------|
| Personnel cost | 6,235 | 60.3 |
| Other administration | 4,109 | 39.7 |
| Total | 10,344 | 100.0 |

Cost to Income



| Year | Cost to Income Ratio % |
|-------------|------------------------------|
| 2012 | 46.1 |
| 2013 | 62.2 |
| 2014 | 36.7 |
| 2015 | 37.4 |
| 2016 | 39.6 |

Operating expenses for the year stood at Rs. 10,344 Million for which the comparative figure for 2015 was Rs. 10,415 Million. This is a marginal decrease of 0.7%.

The increase in personnel cost was mainly due to the recruitment of new staff members and absorbing contract staff to permanent cadre for strategic expansion of business operations.

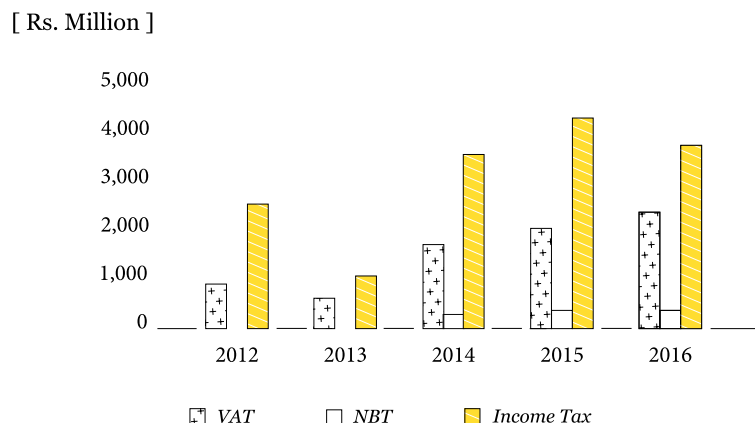
Impairment Charge

| | 2016 Rs. Million | 2015 Rs. Million | Change % |
|--|---------------------|---------------------|-------------|
| Impairment charge | (100) | 2,140 | (104.7) |
| Total Impairment provision | 1,732 | 3,092 | (44.0) |
| Total impairment as a percentage of total gross loans and advances (%) | 0.53 | 1.12 | (52.7) |

In the past year, the Bank has made arduous efforts to resolve non-performing assets and control risks, thus ensuring effective management of asset quality. The Bank worked out a holistic programme for resolving non-performing assets, combining various measures such as regular meetings among the management that led to specific recommendations which helped control the asset quality within the target range.

The Bank had an impairment reversal of Rs. 100 Million for the year, a decrease of Rs. 2,240 Million or 104.7% as compared to the previous year's impairment charge of Rs. 2,140 Million. Impairment provision as a percentage of total gross loans and advances drastically decreased by 52.7% from 1.12% in 2015 to 0.53% in 2016.

Taxation



| Year | VAT Rs. Million | NBT Rs. Million | Income Tax Rs. Million |
|-------------|--------------------|--------------------|---------------------------|
| 2012 | 926 | - | 2,578 |
| 2013 | 624 | - | 1,095 |
| 2014 | 1,745 | 291 | 3,606 |
| 2015 | 2,062 | 375 | 4,361 |
| 2016 | 2,406 | 386 | 3,805 |

The overall effective income tax rate of the Bank was 28.6% in 2016 compared to 33.5% in 2015. The Bank's provision on Value Added Tax on financial services, Nation Building Tax on financial services and Income Tax were Rs. 2,406 Million (2015 – Rs. 2,062 Million), Rs. 386 Million (2015 – Rs. 375 Million) and Rs. 3,805 Million (2015 – Rs. 4,361 Million) respectively. Value Added Tax on financial services and Nation Building Tax increased by 16.7% and 2.9% respectively due to increase in operating profit of the Bank and increase in VAT rate from 11% to 15% during the year.

The provision for the income tax for the period decreased by Rs. 556 Million compared to the same period in 2015, as a result of effective tax planning.

Contribution to the Government

| Year | Contribution to the Government Rs. Million | Contribution to the Government/Gross Income % |
|-------------|--|--|
| 2012 | 6,327 | 12.0 |
| 2013 | 4,731 | 7.2 |
| 2014 | 11,043 | 14.2 |
| 2015 | 11,015 | 13.9 |
| 2016 | 19,251 | 22.0 |

As the Nation's Savings Bank, the Bank continues its contribution towards nation's development by means of special fee, dividend/levy and contribution to the Insurance Trust Fund in addition to the taxes. Rs. 533 Million was the special fee during the year while paying a sum of Rs. 12,026 Million as dividends and levy. The contribution to the Insurance Trust Fund was Rs. 95 Million. The comparative figures in 2015 for special fees, dividends/levy and contribution to the Insurance Trust Fund were Rs. 1,333 Million, Rs. 2,800 Million and Rs. 84 Million respectively.

Other Comprehensive Income

The year 2016 ended up with Rs. 1,989 Million gains in Other Comprehensive Income compared to Rs. 1,356 Million in 2015. Total Other Comprehensive Income consisted of actuarial gains on retirement benefit plans of Rs. 2,379 Million and fair value gains transferred to the Income Statement on disposal of available-for-sale financial assets of Rs. 47 Million, partly set off by losses on cash flow hedges and remeasuring available-for-sale financial assets of Rs. 137 Million and Rs. 300 Million respectively.

Analysis of Financial Position

Assets

| | 2016 Rs. Million | 2015 Rs. Million | 2016 % | 2015 % |
|---|---------------------|---------------------|-----------|-----------|
| Total assets | 911,704 | 848,079 | 100.0 | 100.0 |
| Financial investment – Held-to-maturity | 505,824 | 515,303 | 55.5 | 60.8 |
| Loans and receivable to other customers | 291,977 | 248,033 | 32.0 | 29.3 |
| Loans and receivable to banks | 31,834 | 23,718 | 3.5 | 2.8 |
| Other financial assets Held-for-trading | 20,291 | 13,543 | 2.2 | 1.6 |

The Bank's asset base reached Rs. 911,704 Million, an increase of 7.5% over the previous year. This increase was mainly due to 19.2% increase in the lending portfolio which accounted for 35.5% of total assets.

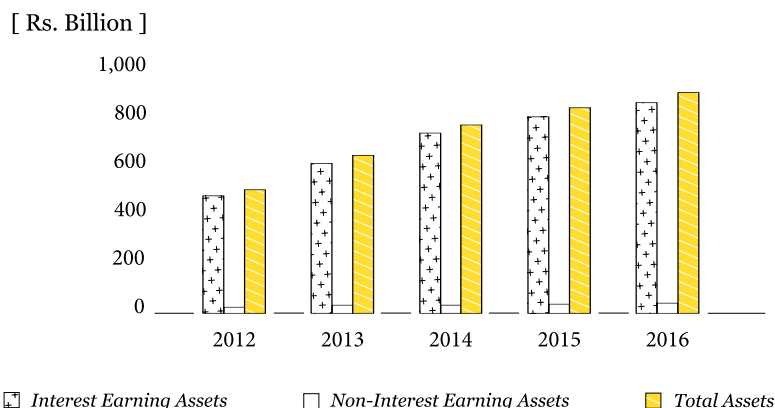
Investments in Treasury Bonds which is accounted for as financial investments – held-to-maturity continues to dominate the Bank's investment portfolio with a share of 55.5% during 2016 recording a marginal decrease of 1.8%. Loans and receivable to other customers reached Rs. 291,977 Million from Rs. 248,033 Million. Personal loans disbursement mainly contributed to the increase in loans and receivable during the year.

Other financial assets held-for-trading marked a growth against previous year by 49.8% up to Rs. 20,291 Million. This was a strategic investment move to materialise capital gains.

Interest Earning Assets Vs Non-Interest Earning Assets

| Year | Interest Earning Assets Rs. Million | Non-Interest Earning Assets Rs. Million | Total Assets Rs. Million |
|-------------|--|--|-----------------------------|
| 2012 | 484,443 | 24,370 | 508,813 |
| 2013 | 620,207 | 34,161 | 654,368 |
| 2014 | 746,441 | 33,025 | 779,466 |
| 2015 | 810,418 | 37,661 | 848,079 |
| 2016 | 870,159 | 41,545 | 911,704 |

Interest Earning Assets Vs Non-Interest Earning Assets



The Bank continued to focus on core business activities. Therefore, interest earning assets, which represent 95.4% of the total assets, rose by 7.4% to Rs. 870,159 Million.

Investment in Government Securities

| Type of Securities | 2016 Rs. Million | 2015 Rs. Million |
|--------------------|---------------------|---------------------|
| Treasury Bills | 17,279 | 65,977 |
| Treasury Bonds | 449,755 | 403,671 |
| SLDB (USD) | 58,089 | 55,525 |
| Total | 525,123 | 525,173 |

During the year, the Bank continued to maintain investments in Government Securities as was done in previous years. The Bank invested more in Treasury bonds and reduced investment in Treasury Bills in 2016.

The Bank kept investment in Government Securities as in previous year, eventhough asset base increased by 7.5% in year 2016. Investment in Government Securities was 57.6% of total assets in year 2016 compared to 61.9% in year 2015.

Lending Portfolio

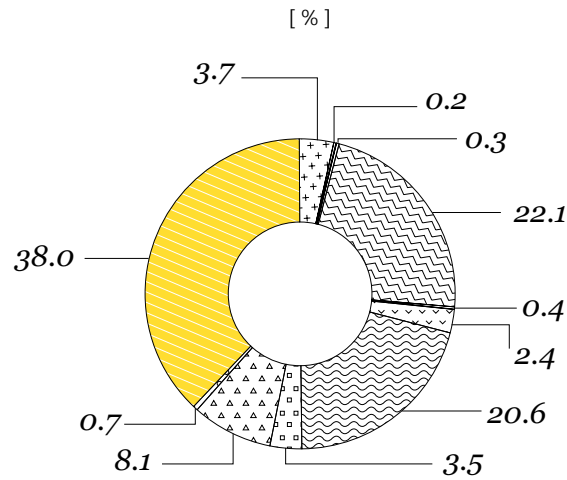
The analysis of loans and receivables to other customers as at 31st December 2016 with the comparative figures in 2015 are given below:

Analysis by Product

| Analysis by product | Rs. Million | | As % | |
|--|----------------|---------|--------------|-------|
| | 2016 | 2015 | 2016 | 2015 |
| Loans and advances | | | | |
| Pawning | 20,852 | 29,869 | 7.1 | 11.9 |
| Staff loans | 4,091 | 3,389 | 1.4 | 1.3 |
| Term loans | | | | |
| Short-term | - | 1,145 | - | 0.5 |
| Long-term | 257,549 | 209,789 | 87.7 | 83.5 |
| Securities purchased under resale agreements | 2,497 | - | 0.9 | - |
| Others | | | | |
| Securitisation/Commercial papers | 2,695 | 2,414 | 0.9 | 1.0 |
| Loans to Government | 2,075 | 2,075 | 0.7 | 0.8 |
| Others | 3,950 | 2,444 | 1.3 | 1.0 |
| Gross total | 293,709 | 251,125 | 100.0 | 100.0 |

Bank's lending portfolio is more concentrated on long-term loans which increased to Rs. 257,549 Million with a growth rate of 22.8%. Bank's Pawning portfolio decreased by 30.2% as a result of the adverse impact of reduced gold prices in the year 2014 and onwards.

Analysis of Lending Portfolio by Industry – 2016



| | | | |
|-----------------------------------|--------------------------------|--|---------------------|
| ■ Personal/Pawning/Others – 38.0% | ▨ Tourism – 0.3% | ▩ Finance and Business Services – 2.4% | ▧ Education – 8.1% |
| ▤ Agriculture and Fishing – 3.7% | ▥ Construction/Housing – 22.1% | ▦ Infrastructre – 20.6% | ▨ Government – 0.7% |
| ▩ Manufacturing – 0.2% | ▧ Traders – 0.4% | ▩ Power and Energy – 3.5% | ▧ Transport – 0.0% |

During the period under review, a significant growth was recorded in personal lending under personal/pawning/others category which increased by Rs. 35,686 Million over the previous year and became the largest loan category of the Bank followed by the Rs. 3,729 Million increase in housing and construction loans.

Equity Portfolio

| Type of Asset | 2016 Rs. Million | 2015 Rs. Million |
|--------------------|---------------------|---------------------|
| Held-for-trading | 3,096 | 3,672 |
| Available-for-sale | 3,332 | 3,526 |
| Total | 6,428 | 7,198 |

Market value of total equity investment is Rs. 6,428 Million which is 0.7% of total assets of the Bank. As a result, impact of share price fluctuations on the Bank is minimal. NSB has invested in forty-two (42) listed stocks and two (2) Unit Trusts (Ceybank Unit Trust and Comtrust Equity Fund) that are categorised as FVTPL (Trading) Portfolio and three

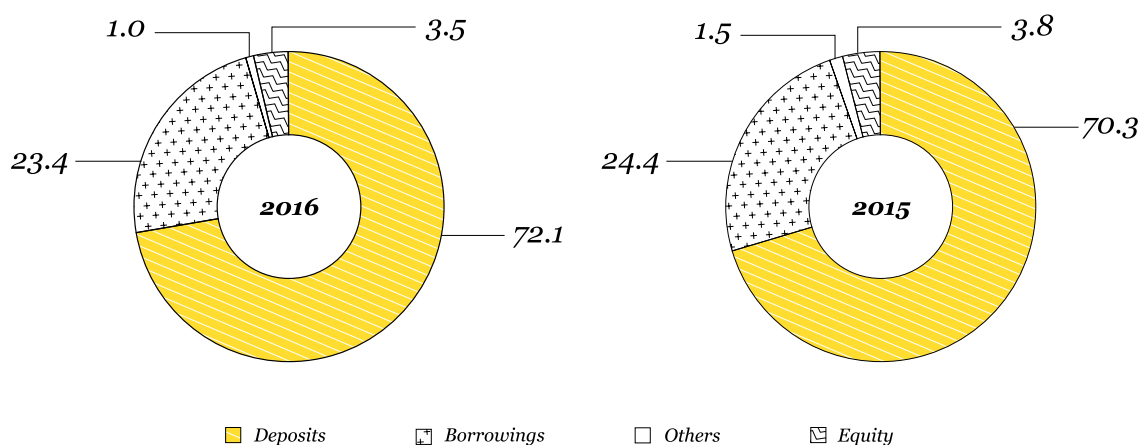
(3) listed stocks which are categorised under AFS portfolio as strategic investments. NSB has mainly invested in Bank, Finance and Insurance (BFI) sector (39.5%), Diversified Holdings (DIV) sector (18.8%) and Hotel and Travel sector (10.4%). Below table indicates investment in quoted shares except unit trust investment:

| Industry | Cost Rs. Million | Market Value Rs. Million | Cost % | Market Value % |
|----------------------------|---------------------|-----------------------------|--------------|-------------------|
| Banks, Finance & Insurance | 2,752 | 3,422 | 39.5 | 55.0 |
| Beverage, Food & Tobacco | 110 | 115 | 1.6 | 1.9 |
| Chemical & Pharmaceuticals | 101 | 79 | 1.4 | 1.3 |
| Construction & Engineering | 408 | 178 | 5.9 | 2.9 |
| Diversified Holdings | 1,310 | 872 | 18.8 | 14.0 |
| Hotels & Travels | 726 | 445 | 10.4 | 7.1 |
| Investment Trusts | 246 | 120 | 3.5 | 1.9 |
| Land & Property | 24 | 19 | 0.3 | 0.3 |
| Manufacturing | 346 | 325 | 5.0 | 5.2 |
| Plantation | 12 | 11 | 0.2 | 0.2 |
| Power & Energy | 5 | 4 | 0.1 | 0.1 |
| Telecommunication | 615 | 545 | 8.8 | 8.8 |
| Trading | 315 | 81 | 4.5 | 1.3 |
| Total | 6,970 | 6,216 | 100.0 | 100.0 |

Equity & Liabilities

Funding Mix

[%]

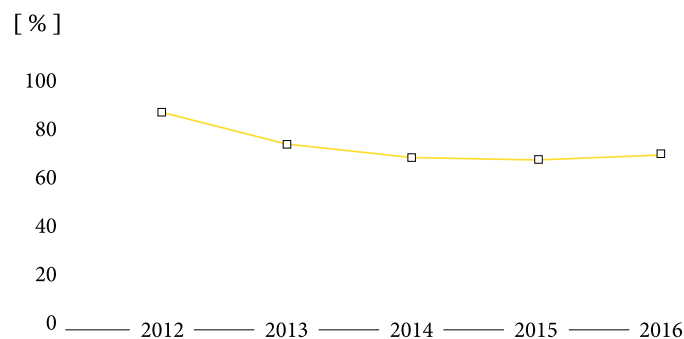


Total liabilities increased to Rs. 879,458 Million from Rs. 815,655 Million when compared to previous financial year, demonstrating a growth of 7.8%. The main sources of this increase were deposits and debenture issue.

Deposits/Assets

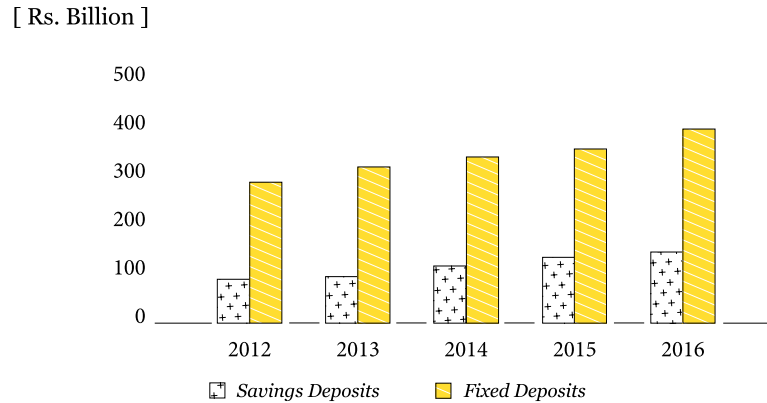
| Year | Deposits/ Assets % |
|-------------|--------------------------|
| 2012 | 89.9 |
| 2013 | 76.7 |
| 2014 | 71.1 |
| 2015 | 70.3 |
| 2016 | 72.1 |

Deposits/Assets Ratio



Deposits continued to account for the bulk of funding comprising 72.1% of the funding mix. It recorded a strong growth of 10.3% amounting to Rs. 61,505 Million at the end of the year.

Deposits



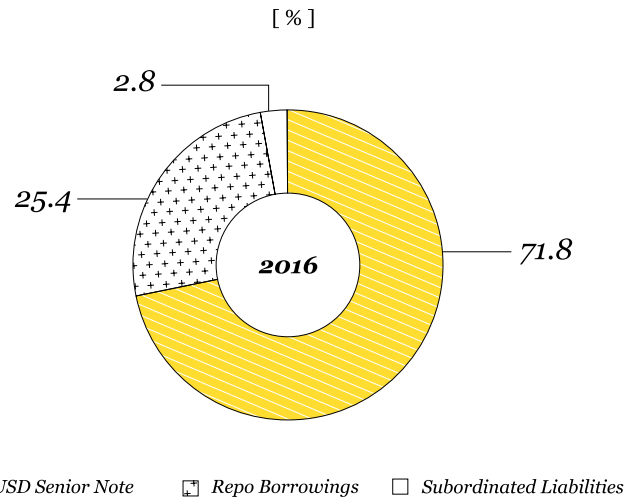
Fixed deposits and savings deposits are the main components of the deposits base. Fixed deposits contributed 73.2% of the total deposits, reaching Rs. 480,933 Million showing a growth of 11.2% over the previous year. The Bank recorded this growth in a background where other financial institutions were offering comparatively higher rates on fixed deposits. This is due to high customer credibility with the Bank.

The low cost of savings deposits makes it an attractive method of funding. The savings deposits base recorded a growth of 7.9% and reached Rs. 176,347 Million making it 4th largest savings deposit bases in the banking sector. To sustain this growth momentum the Bank has equipped the savings product with many features and value additions.

Borrowings

| Type of Borrowings | 2016 Rs. Million | 2015 Rs. Million |
|--------------------------|---------------------|---------------------|
| USD Senior Note | 152,928 | 146,898 |
| Repo Borrowing | 54,112 | 60,127 |
| Subordinated Liabilities | 6,006 | - |
| Total | 213,046 | 207,025 |

Borrowings Mix



Borrowing is the second main funding source to the Bank and has reduced the dependence of funding on customer deposits. The components of this are borrowings through international bonds, subordinated debentures issued and securities sold under repurchase (Repo) agreements. During the year, the Bank recorded 2.91% growth in borrowings from Rs. 207,025 Million which reached Rs. 213,046 Million by end of 2016. This is as a result of issuing Rs. 6,000 Million subordinated debentures on 29th December 2016 at a rate of 13% per annum.

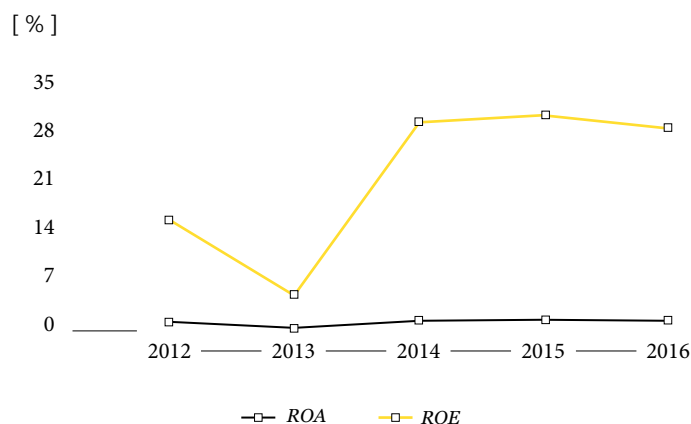
Loans and Investments to Deposits Ratio

| | Loans & Investments Rs. Million | Total Deposits Rs. Million | Loans & Investments to Deposits Ratio (%) |
|-------------|------------------------------------|-------------------------------|--|
| 2012 | 492,009 | 457,650 | 107.5 |
| 2013 | 632,187 | 501,890 | 126.0 |
| 2014 | 757,182 | 554,060 | 136.7 |
| 2015 | 821,494 | 595,776 | 137.9 |
| 2016 | 878,046 | 657,280 | 133.6 |

The Bank's loans and investments to deposits ratio was 133.6% for the year 2016 compared to the ratio of 137.9% a year before. This negative growth is attributable to Rs. 56,552 Million growth in the loans and investments portfolio in comparison to Rs. 61,505 Million growth in deposits. Even though ratio slightly decreased compared to 2015, this still indicates that the Bank is making the optimum use of deposit financing by transforming them into interest earning assets and other funding sources have been utilised to fill the gap.

Return on Assets and Return on Equity Ratios

| Year | ROA % | ROE % |
|-------------|------------|-------------|
| 2012 | 1.3 | 16.1 |
| 2013 | 0.4 | 5.1 |
| 2014 | 1.5 | 30.2 |
| 2015 | 1.6 | 31.1 |
| 2016 | 1.5 | 29.4 |



Return on Equity (ROE)

ROE is a key strategic outcome in financial value creation. It serves as an indicator of the effectiveness of the management approach. Bank maintains a relatively attractive ROE compared to the industry.

Return on Assets (ROA)

ROA is an indicator of how profitable a bank is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Bank maintains an acceptable ROA compared to the industry.

Analysis of Cash Flow

Cash and cash equivalents net of bank overdrafts balance stood at Rs. 4,504 Million as at 31st December 2016 compared to Rs. 3,165 Million of last year.

Cash Flows from Operating Activities

Net cash generated from operating activities amounted to an inflow of Rs. 9,516 Million compared to last year net cash outflow of Rs. 14,470 Million. Increasing deposit base by Rs. 61,505 Million helped the Bank generate operating cash inflow.

Cash Flows from Investing Activities

Bank's cash outflow on investing activities amounted to Rs. 2,165 Million, as a result of increase in investment in Treasury Bonds included in investments available-for-sale.

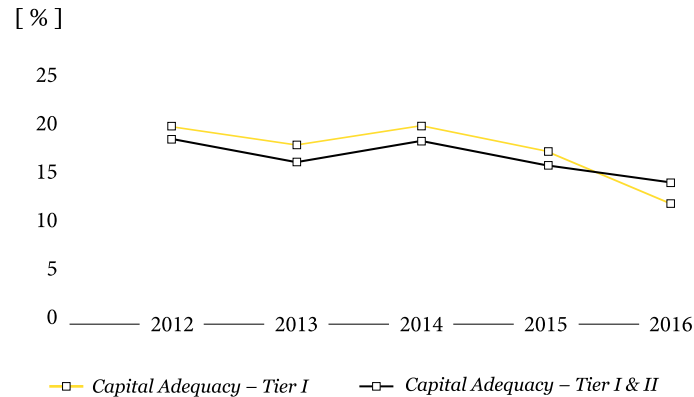
Cash Flows from Financing Activities

Net cash outflow on financing activities amounted to Rs. 6,012 Million, which was mainly as a result of profit distribution to the Government as dividend/levy of Rs. 12,026 Million which is higher than the inflow from new debenture issue during the year of Rs. 6,000 Million.

Capital Adequacy

| Year | Capital Adequacy - Tier I (%) | Capital Adequacy - Tier I & II (%) |
|-------------|-------------------------------|------------------------------------|
| Minimum | 5.0 | 10.0 |
| 2012 | 20.4 | 19.1 |
| 2013 | 18.5 | 16.7 |
| 2014 | 20.5 | 19.0 |
| 2015 | 17.9 | 16.4 |
| 2016 | 12.5 | 14.7 |

Capital Adequacy



Capital adequacy is the measure of financial strength of a bank expressed as a ratio of its capital to its risk-weighted assets. This ratio indicates the Bank's ability to maintain adequate capital in the form of equity and subordinated debts to meet any unexpected losses. The more capital the Bank has relative to the risks it takes, the more assured the stakeholders that it will meet its obligations to them.

The Bank's Core Capital ratio (Tier I) and the Total Capital Ratio (Tier I & II) were sustained at 12.5% and 14.7% at the end of the year 2016. This is a very strong capital position compared to the statutory requirement of 5% and 10% correspondent to Tier I and Tier I & II capital. The main reasons for the decrease in the ratios compared to those as at 31st December 2015 were the increase in credit risk with more personal lending and the decrease in general reserve.

Economic Contribution

The Bank's approach to value creation is armed with strategies focusing on operational excellence and sustainability. This is not merely short-term but focuses on long-term value creation based on sustainable business practices.

Economic Value Added – (EVA)

EVA is the incremental change in the rate of return over a bank's cost of capital. Essentially, it is used to measure the value a bank generates from funds invested and a positive EVA denotes that the bank is generating value.

Economic Value Added Statement

| | 2016 Rs. Million | 2015 Rs. Million |
|--|---------------------|---------------------|
| Invested equity | | |
| Shareholder's funds | 32,246 | 32,424 |
| Add: Cumulative loan loss provision/provision for impairment | 1,732 | 3,092 |
| Total | 33,978 | 35,516 |
| Earnings | | |
| Profit after taxation | 9,498 | 8,672 |
| Add: Loan losses and provisions/impairment provision | (100) | 2,140 |
| Total | 9,398 | 10,812 |
| Cost of Equity based on 12 months weighted average Treasury Bill rate plus 2% for the risk premium | 12.01% | 8.65% |
| Economic cost | 4,081 | 3,071 |
| Economic value added | 5,317 | 7,741 |

The Bank's economic value creation during the year 2016 amounted Rs. 5,317 Million compared to the last year of Rs. 7,741 Million. Bank showed positive economic value over the years that ensured the Bank is creating value to the economy.

Direct Economic Value Generated and Distributed

| | 2016 Rs. Million | % | 2015 Rs. Million | % |
|---|---------------------|---------------|---------------------|--------|
| Direct Economic Value Generated | | | | |
| Interest income | 86,390 | | 78,129 | |
| Fee and other income | 650 | | 475 | |
| Other income | 359 | | 678 | |
| Economic value generated | 87,399 | | 79,282 | |
| Economic value distributed | | | | |
| To employees | | | | |
| Salaries and other payments | 6,235 | | 5,911 | |
| | 6,235 | 7.13 | 5,911 | 7.46 |
| To depositors and lenders | | | | |
| Interest expenses | 60,923 | | 51,146 | |
| | 60,923 | 69.71 | 51,146 | 64.51 |
| Payment to Government | | | | |
| Consolidation fund – dividend/levy | 12,026 | | 2,800 | |
| VAT, NBT and income tax | 6,597 | | 6,799 | |
| Special fees paid | 533 | | 1,333 | |
| Contribution to National Insurance Trust Fund | 95 | | 83 | |
| | 19,251 | 22.03 | 11,015 | 13.89 |
| Operating Cost | | | | |
| Impairment for loans and other losses | (100) | | 2,140 | |
| Other expenses | 3,713 | | 3,281 | |
| | 3,613 | 4.13 | 5,421 | 6.84 |
| Economic value retained | (2,623) | (3.00) | 5,789 | 7.30 |
| Economic value distributed | 87,399 | 100.00 | 79,282 | 100.00 |

Economic Value Generated and Distributed

Information on the generated and distributed economic value provides a basic indication of how the Bank has created wealth for the stakeholders. Components of the economic value generated and distributed provide an economic profile of the Bank, which may be useful for controlling other performance indicators. Economic value generated and distributed portrays the direct monetary value added to local economy.

Substratum

Firmly rooted in the local economy, NSB acts as a pillar of strength to the nation.



Intellectual Capital

Intellectual capital is largely intangible in nature and covers a broad spectrum of non-financial aspects which are a direct result of exemplary governance. It includes components such as institutionalised knowledge, brand and reputation, internal systems and internal ethical standards and the corporate culture that the Bank uses to create value.

Institutionalised Knowledge

We are the oldest financial institution in Sri Lanka and our institutionalised knowledge is derived from serving the nation for over 180 years. We are also the leading savings bank in Sri Lanka. Being a part of the state and coming under the Ministry of Public Enterprise Development, we have been able to adopt best practices in the financial industry. Since our amalgamation in 1972, NSB has developed innovative savings options for all segments of society. Our top executives hold more than 15 years of experience in the industry which contributes to our sound operational knowledge.

NSB: A Trusted Brand

Our Brand and Reputation

The legacy of serving the nation for over a century was bequeathed to NSB at its inception in 1972. Over the past few decades, NSB has become a household name for all Sri Lankans.

Our brand is further strengthened by the numerous accolades that are bestowed upon NSB. In 2016, we became the only bank to receive ‘AAA (Ika)’ Fitch Ratings for the 14th consecutive year. Furthermore, Global Finance rated NSB as the ‘The Safest Bank in Sri Lanka’.

Our Annual Report 2015 was awarded four Best of Category awards and the prestigious Best of Sri Lanka Award at the recently concluded ARC Awards 2016. In addition, our Annual Report received the Gold Award in Financial Institutions category at the CA Sri Lanka Annual Report awards and Second Runner-Up Public Sector Banking Institutions at the SAFA awards.

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Brand Building Exercises

Re-launches

As part of the brand building exercise the NSB's Point of Sale machine-based savings mobilisation programme, NSB Reach was relaunched under the theme 'Your Address is Our Address'.

The Bank's remittance service U-Trust was also relaunched during the year under review.

Advertising

NSB advertises its products in mass media, the natural aim being to develop its corporate brand. The brand now resonates with people from all walks of life. NSB has been engaged in outdoor advertising through billboards, gantry signs and bus-halts around the country, and they have indeed helped the Bank to be more visible.

Sponsorships

The NSB sponsored/co-sponsored various nationally significant social/cultural events. Some of the events sponsored during the year 2016 were: Miss Tourism Sri Lanka 2016, Sri Lanka Super Sevens Rugby Tournament, National Vesak/Poson/Thai Pongal Festivals and various religious processions, the National Scout Jamboree, stage dramas as well as selected events organised by schools.

Special Events

NSB organised two gala events to celebrate children's Day during 2016:

The *Pata Pata Hapankam* Art Competition winners at the provincial competitions, took part in the final competition and prize giving held at BMICH.

The *Hapan* Scholarship Award Ceremony was held to felicitate high-achievers at district and national levels on 31st October 2016. Differently abled children who passed the grade five scholarship examination were also recognised at this event.

Business Ethics and Integrity

NSB working culture is founded on the principles of ethics and responsibility. In a constantly evolving business environment, we depend on the trust and confidence earned from our employees, clients and shareholders in understanding our position regarding

ethical business conduct. We constantly review our internal standards, codes and control mechanisms, regulatory and compliance requirements and upgrade them as necessary.

Corporate Culture

The corporate culture that is embedded in NSB is a culture of utmost professionalism, teamwork, transparency, diversity, and respect between individuals. Moreover, we have carefully fostered the Bank's team culture, where every individual is directly involved and accountable in realising the Bank's overall vision. From the most remote hill station post office to our Boardroom in Colombo, the staff of NSB are deeply loyal to the Bank. A sense of family also prevails within the NSB community. We encourage other team-building activities as well, such as NSB Sports Club, Buddhist Society, Christians Society, NSB Welfare Society and *Kala Kawayaya* (Arts Circle).

Compliance

At NSB we place the value of compliance at high priority and are committed to fully comply with the required practices. Being a state bank, we are conscious of our role as a model corporate citizen and we emphasise on inculcating a culture of compliance.

CBSL has introduced a host of regulatory and compliance initiatives pertaining to Internal Capital Adequacy Assessment Process (ICAAP) under Basel III, from 2014 and these are being focused upon emphatically at NSB. The Bank is already preparing to implement Basel III effective from 2018. Basel III is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen regulation, supervision and risk management of the banking sector.

Furthermore, NSB comes under the Ministry of Public Enterprise Development. The Bank tables its Financial Statements annually in Parliament. This ensures that public interest in the Bank's affairs is secured. Financial Statements are audited by the Auditor General. 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 and also CBSL annually conducts examinations to ensure the compliance with regulatory guidelines and directions.

We are happy to inform that the Bank kept a clean sheet in 2016 where no fines or non-monetary sanctions were imposed due to non compliance.

Manufactured Capital

Wide-Ranging Reach for our Customers

NSB has wide-ranging reach. NSB is accessible to our customers through our 250 branches, 4,061 Post Offices across the island and an extensive ATM network that provides Master Card and Visa Debit Card facilities. Five new branches were opened in 2016: Udugama, Uhana, Galagedara, Siyambalanduwa and Kopay.

With our objective of providing our customers with seamless access and convenience of banking services island-wide, NSB joined the LankaPay Common ATM Switch (CAS), a new era of national payment network. CAS network has 17 member banks connecting over 3,756 ATMs which makes LankaPay the largest common ATM network in the country. LankaPay network will be the backbone of all future payments in the country.

In order to ensure a better supervision of the Regional System, 7 Regional Offices were established during the year. Bank restructured the system into 9 regions in 2017.

NSB's reach extends beyond our national boundaries. The Bank's relationships with global money transferring companies enable faster, cheaper and secure remittances from all over the world. The Bank is also a member of SWIFT and Eurogiro, a low cost, secure and speedy money transfer system. NSB U-Trust, a remittance service, was branded by NSB to attract remittances from abroad. The Bank has relationships with 42 exchange houses and 12 correspondent Banks.

Delivering Convenience through IT Infrastructure

Development of IT infrastructure increases values to customer. NSB takes a novel approach in developing more convenient offerings to our customers. In 2016, the Bank undertook special IT projects that provided efficient solutions for every financial need.

Last year, NSB initiated the procurement process for implementation of core banking operations. The Bank seeks to set up a centralised data repository to replace the existing banking software that was used for the last two decades. The Bank is in the process of considering potential solution providers.

The Bank implemented the ATM Switch upgrade and amalgamated a Card Management System to facilitate our expanding Debit Card customer base. Our Debit Card customers can now enjoy the modern-day facilities of a cashless society.

The Bank laid the foundation for converting the Disaster Recovery site to Tier 3 Data Centre standards to receive certification from a professionally-qualified licensed data centre consultant.

New computer system was introduced for selected Post Offices for carrying out NSB Postal Banking transactions through Postal Department's E-Pay computer system. 226 Post Offices island-wide were connected to this system in 2016.

These initiatives implemented during the year 2016, illustrate NSB's wide ranging solutions and our dedication to provide our customers with the state-of-the-art IT solutions of tomorrow, today.

“Our Unique Story Offers a Happy Ending”

Total number of Permanent Employees

3,089

Number of Promotions in 2016

239

Permanent Employees Covered by the Collective Agreement

99.57%

New Recruitments in 2016

923

Number of Graduates at the Bank

801

Category of Employees

Corporate Management

12

0.39%

Executive Management

13

0.42%

Middle Management

81

2.62%

Junior Management

465

15.05%

Supervisors

765

24.77%

Banking Assistants

1,709

55.33%

Others

44

1.42%

Categorisation of Employees Based on Experience

1 to 5 years

1,247

5 to 15 years

1,066

15 to 30 years

552

More than 30 years

176

Human Capital

Every story needs well-rounded characters. The principal characters behind the NSB success story is our team of dedicated employees. NSB is blessed with a team of highly skilled, motivated, well-rounded individuals. Among the NSB team, there exists a sense of family that goes beyond ordinary employee loyalty. This feeling of family is extended towards our customers. When a customer walks into a NSB branch they are well looked after by the NSB family. At NSB, we emphasise on creating a work-life balance which contributes towards creating a stress-free employee. This contributes towards maximising employee performance.

In 2016, the NSB family is 4,384 strong, which consisted of 3,089 permanent employees, 1,099 contract employees and 196 trainees. During the year, 923 new members joined the NSB family.

In 2016, there were a total of 239 employees who were promoted. There were 11 promotions in Corporate and Executive Management category, 179 in Manager category and 49 in Executive category.

At NSB, 99.57% of permanent employees are covered by a collective bargaining agreement.

Trade unions operating within the Bank include the Jathika Sevaka Sangamaya, Ceylon Bank Employees' Union, Sri Lanka Independent Bank Employees' Union, Executive Officers' Association and All Ceylon Bank Employees' Union. We are happy to report that the relationship between the Management and the Unions has been very healthy over the years.

NSB is committed to enhance the employee experience by providing competitive salaries, benefits, healthcare and compensation to our employees. More importantly, we listen to our employees and invest in training and career development initiatives. NSB has created an inclusive culture and a healthy, non-discriminative, safe, and flexible work environment where our team is able to gain experience and grow.

Continuous Professional Development

At NSB we realise that true professionalism does not stop with initial educational qualification and years of experience. Engaged, competent, highly-skilled employees are the key to building value-added relationships and developing services that meet our customers' needs. With the advent of technological advances, the banking sector and the needs of customers evolve at rapid pace. It is imperative that we meet the needs of the changing workforce and environment to stay ahead of the competition. That is why NSB advocates continuous professional development by providing various opportunities like local and foreign training programmes, sponsorships, educational incentives which facilitate their development.

Over Rs. 29 Million rupees were invested this year in foreign and local training initiatives, which funded 273 training programmes, logging a massive number of 48,644 training hours for 2016. Employees from every level of the Bank took part in the training programmes. This year, 19 employees participated in 14 overseas training programmes.

Banks all over the world rely on technology to gather, process, analyse and provide information in order to meet the needs of customers. NSB is committed to bank on the latest technological advancements of our time. There were 46 programmes on IT education conducted throughout the island with 1,434 employee participants.

The Bank believes that a well-trained and an educated workforce is critical to achieving the Bank's strategic goals, we support employees who wish to continue their banking education by providing sponsorships to employees who study courses relevant to their jobs to gain expertise. Furthermore, we provide financial incentives to employees who excel in banking examinations.

Our Unique Story Offers a Happy Ending

NSB's position as a coveted employer in Sri Lanka has been cemented over the years by our reputation, employee-friendly policies and our work culture. Additionally, we strive to create a non-discriminatory working environment. Over the years, we have inculcated in our employees, a sense of belonging to a family. This is reflected by our employee retention ratio of 99.6%.

In our effort to attract the best possible talent, we provide benefits that act as important incentives to recruitment and career development. The fact that only twelve employees left the Bank during the year for reasons other than retirement shows the sustainable working culture we have created at NSB.

We offer competitive salaries that are on par with the wages of other Government-owned banks. Frequent additional discussions are held from time to time with unions and employees on the subject of wages and remuneration packages does not discriminate according to gender.

The benefits to employees include a comprehensive health plan, loans at concessionary rates, a pension plan and training. All employees, including those on probation, are entitled to join the Bank's medical assistance scheme.

To protect the employees as well as the Bank, the minimum notice periods are established as one to three months for resignations and three months for retirement.

Although, more than 4,000 people now work for NSB, there were no cases of grievances reported during the year on such grounds as discrimination or any other form of human rights violations.

Anti-corruption work is an important part of our commitment to financial stability and a sound financial market. Suspicions of bribes or corruption can be reported through a whistle-blower system that guarantees anonymity.

Whistle-Blowing Policy

NSB's whistle-blowing procedure enables employees and other persons to raise in confidence, whether anonymously or otherwise, concerns on possible improprieties relating to accounting, financial reporting, internal controls, frauds, corruption, collusion, coercion, irregularity, misappropriation, auditing matters or other matters, without fear of reprisal in any form. The policy was established to create a proactive framework addressing the occurrence of frauds and other illegal activities which covers prevention, early detection, reporting, monitoring, recovery and follow up actions.

Code of Conduct

A Code of Conduct has been introduced to guide the employees in matters relating to the discipline. The Bank upholds “zero-tolerance” for all forms of corruption, bribery and extortion practices. The Bank takes strict disciplinary actions against employees who violate the Disciplinary Code or indulge in malpractices.

Benefits

Employees can obtain Housing loans, Motor Vehicle loans, Computer loans, Consumption loans and Distress loans at concessionary interest rates. Bank granted 608 housing loans for a value of Rs. 1,129 Million. Staff housing loan balance as at 31st December 2016 is Rs. 4,853 Million. These facilities were granted to uplift the living standards of employees. The NSB employees enjoy concessionary rates in food from the Canteen at Head Office premises and accommodation from number of Holiday Bungalows across the island. The Bank is planning to expand its network of Circuit Bungalows in the coming years. Circuit Bungalows are situated in 14 locations, as in Anuradhapura, Kandy, Kataragama, Ambalantota, Nuwara Eliya (2 bungalows), Mahiyanganaya, Galle, Bandarawela, Badulla, Dambulla, Chawakachcheri, Beliatta and Marawila.

The Bank provides library facilities and NSB Sports Club maintains an in-house gym in the Bank’s Head Office premises. We pay annual bonuses at the end of the year and a special target bonus if relevant Bank objectives are met.

Throughout the year, multi-religious ceremonies and events like *Vesak Bakthi Gee*, *Avurudu Pola* and *Christmas Carols* are organised by the Welfare Division to spread spiritual and religious harmony among the members of the staff. Annual Sports meet is conducted to excel talent of employees. Region-wise sports meets are conducted separately and one final sports meet is conducted in Colombo. Annual ‘*Avurudu Uthsawaya*’ is organized with the participation of employees and their families. The Bank provides monetary assistance for day outings organised by branches and divisions.

Our sense of family extends beyond our employees to their families, which is why our benefits extend to the family members of our team. NSB organises an annual Achievers Award Ceremony to felicitate and celebrate the successes of the children of our employees. This event celebrates academic (GCE Ordinary Level, GCE Advanced Level and Grade Five Scholarship Examinations) and non-academic achievements in sports and extracurricular activities.

NSB supports the employees and their family members during the good times and the bad. On the occasion of a death of an employee, the Bank provides dependants with financial support.

Health

At NSB we realise that it is our responsibility to look after the health of our employees. We have launched several initiatives and programmes directed towards employee health. There is an in-house medical centre at NSB Head Office run by a leading private hospital and managed by the Bank's Welfare Division. Twice a month, Specialised Doctors can be consulted at the medical centre. There are also medical clinics conducted by leading private hospitals. Moreover, our employees have the opportunity to participate in regular seminars conducted by professional resource personnel on stress management, eye care and prevention of cardiovascular diseases.

The amounts for employee medical benefit scheme are decided by collective agreement.

In addition, critical illness cover is available for employees in order to provide assistance to employees in critical illness.

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

Retirement Benefits

All permanent employees are covered by non-contributory pension schemes where terms and conditions vary depending on the date of appointment. (Employees who joined the Bank on or after 1st October 1995 are entitled for a separate pension scheme).

There are four types of retirement benefit plan obligations given to our employees: Pension Fund (Scheme I and II), Contributory Widows/Widowers & Orphans Fund and Contributory Retirement Medical Scheme. The fund set up to pay the pension plan's liability is fully covered. The cost of providing benefits under the defined benefit pension plan is determined using projected unit credit actuarial valuation method and the estimate was made on 31st December 2016.

Pension Fund (Scheme I) includes employees recruited to the Bank before 1st October 1995. Contribution to Pension Fund (Scheme I) during the year was Rs. 578 Million and unfunded liability stands at Rs. 1,253 Million. The participation for Pension Fund (Scheme I) is mandatory and Bank contribute 20% of the gross salary.

The Pension Fund (Scheme II) includes employees recruited to the Bank from 1st October 1995. Contribution to pension fund (Scheme II) during the year was Rs. 252 Million. It is a mandatory to participate in the Pension Fund (Scheme II) and contribution is 12% of the gross salary.

The Retirement Medical Scheme and Widows, Widowers & Orphans Fund are both contributory schemes. Bank contributes Rs. 72 Million to retirement medical scheme and unfunded liability stands at Rs. 644 Million at the year end. The amount of contribution to the Retirement Medical Scheme is determined by age while for Widows, Widowers & Orphans Fund, employees must contribute 5% of the basic salary from the Bank.

Grievances

NSB has in place policies to address employee grievances in a prompt, fair and impartial manner. Last year a total number of 18 grievances related to labour practices were filed and addressed. The Bank was able to resolve 16 cases.

No action is recorded on violation of indigenous rights. The Bank takes measures to address all staff gatherings in English, Sinhala and Tamil. All the circulars are published in all three languages. Our advertising campaigns are also in all three languages.

Awards/Recognition

At NSB, we continue to recognise the achievements of the members belonging to the NSB family. We organise an annual felicitation ceremony where employees of the Bank who have completed 25 and 35 years of commendable service are recognised. They are presented with a gold coin and a salary raise. At the annual 'Colours Night', the Bank felicitates employees who have excelled in sports and other professional activities.

NSB is committed to foster a set of well-rounded characters to build upon our unique employee culture, which forms an integral part of our unique story.

Future Plans



Improve customer convenience and satisfaction, opening of model branches, opening 10 new branches (Outstation)



More focus on credit products for armed forces and eco-loans



Maintain higher card issuance rate and card segmentation, loyalty programmes for card holders



Implementation of off-the-shelf Centralised Retail Banking Solution (CBS)



Development of new products to cater to population with less Banking facilities



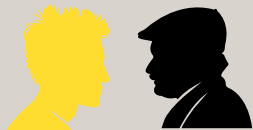
Introducing value additions to the credit products portfolio



Redesign the NRFC products to attract customers



LankaPay connectivity expansion



Attracting young generation to bank with NSB and build up the senior citizen customer base. Introducing new products for youth and value additions



Strengthen recovery policy to improve credit quality of portfolio



Increase customer service standards- preparation of CSI Index, Reactivation of fields marketing teams



Implementation of Common Electronic Fund Transfer system (CEFT)

Social and Relationship Capital

Investor

NSB is the largest Licensed Specialised Bank in the country and the fourth largest bank in Sri Lanka in terms of assets and deposit base. With scale and scope come advantages, responsibilities and opportunities. In developing its business strategy, the Bank relies on the core values and ideals of service it has cherished since its foundation in 1972. As a leading financial institution, the most significant impact we have on both the people and the communities we serve is through our investment, lending and financial sponsorships.

Government

The Sri Lankan Government is the sole shareholder of the Bank. The Bank in turn is an investor in Government Securities. NSB was established with the objective of fostering a savings culture in the people of Sri Lanka. The Government has offered 100% statutory guarantee on people's deposits in NSB and due interest.

NSB is committed to implement relevant Government policy decisions that are introduced for nation building. The role played by NSB encompasses both savings promotion and savings mobilisation in the course of national development through the financing of state projects. We strengthen the government's capacity by ensuring the availability of funds for development initiatives. Firmly rooted in the national economy, NSB serves the nation by contributing to the Government by means of taxes, special fees and dividend/levies. Being a state-owned Bank, NSB firmly adheres to the rules and regulations imposed by the Central Bank of Sri Lanka.

Our Investment Process Has Led to Strong Results

Although the Bank is a state-owned institution, beyond its support and the support of our depositors, we continue to seek debt funding from institutional investors, mainly overseas, for expanding our business activities.

Debenture Issue December 2016

Our first debenture issue took place on 29th December 2016. It was a Type A, fixed-rate debenture issued for a period of five years maturing in 2021. This issue was to raise Rs. 6 Billion under Tier II capital of the Bank. The issued debentures were rated, unlisted, unsecured, subordinated and redeemable. It was raised mainly to strengthen the supplementary capital and to minimise interest rate risks, the gap exposure in the Bank's asset and liability portfolio and to facilitate future expansion of operations.

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

Developing Our Business through Engagement and Dialogue

NSB places a high emphasis on investor engagement and outreach. We maintain a constant and strong relationship with our key stakeholders, namely customers, employees, Government, Central Bank and respective communities locally and internationally. NSB understands that proper investor dialogue is mutually beneficial. Keeping our investors updated about the business proceedings gives them a sense of connection to their investment which will yield in investor retention and further investments.

The Bank provides equal and fair access to information by timely disclosing:

- Regulatory disclosures.
- Long-term goals of the Bank.
- Main achievements of the Bank.
 - Latest financial results.

This information is communicated through different mediums:

- Publishing quarterly results in newspapers in all three languages (Sinhala, Tamil and English).
- Displaying financial results on the NSB web site under the category of financial highlights.
- By displaying major achievements and social responsibilities to the investors on the NSB website under the category of corporate information.
 - Submission of reports by due dates.

The following table displays our primary engagement mechanisms and the frequency of engagement with our principal stakeholders:

| Primary Engagement Mechanisms | Frequency of Engagement |
|--|--|
| Submission of the Annual Report to the Ministry and Parliament | Annually |
| Interim Financial Statements | Quarterly |
| Official website | Regularly |
| Correspondence | Regularly |
| CSR projects | As and when required |
| Updates on stakeholders | Regularly |
| One to one meetings | As Required |
| Electronic media (TV, Radio) | As Required |
| Launching of new products, services | When launched |
| Annual Budget | Annually |
| Annual Action Plan | Annually |
| Strategic Business Plan | Once in three years |
| Management Letter | Annually |
| Media Statements | As and when required |
| Periodic updates | As and when required |
| Appointment of members to the Board | In instances of resignations and retirements |
| Participate in the Procurement Committee meetings | Twice a month |
| Procurement plan | Annually |

Regulator

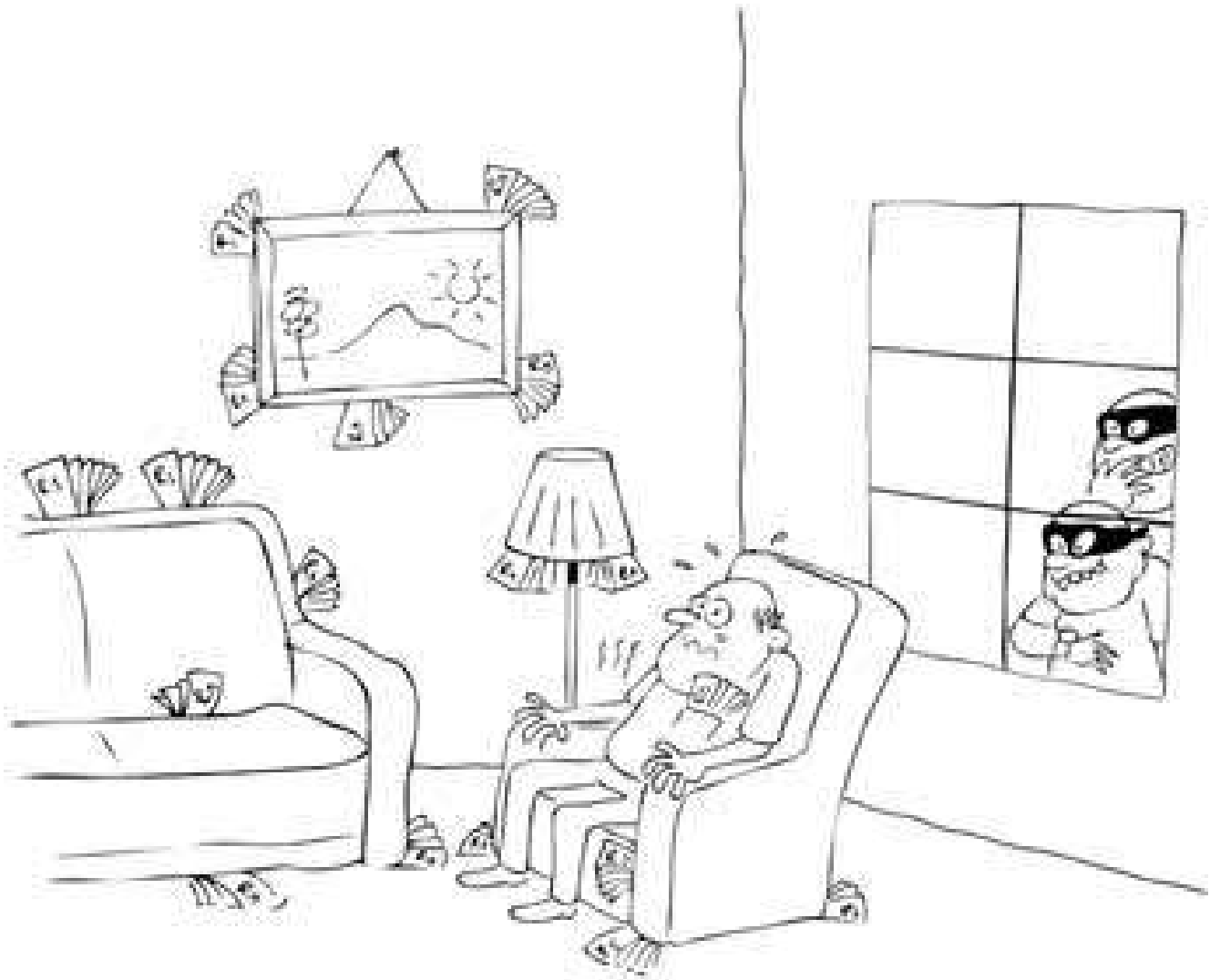
The NSB unique story relies on the expertise of an efficient Editorial Board in the form of regulators, to play a supervisory role to ensure all the regulatory requirements are met. At NSB, we value transparency above all else and we place compliance to our regulatory requirements at high priority and are dedicated to fully comply with the required practices. Furthermore, being a state-owned entity, NSB is highly regulated and governed by the provisions of acts such as Banking Act, Finance Act, Financial Transaction Act, Exchange Control Act, NSB Act and other regulations issued by the Central Bank of Sri Lanka (CBSL).

The Central Bank of Sri Lanka is the monetary authority of the country and the apex institution in the Sri Lankan financial sector. NSB diligently follows the guidelines set by the Central Bank in its operations. Furthermore, complying with the directives of CBSL, NSB submits periodic information related to Bank's operations.

In addition to above, the Bank maintains a continuous dialogue with the line ministry, Ministry of Public Enterprise Development. Furthermore, the Bank engages with the Ministry of Finance, the Department of Inland Revenue, Auditor General's Department, Attorney General's Department, Sri Lanka Accounting and Auditing Standards Monitoring Board and the Parliament.

Engagements with Constituencies

NSB adheres to transparency with regard to developments in financial regulation and supervision. We actively engage with the relevant constituencies with the objective of enhancing financial regulation and supervision. We engage with them in a number of ways such as CBSL on site examination, Periodic reporting, Statutory reporting, Ad-hoc reporting, Appointment of Directors, Tax payments and issues, Proposals for National Budget, Audit queries and responses, submitting Annual Reports, Concerns of Sri Lanka Accounting and Auditing Standards Monitoring Board, and Attorney General's clearance on special matters.



Don't let saving money be a burden.

Our Prime Movers

Our customers are the prime movers of the NSB story. Our customers remain at the heart of our strategy. We have created a qualitative customer experience through our multi channel approach. Every year, we become aware of the difference that we make in the lives of the people that we serve. Our extensive, customer-oriented product portfolio is aimed at all segments of the Sri Lankan society. Our high-quality service delivered across a wide branch network and digital platforms provide our customer base of over 19 Million with simpler, seamless, direct engagement with the Bank.

The following sections consist of a comprehensive analysis of our Customers ranging from our customer base, reach, product portfolio, product analysis and other relevant analysis. This section also explores the key initiatives taken during the year related to new products, relaunches and various marketing campaigns conducted. This section follows the perceived impact of these initiatives and NSB's planned initiatives for the future.

A Bank for all Sri Lankans

Our customers come from different strata of society. That is why we emphasise that NSB is the Bank for all segments of society. Staying true to the 'National' aspect of NSB, we perform a national duty by serving all the people of our nation.

The Bank had approximately 10.8 Million active deposit accounts as at 31st December 2016 which is remarkable given that the total population of Sri Lanka is 21 Million. The value of total deposits increased by 10.3% to Rs. 657 Billion in 2016 from Rs. 596 Billion in 2015 while savings deposits recorded a growth of 7.9% to reach Rs. 176 Billion.

The loan portfolio of the Bank, comprising loans and receivables increased by 19.16% from Rs. 271,751 Million in the previous year. The corporate lending portfolio gained a 13.4% increase, while the retail lending portfolio showed a 24.3% growth in 2016.

Banking Made Convenient

NSB strives to provide its customers with easy, accessible and convenient banking solutions. Our customised services are designed to save time and suit individual customer requirements whether it's managing your account, obtaining easy loans, or enabling you to keep track of your finances.

Internet and SMS Banking

With more and more customers and businesses preferring to bank digitally rather than to visit a branch, there would be higher demands on digital banking in the future. NSB is prepared to meet the challenges of the digital tomorrow and to shape the Bank of the future. With Internet and SMS banking our customers are given the choice of how, when and where to bank. Using SMS banking, customers can pay their utility bills, repay loans and transfer funds between NSB accounts and other bank accounts. With Internet banking our customers can manage their accounts from the comfort of their home, office or on the move.

Point of Sale (POS) Banking

NSB introduced POS banking to take its unique products and services to where people are. Currently, there are over 300 hand-held POS machines in service across 250 branches of the Bank. Equipped with POS machines, Bank officers reach to remote villages, towns and key gathering points providing access to NSB's services in the most affordable way, whenever and wherever these customers need these services. The Bank also launched special campaign on POS Banking 'NSB Reach' 'Your Address is Our Address' this year to reach more people from the rural sector.

Range of Card Options

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

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

The Bank offers students studying overseas, access to a truly international product; the International Student Identity Card or ISIC is a Master debit card issued by NSB in collaboration with ISIC Organisation. Every year, more than 4.5 Million students from 12 countries use their student cards to take advantage of offers on travel and shopping, worldwide.

We are Always ‘On Call’

NSB is dedicated to provide our loyal customers with quality customer service. The NSB Call Centre is set up to achieve business efficiency and to enhance customer satisfaction. Customer complaints that are received by the Call Centre are resolved as much as possible by the agents; failing which such complaints are sent to the relevant sectional heads for their intervention and necessary action.

NSB Call centre is available 24/7 for necessary guidance and support. Contact numbers are available in all ATM machines. You can contact the NSB Call Centre on 0112379379 and obtain information related to NSB products and services.

24 hours online web chatting is available for any assistance for NSB customers.

Our highly trained Bank staff is always at your service at branches and other access points in the island. They can provide necessary information regarding products offered by the Bank verbally or through printed mediums.

Visit our website www.nsb.lk to access information on product details, lending rates, deposit rates, and contact details of top management. Our customers can also access the Bank via e-mail, Skype and web chat.

| Year | 2016 | 2015 |
|---|---------|---------|
| Number of inquiries received over the phone | 200,045 | 182,336 |
| Number of inquiries over web chats | 40,009 | 36,467 |

Exploring Global Horizons

The dynamism of global financial markets has placed NSB's International Banking Division (IBD) in a unique position to take advantage of emerging global market opportunities. Though we are currently facing turbulent times in the global financial sector, the skills and experience of our staff help us navigate through the markets, avert risks and convert them into profitable business opportunities.

The Bank now provides you with innovative products and services primarily in the areas of trade finance business such as Letters of Credit (LCs), Shipping Guarantees, Import bills under LC and Import bills on collection basis.

Application Programming Interface (API) system was introduced during the year under review. API is a technology protocol that provides greater flexibility which means we can provide our customers with enhanced product customisation and timely service.

The Bank created new associations with the Bank of Tokyo SWIFT:BOTKJPJTXX and we are hoping to liaise with Arab National Bank in Saudi Arabia. Promotional campaigns were carried out in South Korea, UAE, Italy and Qatar targeting existing and potential foreign income earners to remit foreign currency through our 'NSB U-Trust' service and to promote foreign currency products.

Partnering with Sri Lanka Bureau of Foreign Employment at Athurugiriya, Bogawantalawa and Batangala, NSB assists our migrant workers to manage their finances. We open NRFC and "*Rata Ithuru*" accounts prior to departure and provide pre-departure loans that can be used for the purpose of air tickets, insurance etc.

In our effort to make the lives of our migrant workers more convenient, NSB has established remittance relations with KEB Hana Bank, a popular remittance channel to Sri Lanka. We also linked with Eurogiro, a low-cost, secure European Post Office based transfer system. The remittances received through Eurogiro can be collected at all the branches and Postal offices around the island.

Special Initiatives during the Year

In 2016, the Bank introduced a range of special initiatives to improve customer reach and satisfaction. These special programmes were aimed at all segments of the Sri Lankan society.

NSB Reach

Focusing on the key components of availability, accessibility and affordability in the delivery of banking services, NSB launched NSB Reach under the theme 'Your Address is Our Address' in 2016. It is a Point-of-Sale (POS) machine-based savings mobilisation operation that brings NSB to your doorstep. Our officers visit different places like mini-supermarkets, weekly and weekend fairs, small and middle scale industries and factories and even individuals like farmers, teachers etc.

The NSB Reach campaign won the Silver Award at the Sharing Best Practices and Innovations in Public Administration Award Ceremony organised by the Sri Lanka Institute of Development Administration (SLIDA).

NSB U-Trust

Sri Lanka has over 1.5 Million migrant workers who contribute to the local economy. Their remittances form a vital economic lifeline to the families back home and they improve standards of living and make communities more financially resilient.

With the view of helping our migrant workers, NSB rebranded its foreign currency remittance service as 'NSB U-Trust'. Through this service, Sri Lankans working abroad can speedily and securely remit their hard-earned money to families back home. The beneficiary can easily access the money by having the funds deposited into an NSB account or to an account elsewhere. The beneficiary can also collect his/her remittance, over the counter, at any NSB branch or main Post Office. The service was communicated to customers through '*Ehen Salli Mehen Thaagi*' campaign in 2016.

NSB Eco-Loan

Recognising that climate change is the biggest global challenge of the 21st century, NSB, partnered with the Ceylon Electricity Board (CEB) and Lanka Electricity Company (Pvt) Ltd. (LECO) and other entities, for a new community-based power generation project titled *Soorya Bala Sangramaya*, launched by the Ministry of Power and Renewable Energy. To complement the *Soorya Bala Sangramaya* the Bank designed and launched

its own product 'NSB Eco-loan, to financially assist those desirous of having a rooftop solar-power generation system installed at their homes, to save on their electricity bills, and go green at the same time. (For more information refer to page 95)

Productivity Improvement Programme

The Bank implemented the 5S concept, Kaizen and Quality Circles under the Productivity Improvement Programme (PIP). As part of the 5s initiative a 'Big Seiri Day' was launched in the branches and in the Head Office. This initiative resulted in tidy, more orderly and ergonomically arranged workplaces in the Bank. The second stage of the 5S concept will take place in 2017.

An island-wide employee satisfaction survey among our permanent staff cadre was conducted on par with this programme. The results of the survey indicated an above average satisfaction level.

Other Initiatives

| | | | |
|--|---|---|--|
| → Parallel to Government Fertilizer Subsidy Programme, accounts were opened for farmers for the Maha Season. | → NSB opened new <i>Hapan</i> accounts for Grade 1 students attending schools in 2016. | → The Bank introduced a new pawning system to maintain a quality service. | 'NSB Happy Savings' promotion campaign. |
| → <i>Savi Bala</i> a five-year savings scheme for three-forces personnel was introduced. | → <i>Awurudu Wasana</i> : special gifts were issued for New Year Day transactions at Post and Sub-Post offices. | → A number of promotional campaigns were organised throughout the year targeting new market segments: | <i>Hapan</i> Scholarship seminars and marketing campaigns. |
| → This year saw new value additions for our hugely popular <i>Sthree</i> Product aimed at the modern woman. | → To celebrate World Post Day, high performing Postal Department employees who promoted Postal Banking were appreciated. They were awarded plaques, certificates and gifts. | In line with World Thrift Day programme, there were regional meetings held with target groups about 'Savings Habits'. | NSB Reach: POS Savings campaign. |
| → NSB introduced a pilot project which extended customer service of the Bank till 7.00 pm. | | Special Promotion Campaign to boost MoneyGram Remittances through NSB Branches. | |

Supply Chain and Procurement Policy

We have adopted responsible, transparent procurement and outsourcing strategies in the Bank that follow Government procurement guidelines. There are three levels of procurement committees that operate with authority limits under the Board approved Procurement Manual. Each year an annual procurement plan is prepared and purchases are made in accordance with the plan.

The Bank obtains the services of outside suppliers for services such as the purchase of fixed assets, consumable items, IT and software infrastructure and gift items, printing, marketing and promotional activities, maintenance and construction services and consultancy assistance in special cases.

Prevention of Corruption and Malpractices

Complaints are an important way for the management to be accountable to the public, to prevent corruption and malpractices. They also provide valuable prompts to review organisational performance and conduct of our employees.

NSB has introduced a Detailed Customer Charter to handle all forms of customer complaints. There exists a Customer Complaint Register and a Suggestion Box at every branch for customer use. The complaints are monitored by Regional Managers of the Bank to provide the necessary resolutions.

Our customers can also reach us through the Call Center and other modes of communication that are made available to them like e-mail and web chat.

NSB Takes over Entrust Operations

NSB has taken over the management of Entrust Securities PLC on a directive of the Central Bank. This is to restore the investor confidence in Entrust and regularise its business operations. The Board of Entrust was suspended until further notice. The NSB Board acts as the Board of Entrust.

A Look into the Future

We look forward to increase our investments in comprehensive core technologies to provide customers with faster, more efficient service while, internally, enabling the faster collection of data and management information. Furthermore, we will take measures to automate and upgrade existing business processes.

The success of the Bank is heavily dependent upon constant interaction with the customer in order to identify specific needs. NSB hopes to implement a number of innovative practices to facilitate and optimise customer engagement which includes, the opening of new branches, development of new products to cater to segments of society who has limited access to banking facilities, focusing on credit products for armed forces and eco-loans, and many more other initiatives to add value to our loyal customer base.

The management revisited the vision and values of the Bank while preparing the Strategic Business Plan 2017-2019 and decided to revise them in order to align them with the modifications to the business structure.

Setting

Setting plays a significant role in any story by shaping the mood and tone of the narrative.

The socio-environmental setting affects our perceptions and actions. One of the chief objectives of NSB is to create a sustainable social and environmental setting.

Creating Social Value through Sustainable Business

NSB's value system is constructed by understanding our responsibility to society. NSB realises the need to maintain and replenish social capital by shared values, equality and by communal, religious and cultural interactions. Our unique history with the people of this country, which spans over a century, has taught us the significance of connectedness between groups of people, reciprocity, tolerance, compassion, patience, fellowship, discipline and ethics.

In a world of finite resources and climate change, the business sector must contribute towards responsible growth. Over the years NSB has realigned its corporate mandate to be an example to the rest of the business community by empowering society to become sustainable. Sustainability is integrated to our business model. We strive to build a sustainable banking business by factoring economic, environmental and social concerns into our business decisions.

The levies, taxes, fees and dividends paid to Government by the Bank are reinvested towards the benefit of general public. Numerous community development projects are organised by NSB. As a responsible Government bank, NSB sponsors various economic, social, cultural, educational and sports programmes throughout the year.

Empowering the Leaders of Tomorrow

NSB gives preference to investing in education because we believe that education will help raise the standards of living in rural communities, in which we predominantly operate.

'Hapan' Scholarship Seminars

NSB recognises that tomorrow's leaders need to be equipped with a quality education to meet tomorrow's challenges. In pursuance of this goal, an annual Grade 5 Scholarship Seminar series is conducted throughout the island. This year alone a massive number of 56,000 students benefited from the seminar series all over the island.

NSB Pata Pata Hapankam Art Competition 2016

To celebrate World Thrift Day and World Children's Day, NSB together with Ministry of Education held an island-wide art competition titled *Pata Pata Hapankam*. This was the second time this competition was held and it attracted 10,500 school children. This year's theme was *Ithuru karamu-rata dinawamu* (Let's take the country towards victory by saving). The competition consisted of five categories. 135 winners were selected from the nine provinces. Cash prizes and certificates were awarded to the winners while participants received consolation prizes.

Our Projects in the Health Sector

Over the years NSB has initiated a number of projects to assist the health sector.

HelpAge Eye Camps

HelpAge Sri Lanka conducts Mobile Medical Camps for medically vulnerable elderly persons in Sri Lanka. NSB sponsors HelpAge with financial assistance. The project mainly focuses on underprivileged elders in rural areas and suburban areas and HelpAge engages in various activities including medical examinations, donation of bifocal spectacles, donation of reading glasses and facilitating cataract operations.

Fostering National Unity

As a bank that serves all segments of Sri Lankan society regardless of gender, religion or ethnicity, NSB recognises the value of fostering national unity. We envision a shared future that fosters national unity and peaceful co-existence among all people and communities in the country. We conduct and sponsor various multi religious and multi cultural activities throughout the year, like the National Wesak festival, Poson festival, Sinhala/Hindu New Year festival, *Dansals* and *Thai Pongal* festival etc. In 2016, NSB provided around Rs. 20 Million in sponsorships to such events.

Special School Banking Project in Kurunegala District

The Kurunegala District special school Banking project was implemented following the government budget proposals 2016 to open up bank accounts for school children who are entering to grade one. The prime objective of the project was to inculcate the savings habit among children at an early age thus enhance the savings mobilisation drive towards the Bank and to improve the image of NSB.

The initiative actualized as a Pilot project in Kurunegala District with the NSB Branch network and cooperation of the Education Ministry. Under the project, new *Punchi Hapan* and *Hapan Children's Savings Accounts* were opened by depositing Rs. 100/- by the Bank as the initial deposit.

Upon the success of the pilot project, this will be expanded to reach all island.

Restatement of Deposit Certificates Lost during the War

The deposit certificates were restated to over 54 customers of the National Savings Bank Kilinochchi Branch, who had lost their original certificates and passbooks during the conflict. Information of original deposit certificates and passbooks of 54 customers were obtained and with the claims they had forwarded to the Bank management, NSB restated deposits. The present value of these deposits including the accrued interest is around Rs. 8 Million.

Natural Capital

NSB Saves the Environment while Saving Money

The present Government has put sustainability at the heart of economic development. The Government has prepared a national policy to drive Sri Lanka to achieve 2030 sustainable development goals. The financial sector is expected to play its role in supporting national sustainable development goals and to facilitate the transition to a green and low-carbon economy. NSB has adopted a multidimensional approach to deal with issues surrounding the environment and climate change. Our primary objective is to help the nation to save money, but in the process we also assist in saving our planet.

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

As a service-oriented organisation and with minimal use of physical input materials, the Bank's operations do not have a direct impact on the environment in terms of intensive resource utilisation, emissions or generation of hazardous waste. Our employees are educated to use materials and energy efficiently and responsibly. Our promotional materials such as leaflets and banners are in biodegradable form.

The waste materials collected on the 'Big Seiri Day' was handed over to two companies for recycling purpose.

The Future is Renewable Energy: NSB Initiates Green Energy Projects

Soorya Bala Sangramaya (Battle for Solar Energy)

As much as 80% of the world's energy is produced from non-renewable sources. With increasing demands of the industrialised world, these resources will soon be depleted. Furthermore, the production of electricity through power plants burning fossil fuels has led to catastrophic climate change. At NSB, we recognise that climate change is the biggest global challenge of the 21st century.

As discussed earlier, we have partnered with Ceylon Electricity Board (CEB) and Lanka Electricity Company (Private) Ltd. (LECO) and other entities, for a new community-based power generation project titled *Soorya Bala Sangramaya*, launched by the Ministry of Power and Renewable Energy.

NSB, in its capacity as one of the official banks for the *Soorya Bala Sangramaya*, took great initiative and carried out various awareness campaigns throughout the island aimed at educating the public about energy saving and the necessity of the use of Solar power.

To complement the Government-led *Soorya Bala Sangramaya*, NSB launched NSB Eco-Loan: a green energy initiative for all Sri Lankans. This project will financially assist Sri Lankans who wish to set up solar power generation system in their households.

The loan, repayable over a seven year period is granted as a personal loan with an attractive interest rate.

Other Initiatives

In order to reduce our carbon footprint we have initiated several projects within the year. We have steadily reduced the use of paper through usage monitoring, setting double-sided printing by default and encouraging electronic publications. The following table illustrates our paper consumption for the year:

| |
|---------------------------------------|
| Marketing Material – 3,349,600 papers |
| Branding – 299,000 papers |
| Forms and slips – 4,965,500 papers |
| Registers – 537,114 papers |
| Stationary – 33,787 packets |
| Labels – 48,000 papers |

When granting loans for construction, the Bank obtains the necessary certification from the Municipality or the local Government. This is done to ensure the mitigation of environmental impact.

To minimise the environmental impact in transportation, the Bank adopted well-planned delivery schedule to incorporate all the branches in a specific area at one point. We have also obtained the services of the suppliers for delivering certain goods directly to the branches.

NSB Fund Management Company Ltd.

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

The company acts jointly with NSB as a Lead Manager to the issue of Government Securities to the Sri Lankan diaspora by managing the customer investments in Government Securities under this scheme as the agent of the Central Bank.

The company provides following services to its parent, NSB.

- Bidding at Primary Auctions and the settlement of funds and securities of successful bids.
- Handling fund transfers through Real-Time Gross Settlement (RTGS) system.
- Acceptance and delivery of Government Securities from counterparties for NSB and repositioning them in the Central Depository System.

The company recorded a profit before tax and a net profit of Rs. 109 Million and Rs. 79 Million, respectively. Despite the increase in interest income and other income, the company profit decreased due to the adverse market conditions prevailed in the latter part of the year.

The Net Assets of the company as at 31st December 2016 was Rs. 1,691 Million including retained earnings, special risk reserve and available for sale reserve, amounting to Rs. 1,541 Million.

The value of the Government Securities portfolio held by the company as at 31st December 2016 is Rs. 10,507 Million and the company asset base has increased to Rs. 10,862 Million by 23.9%, compared to the last year.

Under the diversification programme of the Central Bank for Primary Dealers, in 2014 the company obtained a license from Securities and Exchange Commission (SEC) to function as a Stock Dealer/Stock Broker for Debt Securities, and also received the Trading Membership for Debt Securities of the Colombo Stock Exchange (CSE). In addition to that the company has initiated avenues of fee based income, in order to strengthen the other income stream of the company. That includes lead manager services, collateral manager services, trustee services etc.

Governance

Board of Directors



Mr. Aswin De Silva

Chairman

Mr. Aswin De Silva's diverse banking experience expanding well over a 15 years, includes several senior managerial positions including been Director/Corporate Banking at American Express in Sri Lanka and Singapore. These include areas of Finance, Credit, Corporate Finance Advisory and Corporate Banking.

He also worked as the Country Manager at Amex Travel Related Services, in Sri Lanka and the Maldives.

Mr. De Silva is also the recipient of the prestigious Chairman's award for quality at Amex. Mr. De Silva has also served at Associated Motorways Company as the Group Finance Director and as GM/CEO at Ceylinco Savings Bank. Immediately preceding his appointment at NSB on 9th February 2015, he served as the Head of Business Intelligence at NRMA Group in Sydney, Australia.

He also serves as the Chairman of NSB Fund Management Company, a fully-owned subsidiary.

He is a Fellow of the Institute of Chartered Accountants of Sri Lanka (FCA), Fellow of the Chartered Institute of Management Accountants, UK (FCMA) and FCPA (Australia)



Mr. D.L.P.R. Abeyaratne

Director

Mr. Abeyaratne, Sri Lanka Administrative Service – Special Grade, holds a Bachelor of Commerce (Special) Degree (1991) University of Kelaniya, Master of Arts – Sociology (2010) University of Kelaniya, Masters Degree (M Com).

Mr. Abeyaratne is the Postmaster General of Sri Lanka since 2nd December 2012. He brings to the Board, 21 years of experience serving in the Sri Lanka Administrative Service.

He held the position of Divisional Secretary, Minuwangoda from 2005-2008; Director General of the National Gem and Jewellery Authority from 2009-2010, Senior Assistant Secretary, Ministry of Tourism, Senior Assistant Secretary to the Ministry of Economic Development in 2010 and Social/Gender and Resettlement Specialist of Conflict Affected Region Emergency Project (ADB).

He is also a Visiting Lecturer at the Institute of Human Resources Advancement, University of Colombo.

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

He was appointed to the Board of Directors of NSB on 9th February 2012. He served as Acting Chairman of NSB during the period from 23rd May 2012 to 5th August 2012.

He also serves on the Board of NSB Fund Management Company.



Mr. A.K. Seneviratne

Director

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

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

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

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



Mr. Suranga Naullage

Director

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

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

He also serves as a Director of the NSB Fund Management Company Ltd. and as a Member of National Salaries and Cadre Commission.



Mr. Ajith Pathirana

Director

Mr. Ajith Pathirana has served as the Secretary of the Bar Association of Sri Lanka (BASL). He had been a senior Committee Member of BASL and held Chairmanship on many committees of the BASL.

Mr. Pathirana is an Attorney-at-Law who possesses experience of more than 26 years. He is also an Unofficial Magistrate, a Justice of Peace, and a practitioner in Criminal Law and has appeared in many prominent cases in courts throughout the country.

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



Mr. Chandima Hemachandra

Director

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

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

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

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

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

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



Mr. Anil Rajakaruna

Director

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

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

Mr. S.D.N. Perera

General Manager/CEO

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

Mr. Perera is a holder of a B.Com. Special Degree and a Diploma in Bank Management. He is also a Certified Information Systems Auditor (CISA) of USA.

He is a Director of NSB Fund Management Company Ltd.

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

Ms. Anupama Muhandiram

Secretary to the Board

Ms. Anupama Muhandiram, an Attorney-at-Law holds Master of Laws Degree (LL.M) from Cardiff Metropolitan University of UK, Masters in Business Administration (MBA) Degree from Manipal University and Post Attorney Diploma in Banking & Insurance Law from the Incorporated Council of Legal Education of Sri Lanka.

Prior to her appointment as the secretary to the Board of Directors of National Saving Bank on 06th December 2016, she has served as Assistant Secretary to the Board of Directors from November 2015 to December 2016. She has been serving as the Company Secretary of NSB Fund Management Company Ltd. since 2015.

Out of 21 years experience in Banking & Finance sector, she had served more than 18 years as a Legal Officer and an Assistant Secretary to the Board of Directors at People's Bank.

Ms. Muhandiram is also a visiting Lecturer (Commercial Law) at the University of Sabaragamuwa.

Corporate Management



S.D.N. Perera
General Manager/CEO



***Jagath
Gamanayake***
Senior Deputy General Manager



K. Raveendran
DGM (Research and
Development)



M.P.A.W. Peiris
DGM (Operations)



***Ms. M.Y.
Gunasekera***
DGM (Human Resources
Development)



A.C. Gamage
DGM (Retail Credit)



G.W.E Jayaweera
Acting DGM (Audit)



M. Kiritharan
Consultant (Legal)



P.A. Lionel
Consultant (Treasury)



K.B. Wijeyaratne
DGM (Finance and
Planning)



Ms. C.S. Jesudian
DGM (Credit)



***Ms. B.P.J.
Gunasekera***
DGM (International)



***Ms. G.V.A.D.D.
Silva***
DGM (Treasury)



P.A. Abeysooriya
Acting DGM (IT)



***K.K.V.L.W.
Karunathilake***
Acting DGM (Operations/
Marketing)

Executive Management



E.M.M.G. Ekanayake

AGM (Retail Credit)
(Retired on 25th March 2017)



Ms. S.W. Gunasekera

AGM (Support Services)



P.S. Wasanthathilaka

AGM IT – (Planning and
Supporting)



H.R. Silva

AGM (Operations)



S.H.M. Mubarak

AGM (International)



***K.M.W.M.
Karunaratne***

AGM (Engineering)



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

AGM (Recoveries)



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

AGM (Operations)



J.A.A.S.L. Somaratne

AGM IT – (Applications and
Development)



Ms. M.A. Gomes

AGM (Planning)



Ms. M.N.A. Fernando

AGM (HRD)



M.T.A.J.F. Gomis

AGM (Operations)

Chief Managers

Regional Managers

- 1**
T.L.A. Wijeratne
Regional Manager – Western 2
- 2**
A.L.A. Haleem
Regional Manager – Eastern
- 3**
Ms. H.M.S.L. Fernando
Regional Manager – Western 1
- 4**
Ms. D.D. Wickramasinghe
Regional Manager – Southern
- 5**
K. Kamalanathan
Regional Manager – North Western
- 6**
Ms. H.R. Karunamuni
Regional Manager – Sabaragamuwa
- 7**
P.H. Andrahennadi
Regional Manager – Region 4
(Retired on 12th January 2017)
- 8**
K.M. Piyarathne
Regional Manager – Region 1
(Retired on 30th January 2017)

- 9**
Ms. V.M.S. Sandalatha
Regional Manager – Central

Branch Operations

- 10**
Ms. W.P.U.A. de Silva
Chief Manager – Wellawatte
- 11**
Ms. R.A.N.N. Wijesinghe
Chief Manager – Homagama
- 12**
H.M.G.P.J. Herath
Chief Manager – Borella
- 13**
R. Weerakkody
Chief Manager – Postal Banking Administration
- 14**
Ms. A.J. de Mel
Chief Manager – Panadura
- 15**
Ms. A.M.C. Attanayake
Chief Manager – Kandy
- 16**
A.H. Chandradasa
Chief Manager – Gampaha

- 17**
Ms. C.N. Ekanayake
Chief Manager – City Branch

- 18**
W.A.J. Fernando
Chief Manager – Jaela
- 19**
V. Gamage
Chief Manager – Piliyandala
- 20**
M.M.M. Mansoor
Chief Manager – Kalmunai
- 21**
U. Munasinghe
Chief Manager – Battaramulla
- 22**
D.C. Olaboduwa
Chief Manager – Kiribathgoda
- 23**
M.N.C. Perera
Chief Manager – Chilaw
- 24**
S. Seekkubaduge
Chief Manager – Galle
- 25**
P.M. Thilakarathna Bandara
Chief Manager – Badulla
- 26**
W.A.K. Wijeratne
Chief Manager – Matara

Asset Management

- 27**
Ms. S.W.A. Weerasinghe
Chief Manager – Asset Management
- 28**
K.K. Kannan
Chief Dealer

Audit and Vigilance

- 29**
U. Wattuhewa
Chief Manager – Audit and Vigilance
- 30**
P.A. Perera
Chief Manager – Audit and Vigilance

Corporate Credit/Retail Credit

31
Ms. E.D. Seetha
Chief Manager – Credit

32
P.T.A. Perera
Chief Manager – Credit

33
Ms. K.G. Damayanthi
Chief Manager – Credit

34
A.B.C.R. Wijayapala
Chief Manager – Pawning

35
Ms. R.C. Samarasinghe
Chief Manager – Credit

Branch Management

36
T.M.D.G.D. de Alwis
Chief Manager – Branch
Management

37
W.M.R.B. Weerakoon
Chief Manager – Branch
Management

Finance and Planning

38
**Ms. S.A.B.M.
Bandaranayake**
Chief Manager –
Superannuation

Human Resource Development

39
K.A.P. Perera
Chief Manager – Personnel

International Banking

40
M.V.G. Susil Kumara
Chief Manager – International
Banking

IT

41
G.M.S.P. Fernando
Chief Manager – IT

42
M.C. Rajapaksha
Chief Manager – IT

43
A.K.L. Illesinghe
Chief Manager – Network and
Communication

44
L.C. Senanayake
Chief Manager – Hardware

45
A P R De Zoysa
Chief Manager – IT

46
K D K K Wijewardane
Chief Manager – Card Centre

Compliance, Legal & Risk

47
**Ms. I.K.L. Sasi
Mahendren**
Chief Manager – Compliance

48
**Ms. R.P.A.M.P.
Rajanayake**
Chief Manager – Risk
Management

49
Ms. M.A.P. Muhandiram
Secretary to the Board
of Directors

Support Services

50
K.S. Weerasena
Chief Manager – Training

51
Ms. C.W. Pathirana
Chief Manager – Supplies

52
K.T.S.S. Gunawardena
Chief Manager – Security

53
M W K C De Silva
Chief Manager – Research and
Development

54
D M C P B Dissanayake
Chief Manager

55
D L P Abayasinghe
Chief Manager- NSB Fund
Management Co. Ltd.

The Luminary

We are one of the official banks for *Soorya Bala Sangramaya* (Battle for Solar Energy). NSB is proud to serve the nation in promoting the national deployment of renewable energy which will pave the way for sustainable development.



Corporate Governance

Corporate governance is the framework of rules and practices by which an institution is developed, operated, regulated and controlled. Banks and other financial institutions are charged with upholding the public trust and protecting depositors. Corporate governance complements the traditional supervision of financial institutions, protects the interests of the depositors and enhances the confidence in the public on the financial institution while contributing to the integrity and credibility.

The Board of Directors (the 'Board') of National Savings Bank ('NSB') believes that Corporate governance is a vital tool which enhances its influence, efficiency and independence while providing a sound basis for the Bank's operations and maintaining a healthy relationship with customers, employees, shareholders and all other stakeholders.

As part of the Bank's vision to be the most reliable and sought-after choice for savings and investment solutions, NSB sets itself high standards in corporate governance. NSB believes corporate governance should stem from the corporate culture and values of the Bank and not restricted to written laws and standards.

Governance at NSB

As a leading specialised bank in the country, NSB strives for best practice in corporate governance across its footprints. 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 level 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, Finance Act, Financial Reporting Act, Prevention of Money Laundering Act, Exchange Control Act, and other Regulations issued by the Government of Sri Lanka and Directions of Central Bank of Sri Lanka (CBSL) along with 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.

The Bank publishes its quarterly and annual Financial Statements in the newspapers and tables its Financial Statements annually in the Parliament. This ensures that the public interest in the Bank's affairs is secured. Financial Statements are audited by the Auditor General's Department and in addition to that selected branches are audited by firms of Chartered Accountants. This increases the transparency and reliability of the Bank's policies and processes in discharging its accountability.

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

The Compliance Division of the Bank is committed to ensure that the Bank adheres to all provisions and guidelines applicable to the Bank. The Division is duly updated of the changing compliance environment and follows up with relevant divisions/branches in the Bank to ensure that the new directions are properly communicated among relevant staff members. The Division also conducts quarterly audit reviews in branches and divisions. The Compliance Division follows up to ensure that the Bank's Financial Statements are duly audited by the Auditor General and tabled at the Parliament as well as published in the media within the stipulated time frame to ensure transparency and reliability. Further, to ensure independence of the Compliance function, the Division is subject to independent audits viz., Annual Government Audit and the Internal Audit.

The Board of NSB has appointed as per the provisions of the NSB Act. The Board is consisted of seven Directors (including the Chairman) with diverse range of skills, expertise and experience. All Directors of the Bank are Non-executive Directors.

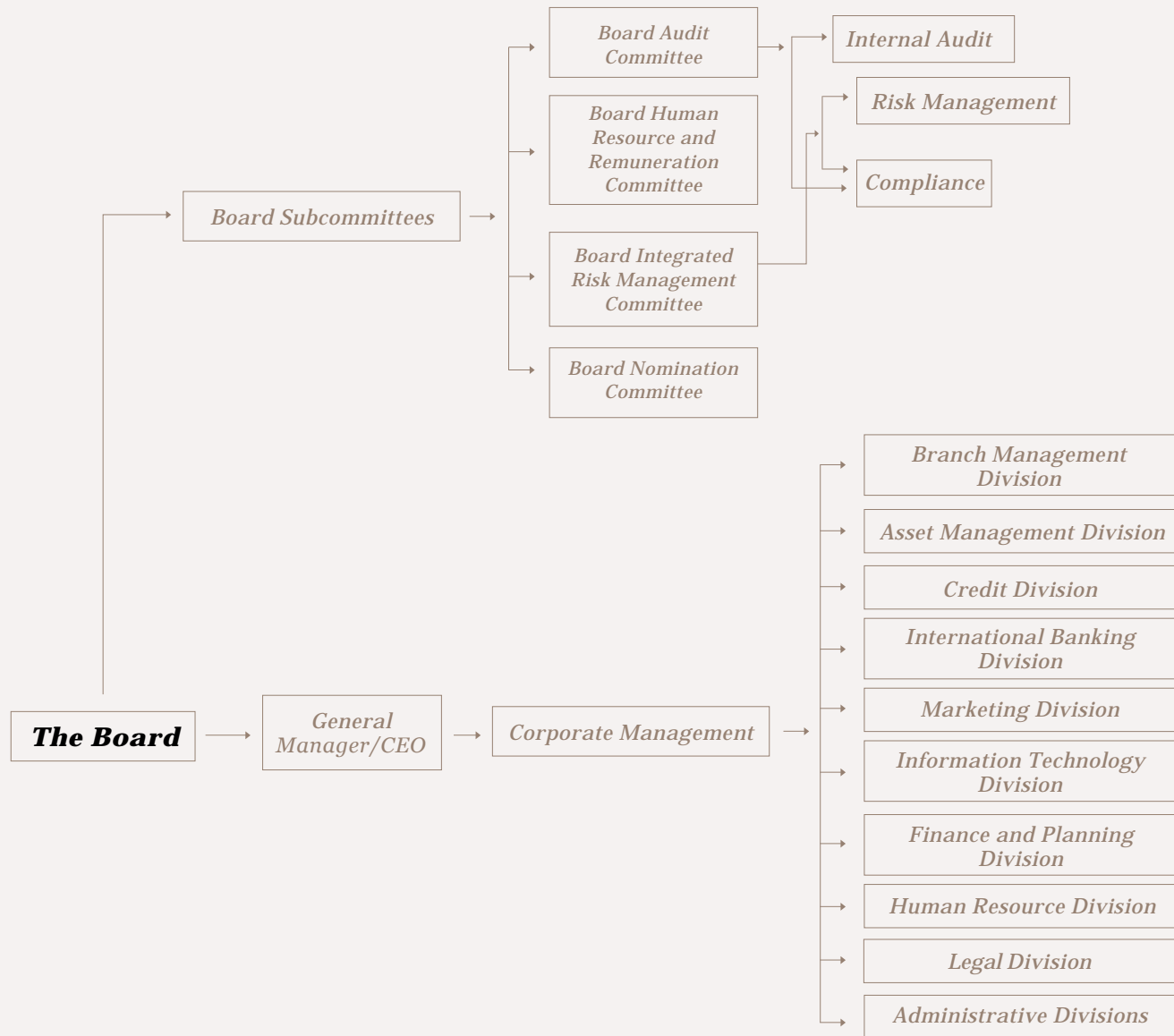
The bank have established four Board Committees as set out in the Direction 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) which shall directly report to the Board. These Subcommittees namely, Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Board Human Resources and Remuneration Committee (BHRRC) and Board Nomination Committee (BNC) are given the authority to make recommendations to the Board on matters under their purview. The Board Audit Committee (BAC) and Board Integrated Risk Management Committee assist the Board to review and make decisions on the adequacy and integrity of internal controls, review of financial information and their integrity, principal risk elements of the industry and precise risk factors and corporate governance of the Bank. The Board has also retained the critical areas of operations under its purview without delegating to the operational level as per corporate governance practices. The authority and responsibilities of the Chairman and the Chief Executive Officer are separate as per the CBSL Directions.



Accountability matters, no matter who you are.

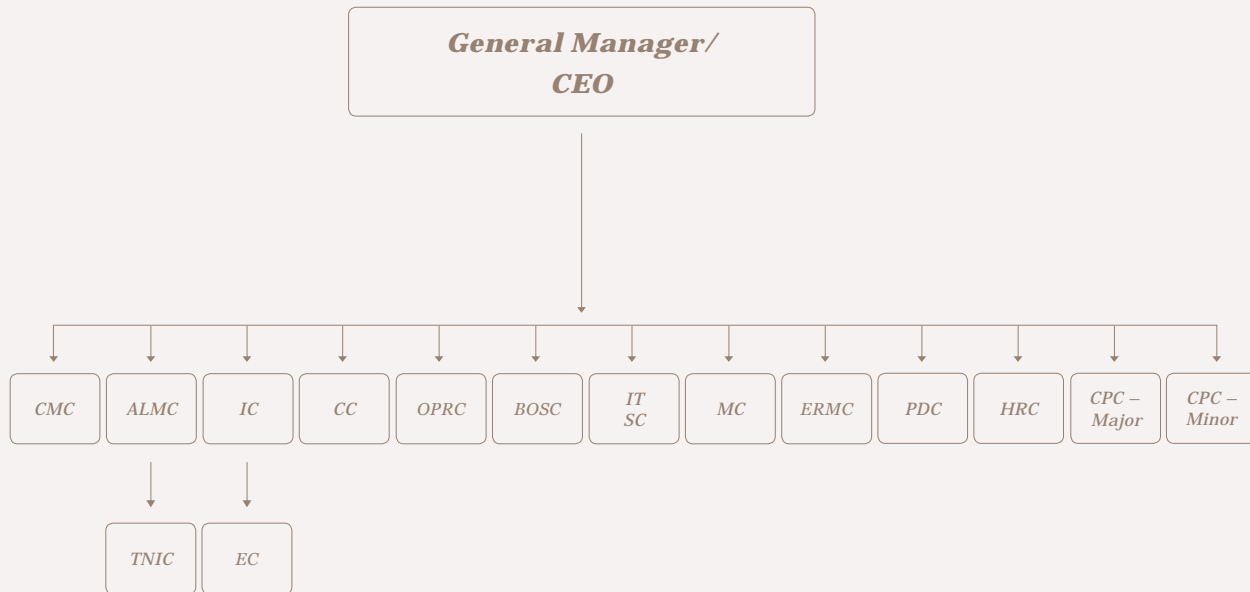
The Corporate Governance Organisational Chart

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



The Management Committees

The Management Committee Structure of the Bank is given below:



| | | | |
|--|---------|---|---------------|
| Corporate Management Committee | – CMC | Executive Risk Management Committee | – ERMOC |
| Asset and Liability Management Committee | – ALMC | Product Development Committee | – PDC |
| Investment Committee | – IC | Human Resources Committee | – HRC |
| Credit Committee | – CC | Corporate Procurement Committee – Major | – CPC – Major |
| Operational Performance Review Committee | – OPRC | Corporate Procurement Committee – Minor | – CPC – Minor |
| Branch Operations Steering Committee | – BOSOC | Tender and New Investment Committee | – TNIC |
| IT Steering Committee | – IT SC | Equity Committee | – EC |
| Marketing Committee | – MC | | |

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

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 meet as per the respective charters.

Attendance of the Board Members for Board Meetings during the Year 2016

| Name of Director | Date of Appointment | Eligible to Attend | Attended |
|---|--------------------------------|--------------------|----------|
| Aswin De Silva – Chairman | Appointed on 9th February 2015 | 18 | 18 |
| D.L.P.R. Abeyaratne – Ex Officio Director | Appointed on 9th February 2012 | 18 | 16 |
| Suranga Naullage – Director | Appointed on 9th February 2015 | 18 | 17 |
| Ajith Pathirana – Director | Appointed on 20th March 2015 | 18 | 18 |
| A.K. Seneviratne – Ex Officio Director | Appointed on 27th May 2015 | 18 | 15 |
| Chandima Hemachandra – Director | Appointed on 2nd November 2015 | 18 | 10 |
| Anil Rajakaruna – Director | Appointed on 2nd November 2015 | 18 | 18 |

Scope, functions and attendance during the year 2016 are given below for the Board-appointed Subcommittees in accordance with the Banking Act Direction No. 12 of 2007.

1 . Board Audit Committee (BAC)

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

The Board Audit Committee comprises three Non-Executive Directors, who conduct Committee proceedings in accordance with the rules stipulated in 3 (6) (ii) under the Direction No. 12 of 2007 on corporate governance for Licensed Specialised Banks, Board approved Audit Charter and connected Board decisions. The Board Secretary functions as the Secretary to the Board Audit Committee. The Board of Directors of the National Savings Bank which consists of seven Directors and being constituted under the provisions of Section 8 (1) of the NSB Act and members for all the Subcommittees including the Board Audit Committee members are being appointed out of the said Seven (07) members who possess necessary qualifications, skills and experience to serve BAC. The Committee functioned within the terms of reference stipulated in the Board Audit Committee Charter. In terms of the Charter, the scope of the Committee was to assist the Board of Directors in fulfilling its oversight responsibilities for: (a) The integrity of the Bank's Financial Statements; (b) The effectiveness of the Bank's risk management function; (c) The performance of the Bank's external audit function; and (d) The performance of the Bank's internal audit function.

The 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 139 to 141.

2 . Board Human Resources and Remuneration Committee (HRRC)

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 Subcommittees and operational committees on all human resource issues, including matters relating to all staff, are among the primary responsibilities vested in the BHRRC.

The General Manager/CEO provides information to the Committee and attends all meetings of the Committee except when matters relating to the General Manager/CEO are being discussed. The Secretary to the Board functions as the Secretary to BHRRC. The Committee is responsible for determining the remuneration

policy relating to the General Manager/CEO and Key Management Personnel of the Bank other than the remunerations determined by the Collective Agreement.

The Committee reviews all significant Human Resource Policies, initiatives, salary structures and terms and conditions relating to staff at senior executive level. In this process, necessary information and recommendations are obtained from the General Manager/CEO and the Senior Management of the Bank. The Committee meetings are held quarterly however based on the needs, meetings are fixed accordingly, and 09 meetings had been held during the year 2016.

The Human Resources and Remuneration Committee Report is given on page 142 to 143.

3 . Board Integrated Risk Management Committee (BIRMC)

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

The Board of Directors of the Bank has established the Board Integrated Risk Management Committee (BIRMC) in compliance with the Banking Act Direction No. 12 of 2007, corporate governance for licensed specialised banks in Sri Lanka. BIRMC comprised three Non-Executive Directors, and General Manager/CEO and the Head of Risk Management/CRO who looks after the broad risk categories. The Secretary to the Board of Directors functions as the Secretary to the Committee.

The Committee reviews policies, reports and proposals on risk and compliance related to the Bank. BIRMC grants approval for proposals within its mandate and recommends proposals/reports to the Board of Directors which required to be scrutinised by the Board.

The BIRMC reviews the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset Liability Management Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee. The Committee is to take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.

BIRMC ensures submission of a risk assessment report to the Board seeking the Board's views, concurrence and/or specific directions on a regular basis. The Committee has established an independent compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated Compliance Officer is selected from Key Management Personnel to carry out the compliance function and report to the Committee periodically.

The Board Integrated Risk Management Committee Report is given on page 144 to 145.

4 . Board Nomination Committee (NC)

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

The Board Nomination Committee is responsible for implementing a procedure to select/appoint General Manager/CEO and Key Management Personnel, setting out criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of General Manager/CEO and the Key Management positions. 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 Board Nomination Committee Report is given on page 146 to 147.

Board Appointed Committee Attendance

The number of meetings to be held as per corporate governance, meetings conducted and individual attendance for the year 2016 are shown below:

| Description/Names | Directorship Status | Board Audit Committee | Board Human Resource Remuneration Committee | Board Integrated Risk Management Committee | Board Nomination Committee |
|---|---|--|---|---|---|
| Total minimum number of meetings to be held during the year as per statutory requirements | | 04 | 04 | 04 | 02 |
| Total number of meetings held during the year | | 06 | 09 | 06 | 05 |
| Aswin De Silva – Chairman | Chairman Non-Independent Non-Executive (Chairman HRRC, NC) | N/A | 09 Chairman From 30th November 2015 | N/A | 05 Chairman From 30th November 2015 |
| D.L.P.R. Abeyaratne – Ex Officio Director | Director Non-Independent Non-Executive (Chairman BAC) | 06 Chairman from 30th November 2015 | 08 From 30th November 2015 | N/A | 04 From 30th November 2015 |
| Suranga Naullage – Director | Director Non-Independent Non-Executive | N/A | N/A | 06 From 30th November 2015 | N/A |
| Ajith Pathirana – Director | Director Non-Independent Non-Executive | N/A | 08 From 30th November 2015 | N/A | 05 From 30th November 2015 |
| A.K. Seneviratne – Ex Officio Director | Director Non-Independent Non-Executive (Chairman BIRMC) | 05 From 30th November 2015 | N/A | 06 Chairman from 30th November 2015 | N/A |
| Chandima Hemachandra – Director | Director Non-Independent Non-Executive | N/A | N/A | 01 From 30th November 2015 | N/A |
| Anil Rajakaruna – Director | Director Non-Independent Non-Executive | 06 From 30th November 2015 | N/A | N/A | N/A |

N/A = Not Applicable.

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 2015 of the Bank where the salient features are aligned with the Basel Principles on compliance function and also identified the need of having an independent Internal Compliance Function.

The Compliance Function reports are reported to the Board Integrated Risk Management Committee and to the Board periodically.

3 (1) The Responsibilities of the Board

3 (1) (i) The Board shall strengthen the safety and soundness of the Bank, by ensuring the following:

3 (1) (i) (a) Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank.

Complied with.

3 (1) (i) (b) Approve the overall business strategy of the Bank, the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years.

The Board-approved three-year strategic plan (2014-2016) is implemented. This covers business strategy, directions and measurable goals.

Complied with.

3 (1) (i) (c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.

The BIRMC make recommendations to the Board on the Bank's Risk Management Policy, defining the risk appetite, identifying principal risks, setting governance structures and implementing systems to measure, monitor and manage the principal risks.

Complied with.

3 (1) (i) (d) Approve implementation of a policy of communication with all stakeholders, including depositors, borrowers, creditors, shareholders.

Communication policy in place which communicates with all stakeholders, including depositors, creditors, shareholders and borrowers. Board-approved Customer Charter is in place which communicates the customer interaction.

Complied with.

3 (1) (i) (e) Review the adequacy and the integrity of the Bank's internal control systems and management information systems.

Complied with.

3 (1) (i) (f) Identify and designate Key Management Personnel (KMP), as defined in the International Accounting Standards.

Complied with.

3 (1) (i) (g) Define the areas of authority and key responsibilities for Directors themselves and for Key Management Personnel (KMP).

Complied with.

| | | |
|---------------|---|--|
| 3 (1) (i) (h) | Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel (KMP) that is consistent with Board policy. | Complied with. |
| 3 (1) (i) (i) | Periodically assess the effectiveness of the Board of Directors' own governance practices, including: the selection, nomination and election of Directors and Key Management Personnel; the management of conflicts of interests; and the determination of weaknesses and implementation of changes, where necessary. | The Bank is wholly-owned by the Government of Sri Lanka and the Directors are appointed by the Minister in terms of Section 8 of NSB Act. Annual declarations of the Board of Directors in respect of related parties are obtained from Directors to monitor conflict, if any. Related Party Transaction Policy is in place to manage conflict of interest. Complied with. |
| 3 (1) (i) (j) | Ensure that the Bank has an appropriate succession plan for Key Management Personnel. | Complied with. |
| 3 (1) (i) (k) | Meet regularly, on a need basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives. | The General Manager/CEO attends Board meetings as permitted under Section 13 (4) of the NSB Act. In addition, Key Management Personnel are called regularly when the need arises by the Board of Directors to exchange views in relation to the matters relating to their area of responsibility. The progress of impementation of key budgetary targets is presented to the Board by DGM (F&P) on monthly basis with the participation of all DGMs and Consultants. Complied with. |
| 3 (1) (i) (l) | Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators. | Independent Compliance Officer is appointed to maintain regular contact relationship with regulators based upon clear and timely communication and mutual understanding of the regulators objectives. Monthly compliance report is submitted to the Board which includes information of CBSL supervisory concerns and the progress of completion. Complied with. |
| 3 (1) (i) (m) | Exercise due diligence in the hiring and oversight of External Auditors. | As per Section 37 of the NSB Act the Auditor General is the External Auditor to the Bank. Complied with. |
| 3 (1) (ii) | The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Section 3 (5) of the Directions. | As per Section 11 (1) of the NSB Act, Chairman is appointed by the Minister. Section 26 (1) of the NSB Act states that the Board shall appoint a fit and proper person to be the General Manager of the Bank who shall be the Chief Executive Officer. Chairman and General Manager/CEO's functions and responsibilities have been defined and approved by the Board. Complied with. |

| | | |
|--------------|--|---|
| 3 (1) (iii) | The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible. | As per Section 13 (1) of the NSB Act, a Board meeting shall be held as often as the Chairman may deem necessary: provided that a meeting of Board shall be held at least once in every six weeks (minimum of 9 meetings accordingly). The Board has held 18 Board meetings during the year. Complied with. |
| 3 (1) (iv) | The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank. | Complied with. |
| 3 (1) (v) | The Board procedures shall ensure that notice of at least seven days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given. | Complied with. |
| 3 (1) (vi) | The Board procedures shall ensure that a Director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. | Complied with. |
| 3 (1) (vii) | The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988. | Complied with. |
| 3 (1) (viii) | All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed. | Complied with. |
| 3 (1) (ix) | The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director. | Complied with. |

| | | |
|--------------|--|---|
| 3 (1) (x) | <p>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.</p> <p>The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board meetings.</p> | Complied with. |
| 3 (1) (xi) | <p>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.</p> <p>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.</p> | <p>Board-approved procedure in place, which enable the Directors upon reasonable request to seek independent professional advice in appropriate circumstances, at the Bank's expense.</p> <p>Complied with.</p> |
| 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. | <p>No such situation has arisen during the year.</p> <p>Complied with.</p> |
| 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. | <p>Corporate Governance Report is given on page 112 in the Annual Report.</p> <p>Complied with.</p> |
| 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. |

| 3 (2) | Board's Composition | |
|----------------|--|--|
| 3 (2) (i) | The number of Directors on the Board shall not be less than seven and not more than 13. | As per Section 8 (1) of the NSB Act the Board comprises seven Directors including the Chairman. Complied with. |
| 3 (2) (ii) (a) | The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years. | As per the Section 8 (2) of the NSB Act the term of services of a Director is three years. Not applicable. |
| 3 (2) (ii) (b) | A Director who has completed nine years as at 1st January 2008, or who completes such term at any time prior to 31st December 2008, may continue for a further maximum period of three years commencing 1st January 2009. | Not applicable. |
| 3 (2) (iii) | An employee of a bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank. | Complied with. |
| 3 (2) (iv) | The Board shall have at least three Independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher. | Directors are appointed by the Minister according to the Section 8 (1) (a) of the NSB Act. All the Directors are Non-Executive, however none of them are Independent. One Director is an ex-employee of the Bank. Four members of the Board of NSB are Directors of NSB Fund Management Company Ltd. which is a subsidiary company of the Bank. Please refer to Directors details on page 100 of the Annual Report of Board of Directors. |
| 3 (2) (v) | In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director. | No Alternate Directors were appointed during the year under concern. Not applicable. |
| 3 (2) (vi) | Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources. | All Directors appointed by the Minister are from various disciplines such as Accountancy, Law, Marketing and Business Administration and professionals with necessary experiences. Complied with. |

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| 3 (2) (vii) | A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one-half of the number of Directors present at such meeting are Non-Executive Directors. | As per the NSB Act the quorum of the Board is four which is more than one-half of the Directors and all seven of the Directors are Non-Executive Directors. Complied with. |
| 3 (2) (viii) | The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. | Refer the page 119 and 185 of the Annual Report. Complied with. |
| 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 carried out by the line Minister as per the Section 8 (1) (a) of the NSB Act. Complied with. |
| 3 (2) (x) | All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment. | Not Applicable. |
| 3 (2) (xi) | If a Director resigns or is removed from office, the Board shall: announce the Director's resignation or removal and the reasons for such removal or resignation; and issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders. | Not Applicable. |
| 3 (2) (xii) | A Director or an employee of a bank shall not be appointed, elected or nominated as a Director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank. | Senior Deputy General Manager, an employee of the Bank, has been appointed as a Director of RDB (Regional Development Bank) representing the shareholding of the NSB. Complied with. |
| 3 (3) | Criteria to Assess the Fitness and Proprietary of Directors | |
| 3 (3) (i) a & b | The age of a person who serves as a Director shall not exceed 70 years. | Complied with. |
| 3 (3) (ii) | A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank. | Complied with. |

3 (4) Management Functions Delegated by the Board

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| 3 (4) (i) | The Directors shall carefully study and clearly understand the delegation arrangements in place. | Delegation arrangements have been approved by the Board on selected matters. |
| | | Complied with. |
| 3 (4) (ii) | The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions. | The Board has not delegated such authority which hinders or reduces the ability of the Board as a whole to discharge its functions. |
| | | Complied with. |
| 3 (4) (iii) | The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank. | Delegation arrangements are reviewed by the Board on need basis or on requests made by the management. |
| | | Complied with. |

3 (5) The Chairman and Chief Executive Officer

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| 3 (5) (i) | The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by the same individual. | The roles of the Chairman and the CEO are performed by two separate individuals. |
| | | Complied with. |
| 3 (5) (ii) | <p>The Chairman shall be a Non-Executive Director and preferably an Independent Director as well.</p> <p>In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented terms of reference.</p> <p>The designation of the Senior Director shall be disclosed in the Bank's Annual Report.</p> | <p>Chairman is a Non-Executive Director. Chairman is not independent since Chairman is in the Board of the NSB Fund Management Company Ltd., a fully-owned subsidiary of NSB.</p> <p>The Board was not designated with an Independent Director as the Senior Director. However as per the NSB Act there is no any provision to appoint Independent Director as the Senior Director.</p> |
| | | Complied with. |
| 3 (5) (iii) | The Board shall disclose in its Corporate Governance Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship. | Profile of the Board and the General Manager/CEO are available on page 100. |
| | | Complied with. |
| 3 (5) (iv) | The Chairman shall: provide leadership to the Board; ensure that the Board works effectively and discharges its responsibilities; and ensure that all key and appropriate issues are discussed by the Board in a timely manner. | The Chairman provides leadership to the Board and ensures that the Board functions effectively in discharging its responsibilities. The Board in a timely manner discusses all key issues. |
| | | Complied with. |

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| 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. | Chairman directly and through the General Manager/CEO and Senior Management explains the issues/important matters taken up at the Board meetings. The Secretary circulates the Board Papers among the Board members with adequate time lines. |
| | | Complied with. |
| 3 (5) (vii) | The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank. | Evaluation of the role of the Chairman and the overall assessment of the Board's performance are incorporated in the Director's self-evaluation process. |
| | | Complied with. |
| 3 (5) (viii) | The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors. | Evaluation of the role of the Non-Executive Directors 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 engage in any executive functions and does not directly supervise General Manager/CEO and Key Management Personnel. |
| | | Complied with. |
| 3 (5) (x) | The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board. | The shareholder is being represented at the Board by the nominee of Secretary to the Treasury who is appointed as a Director by the provisions of the NSB Act. |
| | | Complied with. |
| 3 (5) (xi) | The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the Bank's operations and business. | General Manager/CEO acts as the in charge of the day-to-day management of the Bank's operations and business according to the NSB Act. |
| | | 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. Check that the Board presents in its Annual Report, a report on each committee on its duties, roles and performance.

All four committees are in place. Board Secretary acts as Secretary to all four committees. Board Audit Committee, Board Integrated Risk Management Committee and the Board Human Resource and Remuneration Committee and Board Nomination Committee directly submit reports through the Chairman of the Board Sub-Committees to the Board.

For the year 2016, BAC, BHRRC, BIRMC and BNC Committee have prepared reports and given in the pages 139 to 147 of the Annual Report.

Complied with.

3 (6) (ii) Audit Committee

3 (6) (ii) (a) The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.

The Chairman of the Board Audit Committee is Non-Executive but Non-Independent due to the fact that he serves as an ex officio member of the Board as per the NSB Act and due to his appointment as a Director of the NSB Fund Management Company Ltd., a fully-owned subsidiary of the Bank.

Complied with.

3 (6) (ii) (b) All members of the Committee shall be Non-Executive Directors.

Complied with.

3 (6) (ii) (c) The Committee shall make recommendations on matters in connection with:

By Statutes the Auditor General is the External Auditor and therefore all the matters are taken into consideration.

(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;

Complied with.

(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.

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| 3 (6) (ii) (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 Board Audit Committee meetings. Complied with. |
| 3 (6) (ii) (e) | The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services. | The Auditor General is appointed as per the Constitution. Not Applicable. |
| 3 (6) (ii) (f) | The Committee shall, before the audit commences, discuss and finalise with the External Auditor the nature and scope of the audit. | External Auditor is the Auditor General and the nature and scope of the audit is based on the statutory authority vested on him by the Constitution of Sri Lanka, Finance Act and the NSB Act. Complied with. |
| 3 (6) (ii) (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. | The Audit Committee has reviewed the quarterly Financial Statements and annual report of the Bank prepared for the disclosure purposes as and when ready for the publication. The Internal Audit Division submits a separate review report on the Financial Statements on each instance including the deviation in major judgmental areas, change in accounting policies etc., in the review report to the attention of Board Audit Committee. Complied with. |
| 3 (6) (ii) (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 that may need to be discussed in the absence of the Key Management Personnel. | The Board Audit Committee meets the External Auditor on request in the absence of executive management with relation to the audit. No such instance has occurred during the period. Complied with. |
| 3 (6) (ii) (i) | The Committee shall review the External Auditor's Management Letter and the management's response thereto. | The Board Audit Committee reviews the External Auditor's Report issued under the Sections 14 (2) (c) and 13 (7) (a) of the Finance Act annually. Complied with. |
| 3 (6) (ii) (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; | Complied with. |

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| | <p>ii. Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;</p> <p>iii. Review any appraisal or assessment of the performance of the Head and Senior Staff Members of the Internal Audit Department;</p> <p>iv. Recommend any appointment or termination of the Head, Senior Staff Members and outsourced service providers to the internal audit function;</p> <p>v. Check that the Committee is appraised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;</p> <p>vi. Check that the internal audit function is independent of the activities it audits.</p> | <p>Complied with.</p> <p>Complied with.</p> <p>Complied with.</p> <p>Complied with.</p> <p>Complied with.</p> |
| 3 (6) (ii) (k) | The Committee shall consider the major findings of internal investigations and management's responses thereto. | Committee has reviewed major findings and management responses thereto. Refer Committee Report on page 139. |
| 3 (6) (ii) (l) | The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditor may normally attend meetings. The Committee has had at least two meetings with the External Auditors without the Executive Directors being present. | <p>Board Audit Committee had six meetings in year 2016 and in all meetings there was a representative from Auditor General's Department. All Directors are non-executive.</p> <p>Complied with.</p> |
| 3 (6) (ii) (m) | <p>The Committee shall have:</p> <p>i. explicit authority to investigate into any matter within its terms of reference;</p> <p>ii. the resources which it need to do so;</p> <p>iii. full access to information; and</p> <p>iv. authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</p> | <p>As per the Board Audit Charter of the Bank, the Committee has been empowered to investigate any matter, resources to carry out its functions, access to information and authority to obtain professional advice. Refer Committee Report on page 139.</p> <p>Complied with.</p> |
| 3 (6) (ii) (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. | <p>The Committee has met six times during the year and minutes have been maintained.</p> <p>Complied with.</p> |

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| 3 (6) (ii) (o) | <p>The Board shall disclose in an informative way:</p> <ul style="list-style-type: none"> 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. | <p>Scope of Board Audit Committee is given on page 117.</p> <p>Dates of meetings held during the year are given on page 119.</p> <p>Details of attendance of each individual Director are given on page 119 in the Annual Report.</p> |
| 3 (6) (ii) (p) | <p>The Secretary of the Committee is the Company Secretary or the head of the internal audit function and shall record and keep detailed minutes of the Committee meetings</p> | <p>The Board Secretary acts as Secretary and detailed minutes are maintained.</p> <p>Complied with.</p> |
| 3 (6) (ii) (q) | <p>The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative.</p> | <p>A process (Whistle-Blower Policy) is in place which investigates/deals with improprieties in financial reporting/ frauds by Internal Audit and reports to Human Resources Division (HRD) for disciplinary actions and finally report to BAC.</p> <p>Complied with.</p> |
| <p>3 (6) (iii) Human Resources and Remuneration Committee:</p> | | |
| 3 (6) (iii) (a) | <p>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.</p> | <p>Remuneration of the Directors is decided by the Ministry of Finance. The remuneration of the General Manager/CEO and KMPs are decided by a committee comprising the top management of the three state banks and then approved by the Board of the Bank.</p> |
| 3 (6) (iii) (b) | <p>The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.</p> | <p>The Directors are appointed by the Minister. Goals and targets for KMPs are documented and detailed in the Action Plan for achieving targets for their respective divisions.</p> <p>Complied with.</p> |
| 3 (6) (iii) (c) | <p>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.</p> | <p>Evaluation of performance of General Manager/CEO is handled by Chairman while General Manager/CEO evaluates performance of KMPs.</p> <p>Complied with.</p> |
| 3 (6) (iii) (d) | <p>The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.</p> | <p>Complied with.</p> |

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| 3 (6) (iv) Nomination Committee: | | |
| 3 (6) (iv) (a) | The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel. | Appointment of Chairman, Directors and General Manager/ CEO are stipulated in the NSB Act. Selection for KMPs by way of internal promotions or recruitments is done by the Nomination Committee. Complied with. |
| 3 (6) (iv) (b) | The Committee shall consider and recommend (or not recommend) the re-election of current Directors. | Directors are appointed by the Minister as per the NSB Act. Not Applicable. |
| 3 (6) (iv) (c) | The Committee shall set the criteria for eligibility to be considered for appointment or promotion to the posts of CEO and the key management positions. | Selection is done as per the schemes of recruitment/promotion approved by the Board of Directors. Complied with. |
| 3 (6) (iv) (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. | Signed affidavit and declarations of Directors and General Manager/CEO are obtained by the Board Secretary and the same are obtained from the KMPs by the HR Division and forwarded to the Central Bank for assessing the fitness and propriety. Complied with. |
| 3 (6) (iv) (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. | Succession Plan for Directors is not applicable as the Directors are appointed by the Minister. Succession Plan for KMPs for the year 2017 has been prepared and forwarded to the Board Nomination Committee. Complied with. |
| 3 (6) (iv) (f) | The Committee shall be chaired by an Independent Director. The CEO may be present at meetings by invitation. | Chairman and the Members of the Committee are Non-Independent, because the Board of Directors are appointed by the Minister as per the NSB Act. Not Applicable. |
| 3 (6) (v) Board Integrated Risk Management Committee: | | |
| 3 (6) (v) (a) | The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories | Checked and ensured that the committee consists of three Non-Executive Directors, CEO and Key Management Personnel supervising Bank's risk categories. Complied with. |

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| 3 (6) (v) (b) | The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis. | Risk Management Division submits monthly risk reports to the Board and quarterly risk reports based on the Board approved risk appetite. Complied with. |
| 3 (6) (v) (c) | The Committee shall review specific quantitative and qualitative risk limits for all management level committees such as the Credit Committee and the Asset Liability Committee, and report any risk indicators periodically. | BIRMC has reviewed the quantitative and qualitative risk limits of all management level committees. Complied with. |
| 3 (6) (v) (d) | Check that the Committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits. | Board approved limit document for credit and treasury function and risk appetite documents are in place. Periodically reported to BIRMC and therein high risk areas are considered by the BIRMC. Complied with. |
| 3 (6) (v) (e) | The Committee shall meet at least quarterly to assess all aspects of risk management including updated Business Continuity Plans (BCP). | The Committee has met six times during the year. Complied with. |
| 3 (6) (v) (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. | Included in Integrated Risk Management Policy, Market Risk Management Policy, Credit Policy, Operational Policy to take disciplinary actions against officers responsible according to the disciplinary code of the Bank. Complied with. |
| 3 (6) (v) (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 Risk Management Division submits risk review reports of BIRMC to the Board subsequent to the meeting directly. Complied with. |
| 3 (6) (v) (h) | The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically. | The compliance function has been established by appointing a Compliance Officer (CO). CO submits reports on the compliance to the BIRMC on a quarterly basis. Complied with. |

3 (7) Related Party Transactions

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| 3 (7) (i) & (ii) | The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person. | Board Approved Related Party Transaction Policy is in place to avoid any conflicts of interest. Annual declarations are obtained from the Directors where such transactions would be identified. The quarterly statements on accommodation granted to a Director or close relations are available to ensure that accommodations, borrowings and investments or any other substantial interest to the Bank has been granted to a Director. |
| | | Complied with. |
| 3 (7) (iii) | The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the Bank carrying on the same business. | Transactions which are carried out with related parties in the normal course of business are disclosed under Related Party Disclosures on page 283. No favourable treatment is observed during the period. 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 47 of the Banking Act. This is regulated by Related Party Transactions (RPT) Policy. Complied with. |
| 3 (7) (v) (a) | Where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director. | Accommodations granted to the Directors are governed by the NSB Act and Section 47 of the Banking Act. This is regulated by RPT Policy. Complied with. |
| 3 (7) (vi) | A bank shall not grant any accommodation or 'more favourable treatment' other than on the basis of a scheme applicable to the employees of such bank. | There is no favourable basis other than the general scheme applicable for 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. | No such instance. Complied with. |

3 (8) Disclosures

3 (8) (i) The Board shall ensure that:

3 (8) (i) (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.

3 (8) (i) (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:

3 (8) (ii) (a) The 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 Auditor General's Report on page 195.
Complied with.

3 (8) (ii) (b) The 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 Director's statement on Internal Control over Financial Reports on page 190.
Complied with.

3 (8) (ii) (c) Check that the Board has obtained the External auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii) (b) above. Refer Independent Assurance Report on Internal Controls on page 192.
Complied with.

3 (8) (ii) (d) Details of Directors:

(i) including names, fitness and propriety, Profiles of the Directors are given on page 100.

(ii) transactions with the Bank, and Refer Note 40 (d) to the Financial Statements on page 286.

(iii) the total of fees/remuneration paid by the Bank. Refer Note 40 (d) to the Financial Statements on page 286.

Complied with.

3 (8) (ii) (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 40 (e) to the Financial Statements on page 286.

Complied with.

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| 3 (8) (ii) (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 40 (d) to the Financial Statements on page 286. Complied with. |
| 3 (8) (ii) (g) | Check that the Board has obtained the External Auditor's report on the compliance with Corporate Governance Directions. | External Auditor's certification was obtained and set out on page 192 on Independent Assurance Report on Internal Control. Complied with. |
| 3 (8) (ii) (h) | A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances. | Refer Statement of Directors' Responsibility for Financial Reporting on page 188. Complied with. |
| 3 (8) (ii) (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. Not applicable. |
| 3 (9) | Transitional and Other General Provisions | The Bank has complied with the transitional provisions. Complied with. |

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

The Auditor General has performed procedures in accordance with the principles set out in Sri Lanka Standards on Related Services 4,400 Engagements to perform agreed upon procedures regarding financial information issued by The Institute of Chartered Accountants of Sri Lanka to meet the compliance requirement of the Direction No: 12 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka. His findings given in his report dated 9th May 2017 were not materially different to the matters disclosed above and did not identify any significant inconsistencies to those reported above by the Board.

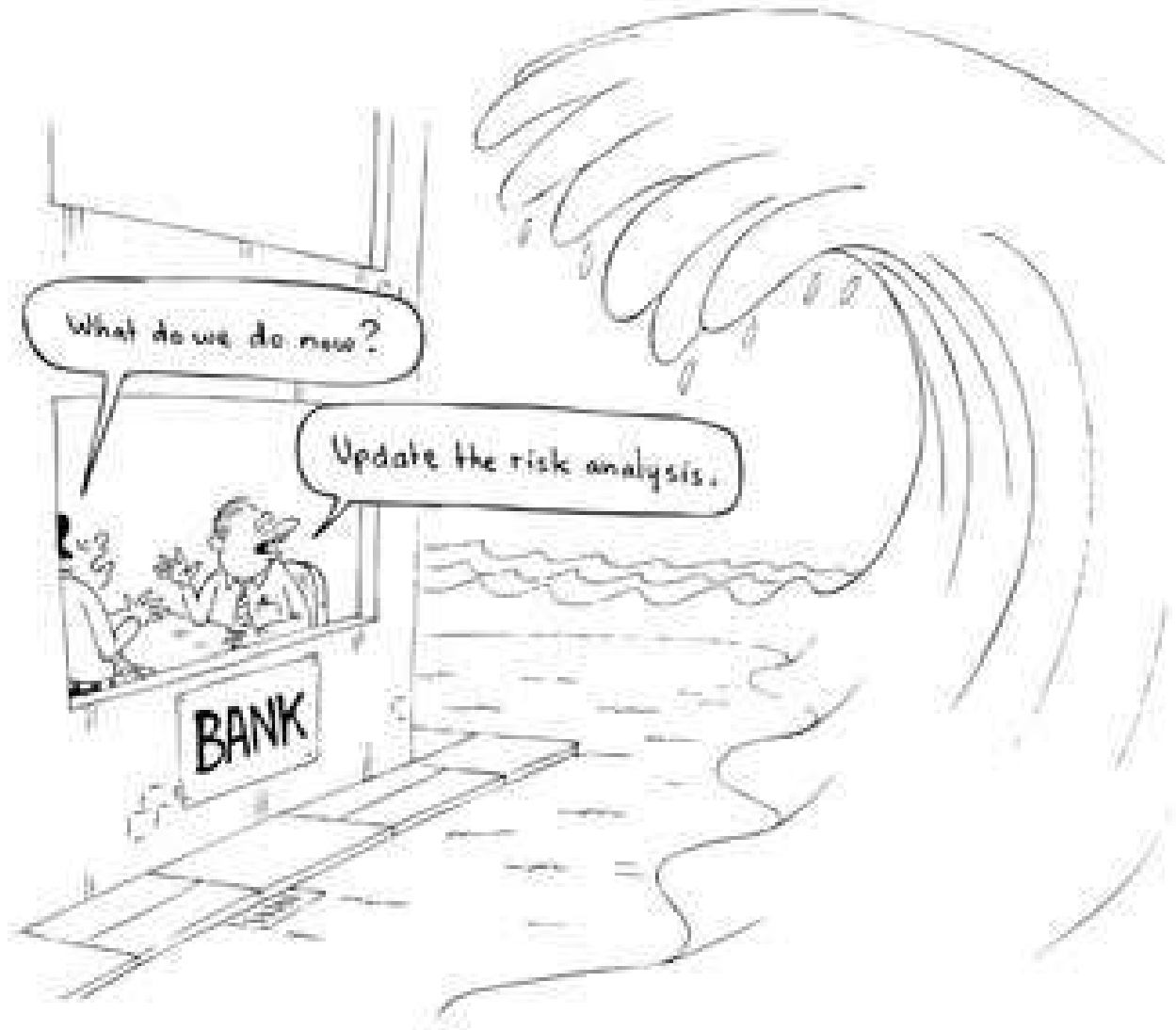


M.A.P. Muhandiram
Secretary to the Board



Ashwin De Silva
Chairman

9th May 2017
Colombo



To avoid risks, one must first know what they are.

“Our high-quality service delivered across a wide branch network and digital platforms provide our customer base of over 19 Million with simpler, seamless, direct engagement with the Bank.”

Central Region →

1. Alawathugoda
2. Bandarawela
3. Dambulla
4. Delthota
5. Digana
6. Galagedara
7. Galewela
8. Gampola
9. Geli oya
10. Ginigathena
11. Hali-Ela
12. Hatton
13. Kandy
14. Kandy 2nd
15. Kandy City Centre
16. Katugastota
17. Mahiyanganaya
18. Mulgampola
19. Naula
20. Nawalapitiya
21. Passara
22. Pilimathalawa
23. Pundaluoya
24. Pussellawa
25. Ragala
26. Rikillagaskada
27. Talawakelle
28. Wattegama
29. Welimada

Eastern Region →

30. Akkaraipattu
31. Ampara
32. Arayampathy
33. Badalkumbura
34. Bibile
35. Buttala
36. Chenkaladi
37. Hingurakgoda
38. Kalmunai
39. Kaluwanchikudy
40. Kantale
41. Medirigiriya
42. Palugamam
43. Periyakallar
44. Pothuvil
45. Samanthurai
46. Siyambalanduwa
47. Thambiluvil
48. Uhana
49. Valaichchenai
50. Wellawaya

Northern Region →

51. Atchuwely
52. Chankanai
53. Chavakachcheri
54. Chunnakam
55. Horowpothana
56. Jaffna
57. Kahatagasdigiliya
58. Karainagar
59. Kayts
60. Kebithigollewa
61. Kilinochchi
62. Kodikamam
63. Kopay
64. Mallavi
65. Manipay
66. Medawachchiya
67. Mullativu
68. Nelliyadi
69. Point Pedro
70. Thirunelveli
71. Vankalai

North Western Region →

72. Alawwa
73. Anamaduwa
74. Anuradhapura
75. Bingiriya
76. Chilaw
77. Dankotuwa
78. Eppawala
79. Galenbindunuwewa
80. Galgamuwa
81. Galnewa
82. Giriulla
83. Hettipola
84. Ibbagamuwa
85. Kekirawa
86. Kuliypitiya
87. Kurunegala
88. Madampe
89. Maho
90. Marawila
91. Mawathagama
92. Melsiripura
93. Narammala
94. Nikaweratiya
95. Nochchiyagama
96. Polgahawela
97. Puttalam
98. Rideegama
99. Tambuttegama
100. Wariyapola
101. Wennappuwa

Sabaragamuwa Region →

102. Aranayaka
103. Avissawella
104. Baduraliya
105. Balangoda
106. Bulathkohupitiya
107. Bulathsinhala
108. Deraniyagala
109. Embilipitiya
110. Godakawela
111. Hanwella
112. Horana
113. Ingiriya
114. Kahawatta
115. Kalawana
116. Kegalle
117. Kiriella
118. Kuruwita
119. Mawanella
120. Nivitigala
121. Pelmadulla
122. Rambukkana
123. Ratnapura
124. Ruwanwella
125. Warakapola
126. Yatiyantota

Southern Region →

127. Akuressa
128. Ambalangoda
129. Anugakolapelessa
130. Baddegama
131. Beliatta
132. Deniyaya
133. Devinuwara
134. Dikwella
135. Elpitiya
136. Galle
137. Habaraduwa
138. Hakmana
139. Hambantota
140. Hikkaduwa
141. Imaduwa
142. Kamburupitiya
143. Karapitiya
144. Kekanadura
145. Matara
146. Middeniya
147. Morawaka
148. Neluwa
149. Pitigala
150. Sooriyawewa

151. Tangalle
152. Tissamaharama
153. Udugama
154. Urugasmanhandiya
155. Urubokka
156. Walasmulla
157. Weerakatiya
158. Weligama

Western 1 Region →

159. Borella
160. Delgoda
161. Divulapitiya
162. Gampaha
163. Ganemulla
164. Head Office Branch
165. Ja-Ela
166. Kadawatha
167. Kaduwela
168. Kandana
169. Katunayake
170. Kelaniya
171. Kiribathgoda
172. Kirindiwela
173. Kochchikade
174. Kotahena
175. Mahabage
176. Maligawatta
177. Minuwangoda
178. Mirigama
179. Mulleriyawa
180. Mutwal
181. Narahenpita
182. Negombo
183. Nittambuwa
184. Peliyagoda
185. Pettah
186. Pugoda
187. Raddolugama
188. Ragama
189. Veyangoda
190. Wattala
191. Wellampitiya
192. Yakkala

Western 2 Region →

193. Aluthgama
194. Athurugiriya
195. Bambalapitiya
196. Bandaragama
197. Battaramulla
198. Beruwala
199. Boralesgamuwa

200. City
201. Dehiwala
202. Delkanda
203. Homagama
204. Kahathuduwa
205. Kalubowila
206. Kalutara
207. Katubedda
208. Kollupitiya 2nd
209. Kottawa
210. Maharagama
211. Malabe
212. Matugama
213. Meegoda
214. Moratumulla
215. Moratuwa
216. Mount Lavinia
217. Nawala
218. Nugegoda
219. Panadura
220. Piliyandala
221. Pitakotte
222. Puwakaramba
223. Rajagiriya
224. Thalawathugoda
225. Wadduwa
226. Wellawatta
227. WTC

Postal Administration →

228. Ambalantota
229. Ampara 2nd
230. Anuradhapura 2nd
231. Badulla
232. Batticaloa
233. Eheliyagoda
234. Galle 2nd
235. Gampaha 2nd
236. Jaffna 2nd
237. Kaduruwela
238. Kalutara 2nd
239. Kandy 3rd
240. Kegalle 2nd
241. Kirulapone
242. Kurunegala 2nd
243. Mannar
244. Matale
245. Matara 2nd
246. Monaragala
247. Nattandiya
248. Nuwara Eliya
249. Trincomalee
250. Vavuniya

Report of the Board Audit Committee

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

Composition of the Committee

The present BAC, which had been reconstituted on 30th November 2015, comprises of the following three Non-Executive Directors serving on the Committee during the year ended 31st December 2016:

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

Profiles of the above members are given on page 100 of this Annual Report.

The Board Secretary functions as the Secretary to the Board Audit Committee as per the Board decision dated 11th July 2013. The Board of Directors of the National Savings Bank which consists seven Directors and being constituted under the provisions of Section 8 (1), its sub-section of NSB Act No. 28 of 1995 and members for all the Sub-Committees including the Board Audit Committee members are appointed out of the said Seven (07) members who possess necessary qualifications, skills and experience to serve BAC.

Meetings

The Committee held six (06) meetings during the year 2016 and minimum quorum of the Committee is two-thirds as per the charter of the BAC. Attendance of the Committee members during the year are given below:

| Name | Eligible to attend | Attended |
|----------------------|--------------------|----------|
| D.L.P.R. Abeyaratne | 6 | 6 |
| A.K. Seneviratne | 6 | 5 |
| Anil M. P.Rajakaruna | 6 | 6 |

The Superintendent of the Government Audit as the representative of the Auditor General attended all BAC meetings regularly, as an observer. The members of the Senior Management also attend the meeting on invitation of the BAC. General Manager/CEO, Deputy General Manager (Audit & Vigilance)/Asst General Manager (Audit) and Deputy General Manager (Finance & Planning) have attended meetings of BAC during the year 2016.

Board Audit Committee Charter

The Charter of the BAC has been approved by the Board of Directors, clearly defines the terms of reference of the Committee. The Committee assists the Board of Directors in discharging its responsibilities and 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 internal audit function; and
- (d) The performance of the Bank's external audit function.

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

During the year 2016, the BAC has reviewed the Charter to ensure that new developments relating to the Committee's functions are addressed.

Financial Reporting

The Committee reviews the Financial Statements of the Bank, in order to monitor the integrity of the Financial Statement of the Bank, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgment contained therein prior to their release. The Committee shall focus on major judgment areas, any changes in accounting policies and practices, significant adjustments arising from the audit, the going concern assumption and compliance with relevant accounting standards and other legal requirements.

The Committee reviewed the 'Report on the review of Financial Statement for the year ended 2015 which was submitted along with findings by the Internal Audit Division and reviewed the draft Financial Statement submitted on quarterly basis.

Identification of Risks and Control Measures

The Directors of the Bank and its subsidiaries are responsible for identifying and evaluating risk and its impact on business operations and financial reporting. The Bank adapt risk base audit approach and the Committee assessed the effectiveness of the Bank's internal control over financial reporting in line with the Banking Act Direction No. 12 of 2007, Section 3 (8) (ii) (b), and prepared based on the guidelines issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

Internal Audit and Inspection

The BAC ensures that, the internal audit function is independent of the activities it audits. It review the adequacy of the scope, functions and resources of the Internal Audit Department, and also satisfy itself that the Department has the necessary authority to carry out its work.

The Internal Audit Division of the Bank carries out audit of branches, divisions and other units as per the Annual Audit Plan. The frequency of audit is determined by the level of risk assessed. The Audit Plan is approved by the BAC for implementation.

The Internal Audit Division carries out audit checks to ensure compliance with policies and procedures and the effectiveness of the internal control systems and reports its findings in respect of any non-compliance. Audits are carried out to provide an independent and objective report on operational and management activities.

BAC reviewed findings of regular audit examinations and information system audit carried out by the Internal Audit Division. Further reviewed the reports on internal investigations carried out during the period from November 2015 to July 2016, report on Fraudulent Withdrawals of the Bank and review the performance of senior staff members of the Audit & Vigilance Division for the year.

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

The Internal Audit Charter is used in order to assist the Internal Audit Division 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 Division.

External Audit

By statute, the Auditor General is the External Auditor of the Bank. Meetings with the External Auditor were held at least twice during the engagement. They were also provided with the opportunities of meeting the Committee independently, to discuss and express their views on any matter of significance. Board Audit Committee had six meetings in the year 2016 and a representative from Auditor General's Department was attended to all meetings.

Effectiveness of the audit process is discussed with the Superintendent of the Government Audit at Board Audit Committee meetings. The Committee ensured the provision of all information and documents required by the External Auditor for the purpose of audit.

Whistle-Blowing Policy

This Fraud Risk Management and Whistle-blowing Policy of the National Savings Bank is a key element for safeguarding the Bank's integrity. It is aimed at enhancing the Bank's transparency and underpinning its system for combating practices that might damage its activities and reputation and provide a means for early detection of fraud and other problematic situations.

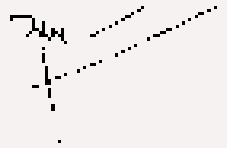
The Board Audit Committee (BAC) shall review on a quarterly basis all the cases of frauds. During the quarterly review, the Board Audit Committee will scrutinise statistical information as well as details of each fraud, action taken thereon and issue directions on the punitive and preventive aspects of frauds, where necessary. The Board Audit Committee shall have the right to, at any time; request a briefing regarding any preliminary investigation and findings.

Committee Evaluation

The annual evaluation of the Committee was conducted by the Board Audit Committee during the year and concluded that its performance was effective.

Reporting

The Committee is directly reporting to the Board of Directors about its activities along with the minutes of the meetings. The Committee is of the view that the terms of reference of the Committee were complied within all material aspects.



D.L.P.R. Abeyaratne

Chairman – Board Audit Committee

28th March 2017

Colombo

Report of the Board Human Resource and Remuneration Committee

The Board Human Resource and Remuneration Committee (BHRRC) constituted in terms of the provisions of Section 3 (6) (i) and (iii) of Banking Act Direction No. 12 of 2007 issued by the Monetary Board of the Central Bank of Sri Lanka (CBSL) under Section 76 J (1) of the Banking Act No. 30 of 1988, as amended. The Committee reports directly to the Board of Directors.

Composition of the Committee

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

The following Directors have been functioning as members of BHRRC:

Aswin De Silva – Chairman
D.L.P.R. Abeyaratne – Member
Ajith Pathirana – Member

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

A brief profile of each member of the Committee is given on pages 100 to 103.

Meetings

The Committee meetings are held quarterly however based on the needs, meetings are being fixed accordingly. Nine meetings were held during the year 2016 and minimum quorum of the Committee is two-thirds as per the charter of the BHRRC.

Attendance of the Committee members during the year are as follows:

| Name | Eligible to attend | Attended |
|---------------------|--------------------|----------|
| Aswin De Silva | 9 | 9 |
| D.L.P.R. Abeyaratne | 9 | 8 |
| Ajith Pathirana | 9 | 8 |

The Secretary to the Board, functions as the Secretary to the BHRRC.

Role and Responsibilities of the Committee

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

The Committee set goals and targets for the Directors, General Manager/CEO and the Key Management Personnel. Further evaluate the performance of the General Manager/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.

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

Activities During the Year 2016

Important activities attended and carried out by the Committee during the year 2016 were as follows:

- Review of the Human Resources Policy and the Disciplinary Code of the Bank.
- Evaluation of Key Performance Indicators (KPI) of Key Management Personnel (KMPs) for 2015 (General Manager/CEO, Senior DGM, all DGMs, all Consultants, Compliance Officer and all AGMs).
- Review the recruitment, promotion and upgrading of staff based on the requirement of the Bank.
- Review the staff promotion made during the year.
- Review the recommended job specifications for the posts advertised during the year.
- Reviewed the Post of Officer Trainee.
- Review the proposals made for staff welfare.
- Review changes of designations from non-Banking to Banking stream and vice versa.
- Revisited and provided a value addition to staff welfare benefit scheme of the Bank.
- Consideration of appeals submitted by staff on HR-related matters.

The proceedings of committee meetings have been regularly reported to the Board of Directors.

Committee Evaluation

The Committee completed the evaluation process with self-assessment for the year 2016 and concluded that its performance was effective.



Aswin De Silva
Chairman – Human Resources and Remuneration Committee

28th March 2017
Colombo

Report of the Board Integrated Risk Management Committee

The Board of Directors has established the Board Integrated Risk Management Committee (BIRMC) in compliance with the Banking Act Direction No. 12 of 2007, corporate governance for licensed specialised Banks in Sri Lanka, issued by the Monetary Board of Central Bank of Sri Lanka under the power vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988.

Composition of the Committee

The BIRMC comprised three Non-Executive Directors and General Manager/CEO and the Head of Risk Management/CRO as members of the Corporate Management.

The following Directors have been functioning as members of BIRMC:

A.K Seneviratne – Chairman
Chandima Hemachandra – Member
Suranga Naullage – Member

The details of the members are given on page 100 of this Annual Report.

Meetings

BIRMC meets on a quarterly basis however based on the needs, meetings are being fixed accordingly. During the year 2016, NSB convened six meetings and minimum quorum of the Committee is two-thirds as per the charter of the BIRMC.

Attendance of the Committee members during the year are as follows:

| Name | Eligible to attend | Attended |
|----------------------|--------------------|----------|
| A.K Senevirathne | 6 | 6 |
| Chandima Hemachandra | 6 | 1 |
| Suranga Naullage | 6 | 6 |

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

Role and Responsibilities of the Committee

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

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

The Committee reviews policies, reports and proposals on risk and compliance related to the Bank. BIRMC grants approval for proposals within its mandate and recommends proposals/ reports to the Board of Directors which required to be scrutinised by the Board.

Respective chapter/segment on risk management presents detailed introduction over risk management functions of the Bank and its significance. BIRMC is supported by Risk Management, Compliance Divisions and other operational divisions in discharging its responsibilities.

Activities During the Year 2016

The Committee assesses all main risks such as Operational, Credit, Market, Liquidity etc., which can adversely affect to the Bank. It maintains close relationship with the Key Management Personnel and the Board to fulfil its statutory, fiduciary and regulatory responsibilities for risk management.

Important activities attended and carried out by the Committee during the year were as follows:

- Review of reports on Risk Appetite of the Bank, Tolerance Limits and other reports highlighting different aspects of risk of the Bank (i.e. credit risk, management risk, operational risk, HR risk, technical risk etc.)
- Review of different risk limits and grant necessary approvals
- Reviewing of adequacy of measures and standards maintained by the Bank to meet internationally-recognised norms in the industry, regulations/guidelines of the regulator- Central Bank of Sri Lanka and Internal Capital Adequacy Assessment Process (ICAAP) in line with audit concerns on ICAAP document
- Follow-up progress of rectification process of supervisory concerns raised by the Central Bank of Sri Lanka at their examination
- Review periodic reports on Related Party Transactions, key issues of the Bank such as financial frauds, Fraud Risk Management – Whistle Blowing Policy
- Review of compliance assessments on Bank and its core functions such as pawning, credit, human resource management, maintaining KYC (Know Your Customer) requirement etc
- Continuous monitoring and review over status of Banks compliance with Basel III standards
- Annual review of Compliance Programme and Compliance Manual

Committee Evaluation

The Committee completed the evaluation process with self-assessment for the year 2016 and concluded that its performance was effective.



A.K. Seneviratne

Chairman – Board Integrated Risk Management Committee

28th March 2017

Report of the Board Nomination Committee

The Board of Directors has established the Board Nomination Committee (BNC) in compliance with the Banking Act Direction No. 12 of 2007, corporate governance for licensed specialised banks in Sri Lanka issued by the Monetary Board of the Central Bank of Sri Lanka under section 76 J (1) of the Banking Act No. 30 of 1988 as amended, to ensure Board oversight and control over selection of Key Management Personnel.

Composition of the Committee

The Board-appointed Nomination Committee (BNC) comprises three Non-Executive Directors as at 31st December 2016.

The following Directors have been functioning as members of BNC,

Aswin De Silva – Chairman
Ajith Pathirana – Member
D.L.P.R. Abeyaratne – Member

The details of the members are given on page 100 of this Annual Report.

Meetings

During the final year ended 31st December 2016, five Nomination Committee meetings were held and minimum quorum of the Committee is two-thirds as per the charter of the BNC.

The General Manager/CEO participates at the Board Nomination Committee meeting on invitation. Attendance of the Committee members during the year are as follows:

| Name | Eligible to attend | Attended |
|---------------------|--------------------|----------|
| Aswin De Silva | 5 | 5 |
| Ajith Pathirana | 5 | 5 |
| D.L.P.R. Abeyaratne | 5 | 4 |

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

Role and Responsibilities of the Committee

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

The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.

Further, the Committee shall ensure that the Directors, General Manager/CEO and Key Management Personnel are fit and proper persons to hold office specified in the criteria given in Direction 3 (3) and as set out in the Statutes. The Committee shall also consider and recommend from time to time, the requirements of additional/new expertise and succession arrangements for retiring Key Management Personnel.

Activities During the Year 2016

Important activities attended and carried out by the Committee during the year were as follows:

- Review and approval for proposed Cadre for the Bank – 2016.
- Review the Succession Plan of the Bank.
- Interviews for posts of Special Grades in banking and non-banking streams, and Key Management Personnel (KMPs) and the following promotions were made during the year 2016.
 - (a) Post of Deputy General Managers (Special Grade)
 - (b) Posts of Assistant General Managers (Special Grade)

Committee Evaluation

The Committee completed the evaluation process with self-assessment for the year 2016 and concluded that its performance was effective.



Aswin De Silva

Chairman – Board Nomination Committee

28th March 2017

Colombo

Microcosm

NSB represents the values of our multi cultural, multi-ethnic, multi-religious nation. We have embraced diversity and inclusiveness and cater to all segments of society to become a microcosm of our nation.



Risk Management Report

Risk exists when the outcome of taking a particular decision or cause of action is uncertain and could potentially impact whether and how well a bank delivers its objectives. Banks face risks throughout their business every day in everything they do.

National Saving Bank (NSB or the Bank), as the largest Specialised Bank providing banking and financial services, managing risk is a part of our core activities.

Following information sets for certain risk factors that NSB believes could cause its actual future results to differ materially from expected results and the approaches undertaken by the Bank to manage the risks. Factors discussed in this Report should not be considered to be a complete set of all potential risks and uncertainties.

Integrated Risk Governance

Risk management governance originates at Board level and cascaded through the business divisions of the Bank via risk appetite statement, policies, delegated authorities and committee structure. This ensures Board level oversight and clear segregation of duties between those who originate and those who approve risk exposures. The Board and its Risk Committees operate under the direction of their respective charters.

Responsibility of risk management resides at all levels of the Bank, from the Board, Board Sub-committees and the Management Committees down through the Bank to each business manager and risk specialist. These responsibilities are distributed so that the risk and return decisions are taken at the most appropriate levels, as close as possible to the business and are subject to robust and effective reviews.

Board

It is the responsibility of the Board to approve the risk appetite of the Bank, which is the level of risk the Bank prefers to take in pursuit of its business objectives. The Board oversees the most significant risks through regular reviews of risk exposures and related key controls & mitigations. Risk Management Division (RMD) assists the Board in developing risk management policy framework and presents reports summarising the developments in the risk environment & performance trends in key portfolios.

The Board is also responsible for internal control and assurance framework. The Board oversees the risk management through Board Integrated Risk Management Committee (BIRMC) and Board Audit Committee (BAC).

BIRMC

Key purpose of BIRMC is to formulate the Bank's risk appetite for consideration by the Board and to agree & recommend a Risk Management Framework to the Board that is consistent with the approved risk appetite. It also makes recommendations to the Board on key policies relating to risk management and Internal Capital Adequacy Assessment Process (ICAAP).

BIRMC monitors management's compliance with the Bank's Risk Management Framework (including policies and limits). It identifies, reviews and reports regulatory compliance related concerns to the Board.

BAC

On behalf of the Board, BAC assists in ensuring effective systems to secure integrity of information, internal controls, adopting appropriate accounting policies, adequacy of risk management and fostering compliance with financial regulations. The BAC reviews reports from the Internal Audit Division (IAD) and management responses on the same. Further, BAC monitors the concerns or observations of the External Auditor to ensure they are duly attended.

Management Committees

Management Committees including Executive Risk Management Committee (ERMC) are chaired by the General Manager/CEO oversees the Bank's Risk Management Framework at Senior Management level. Management level committees include Credit Committee (CC), Asset and Liability Management Committee (ALCO), Investment Committee (IC), IT Steering Committee (ITSC), Management Committee (MC), Operational Performance Review Committee, Marketing Committee, Product Development Committee and Human Resource Committee (HRC). These Management Committees review regular reports from respective Business Divisions and RMD, to ensure adequacy and effectiveness of Bank's risk management.

The Bank's Integrated Risk Governance Structure is to manage the outcomes of risk taking activities. It enables to identify, assess, manage and report risk on a consistent and a reliable basis.

Three Lines of Defence

Accountability for risk management is structured by Three Lines of Defence model.

Line 1 – Business Management

Risk is best managed at the place it occurs. Business managers are the risk owners and are responsible for managing the risks for their day-to-day business operations. This includes implementing strategies to proactively manage their risk within risk appetite levels and using risk management tools & best practices.

Business managers report to the General Manager/CEO and Management Committees through their respective Deputy General Managers.

Line 2 – Risk Management and Compliance

RMD develops and maintains integrated frameworks, policies & procedures for risk management and ensure they are embedded & in use as part of the day-to-day management of business. RMD also measures risk exposures to support risk decisions by the business owners.

RMD carries out the functions of 2nd Line through three main units; Credit Risk Management Unit (CRMU), Market Risk Management Unit (MRMU) and Operational Risk Management Unit (ORMU) to provide risk management expertise and oversight to risk taking activities by the business management and reports to BIRMC.

Compliance Division also forms as part of 2nd Line and ensures Business/Operational Units function according to the internal & external laws and regulations including regulator's directions. Compliance Division headed by an independent Compliance Officer carries out the responsibilities of the 2nd Line and reports to BIRMC.

Line 3 – Internal Audit and Assurance

Provides independent assurance to key stakeholders regarding the adequacy and the effectiveness of Bank's internal controls, risk management procedures and governance process. IAD performs independent assessment on the conformity of risk management processes, internal control systems to ensure policies, procedures & systems are adequate and complying with regulations. IAD directly reports to BAC.

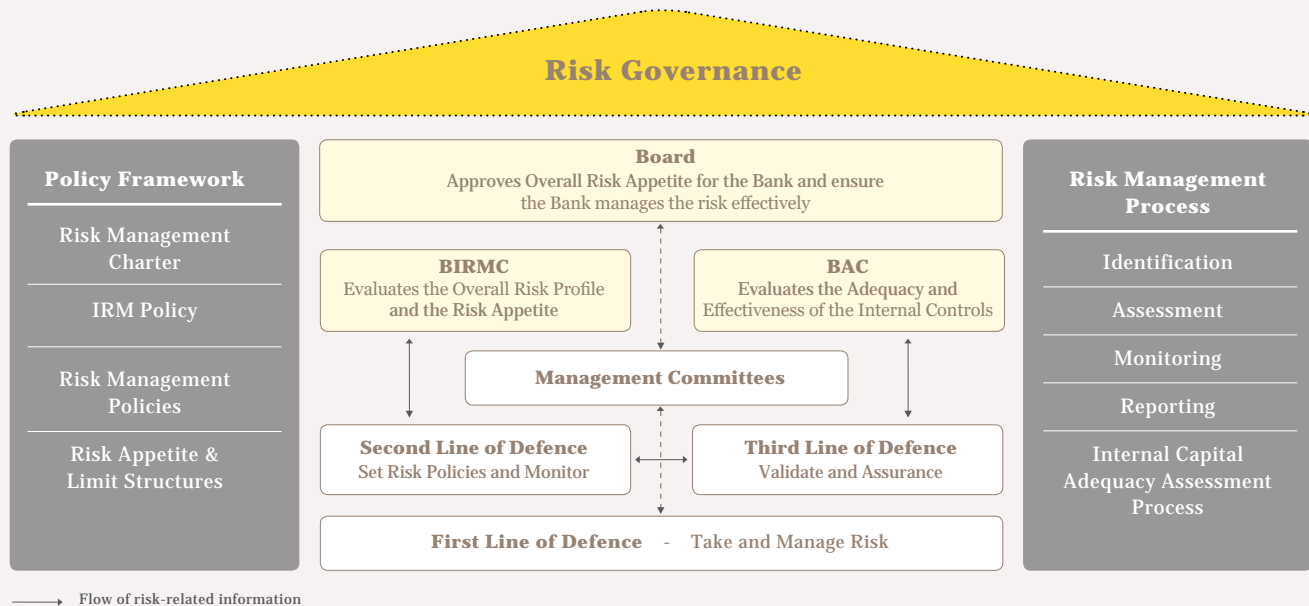


Figure 1: Integrated Risk Management Framework

Integrated Risk Management Policies

Integrated Risk Management Framework is elaborated in risk management policies of the Bank. At operational level, Treasury Policy, Investment Policy, Credit Policies and Asset & Liability Management Policy covers the principles, procedures and controls.

Risk Management Policies

| Policy | Coverage |
|---|---|
| Integrated Risk Management Policy | Integrated Risk Management Framework of the Bank |
| Credit Risk Management Policy | Framework for identification, assessment, management and mitigation of Credit risk |
| Market and Liquidity Risk Management Policy | Framework for identification, assessment, management and mitigation of Market and Liquidity risk |
| Operational Risk Management Policy | Framework for identification, assessment, management and mitigation of Operational risk |
| Risk Management Disclosure Policy | Disclosure requirements with respect to the risk management functions |
| Outsourcing Policy | Guidelines, procedures, risk mitigation, and MIS on outsourcing activities |
| Information Security Policy | Outlines rules and guidelines related to the security of the information stored digitally within the domain of the Bank or its networks |
| Business Continuity Plan | Guidelines and procedures on ensuring business continuity in disaster situations |
| Stress Test Policy | Stress Test Framework |

The Risk Appetite Statement forms a part of the policy framework which is reviewed by the Board on regular intervals.

Risk Appetite

The risk appetite can be expressed as the amount of risk the Bank is willing to accept in pursuit of its return objectives. The Bank's Risk Appetite Framework consists of Corporate Level, Business Line Level and Division or Product Level.

The Bank uses top down approach in setting risk appetite at corporate level using qualitative and quantitative parameters that minimise adverse impacts to organisational values and financial conditions. Quantitative risk appetite at corporate level forces mainly on Capital Adequacy, Liquidity, Leverage, Profitability and other prudential requirements. At Business Line Level, risk appetite limits are by risk types, namely Credit, Market and Operational.

A convergence of top down and bottom up approach is used at Divisional and Product Line level to set more prudent risk appetite levels using Limit Structure, Budgeted levels and Key Operational Risk Indicators (KORI's).

The Board and BIRMC monitor the actual performance against the Risk Appetite Limits to ensure compliance in an effective manner.

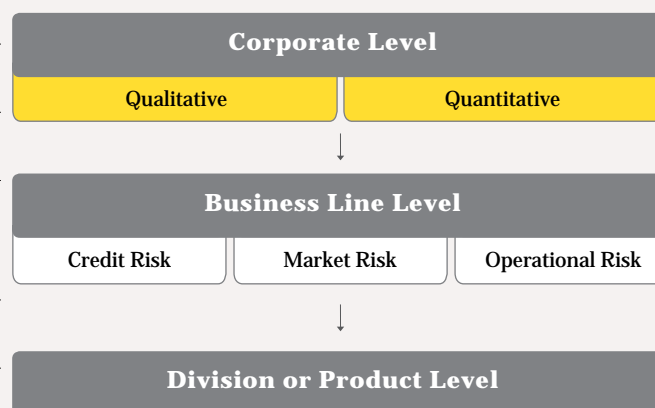


Figure 2: Risk Appetite Framework

There can be number of material business risks that could adversely affect on the achievement of financial performance objectives. This report discusses the main financial risks and other risks affecting the Bank and its risk management approaches.

Credit Risk

Overview

Credit risk refers to the risk that a lender may lose the principal of the loan and/or the interest associated with it due to a borrower or counterparty fails to meet his financial obligations as agreed.

Credit is the Bank's major source of income, represents 36% of the Asset Base of the Bank. Credit exposure increased by 19% as both retail and corporate finance portfolios grew during the year. Retail lending consists of House & Property Loans, Personal Loans, Auto Loans, Loans against Deposits and Pawning. Corporate Financing consists primarily lending/investments to State-Owned Enterprises (SOEs), Government Projects, Banks & Financial

On & Off Balance Sheet Exposures >

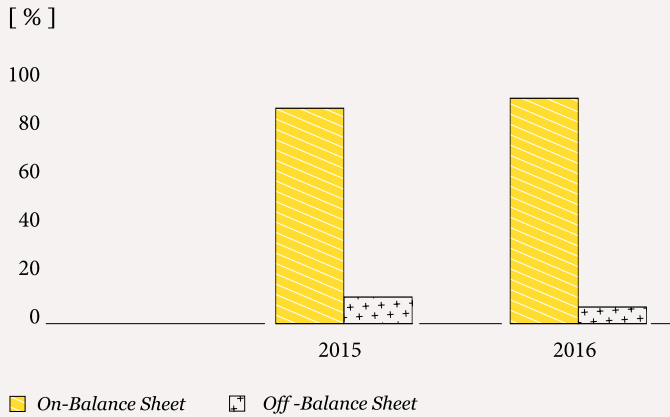


Figure 3: On & Off Balance Sheet Exposures

Portfolio Mix >

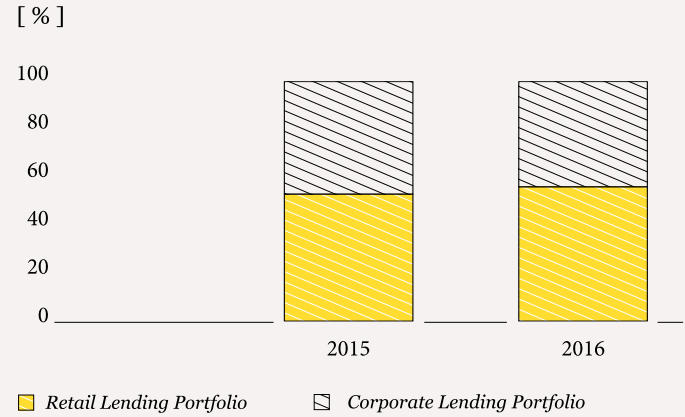


Figure 4: Portfolio Mix

Composition of Credit Portfolio >

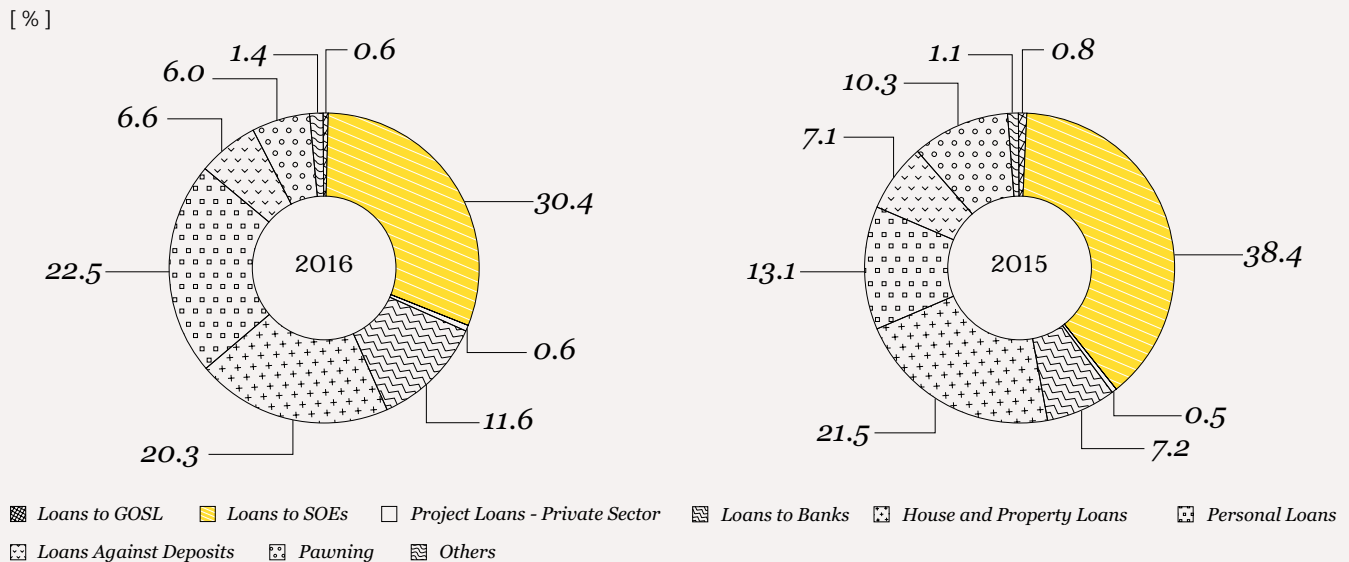


Figure 5: Composition of Credit Portfolio

Institutions and provide Corporate Loans to commercial entities subject to restrictions imposed by the NSB Act No. 30 of 1971. Corporate Finance portfolio comprises of Term Loans, Project Finance and Investments in Debentures & Trust Certificates etc. The Bank considers funding these facilities in Sri Lankan Rupees (LKR) and in United States Dollars (USD).

Credit risk can be identified across the On-Balance Sheet and Off-Balance Sheet items. For financial assets which are recognised on the Balance Sheet, exposures to credit risk equals to the carrying amount of Loans and Advances. For Off-Balance Sheet items, credit risk exposures are limited to the maximum amount that the

Bank would have to pay if the guarantees were to be called upon. For loan commitments and other credit-related commitments the maximum exposure to credit risk is the full amount of the committed facilities.

Intensely competitive environment is prompted by increasing and changing requirements of customers & customer segments and complex asset categories demand solid credit risk management structure which enables to deal with composite scenarios along with increasing regulatory requirements. Considering the magnitude, the Bank pays special attention in managing credit risk in line with the risk appetite of the Bank.

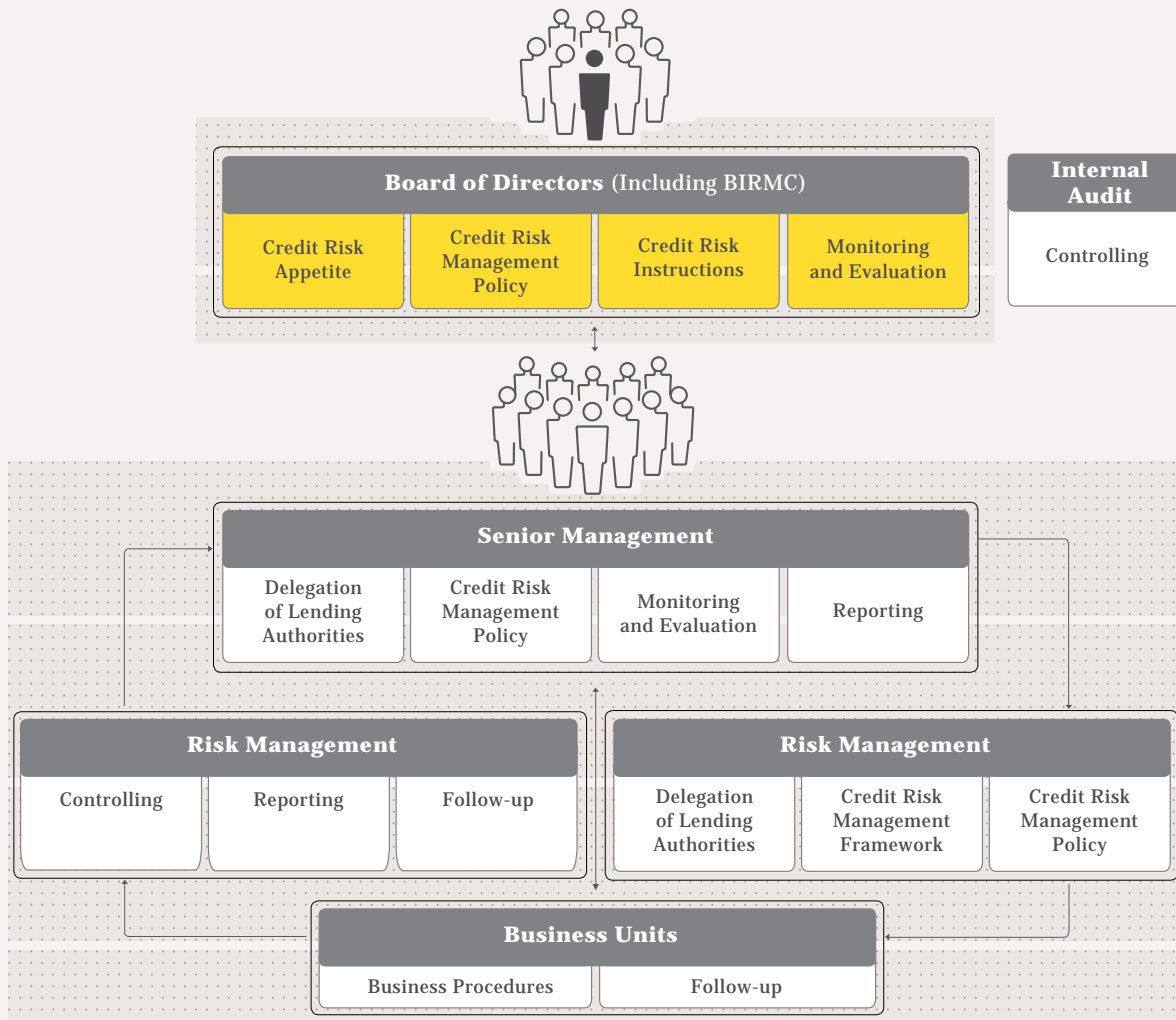


Figure 6: Credit Risk Management Framework

Governance Structure

The Bank employed strategically crafted Credit Risk Management (CRM) Framework with the purpose of establishing best practices and efficient risk management throughout the system by identifying, measuring, monitoring, managing and reporting credit risk.

CRM emanates at Board level and cascaded through the business divisions of the Bank via risk appetite and limit structure, policies, delegated authorities and committee structure. This ensures Board level oversight and clear segregation of duties between those who originate and those who approves credit risk exposures. The Risk Management Committees at varied levels i.e. Board, BIRMC, ERMCM, CC, IC and ALCO govern by respective Charters ensure achieving the CRM objectives.

Credit Risk Management Unit (CRMU) attached to the RMD is responsible for monitoring and managing credit risk within the Board approved risk appetite & limit structure and Credit Risk Management Policy Framework of the Bank.

Risk Review and Management Approach

Counterparty Risk

Counterparty risk is a main element of credit risk which arises when counterparty or customer fails to meet their commitments in financial transactions with the Bank as agreed.

In year 2016, the Bank successfully managed counterparty risk reflected by the Gross Non-Performing Loan (NPL) ratio of 1.55% compared to the preceding year's Gross NPL ratio of 3.46%. The Bank's Gross NPL ratio remains well below the industry average of 2.6%.

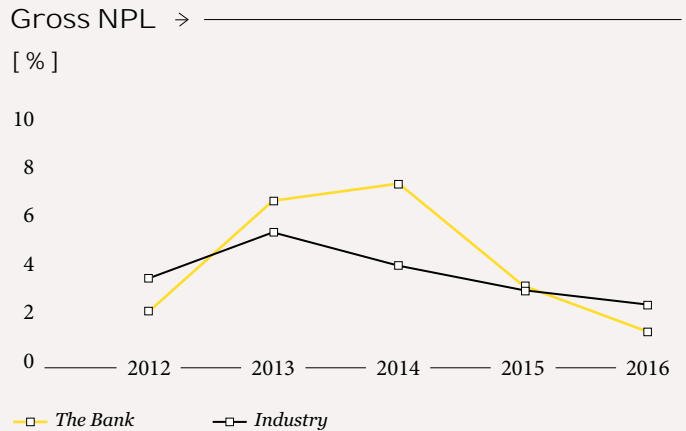


Figure 7: Trend in Non-Performing Loans

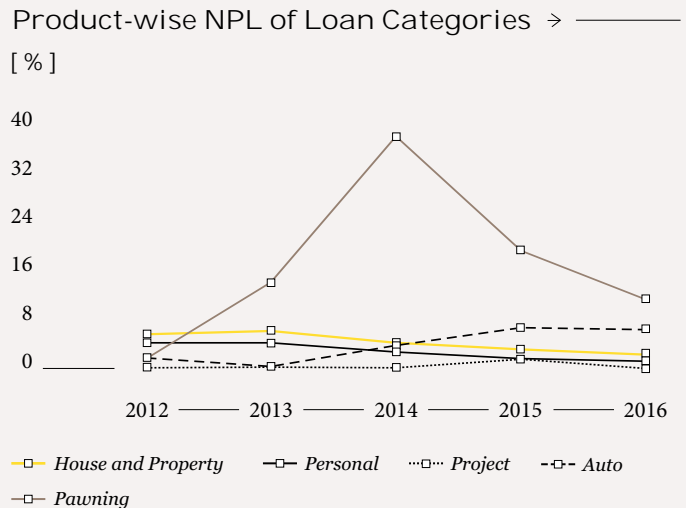


Figure 8: Product-wise NPL (%) of Loan Categories

The Bank witnessed a promising credit growth during the year 2016. Despite of the rapid credit growth, the Bank continued to maintain a healthy credit portfolio reflected through the improved Gross Non-Performing Loans (NPL) ratio.

The Bank's exposure to pawning was relatively significant during the crisis created in global market in 2013 hence, the Gross NPL ratio was largely attributed to the pawning portfolio, the Bank continuously reviewed and rationalised its pawning product to achieve a healthier credit mix and portfolio performance.

Counterparty Default Risk is minimised by undergoing stringent pre-credit sanctioning evaluation to assess credit risk & robust internal controls and strong follow-up mechanism enabling early interventions.

Risk Rating system is introduced in 2016 to further strengthen the credit evaluation of the Bank. Rating system comprises of credit rating and scoring models developed in compliant with international best practices to assess the credit risk in different customer segments. This system will facilitate risk-based pricing and database requirements to reach Basel II Advanced Approaches in credit risk capital calculation.

Loan Review Mechanism (LRM) contributes to mitigate the credit risk by prompt identification of potential weaknesses, adherence/compliance with loan conditions, circulars, regulatory requirements, procedures and management of documentation process.

Impairment Provisions are computed in compliance with the Sri Lanka Accounting Standards and CBSL guidelines. Provision for collective impairment is reduced by 44% during the year due to the improved credit quality despite growth in credit portfolio. However, impairment provision cover increased to 36% in year 2016.

Loan Amount & Impairment Provision

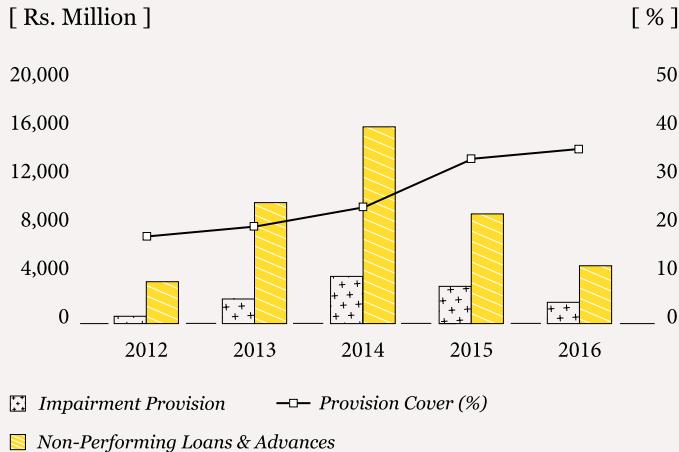


Figure 9: Loan Amount & Impairment Provision

Collateral is accepted as a possible second way out for credit risk mitigation. Clear guidelines are stipulated at policy level to determine the suitability of collateral as a credit risk mitigant. Larger proportions of the Bank's loans are on secured basis. Secured loans accounted 87% of total exposure during 2016.

Secured Loans vs. Unsecured Loans



Figure 10: Secured Loans vs. Unsecured Loans

The Bank accepts range of assets (i.e. property, cash, gold, vehicles & other movable assets and treasury guarantee) as collaterals. The Bank's exposures to SOEs are largely underpinned by explicit support from the Government Treasury. Accordingly, the Bank's secured loans are currently dominated by Treasury Guarantee and Government Securities with zero risk weight.

The Bank calculates loan to value ratio using forced sale value of the collateral and should meet thresholds determined by the Bank. The property mortgages accepted as collateral are reviewed based on the Bank's Policy on Valuation and Revaluation of Immovable Property developed in compliance with the CBSL's Directions on valuation and revaluation.

Collateral Mix of the Bank >

[%]

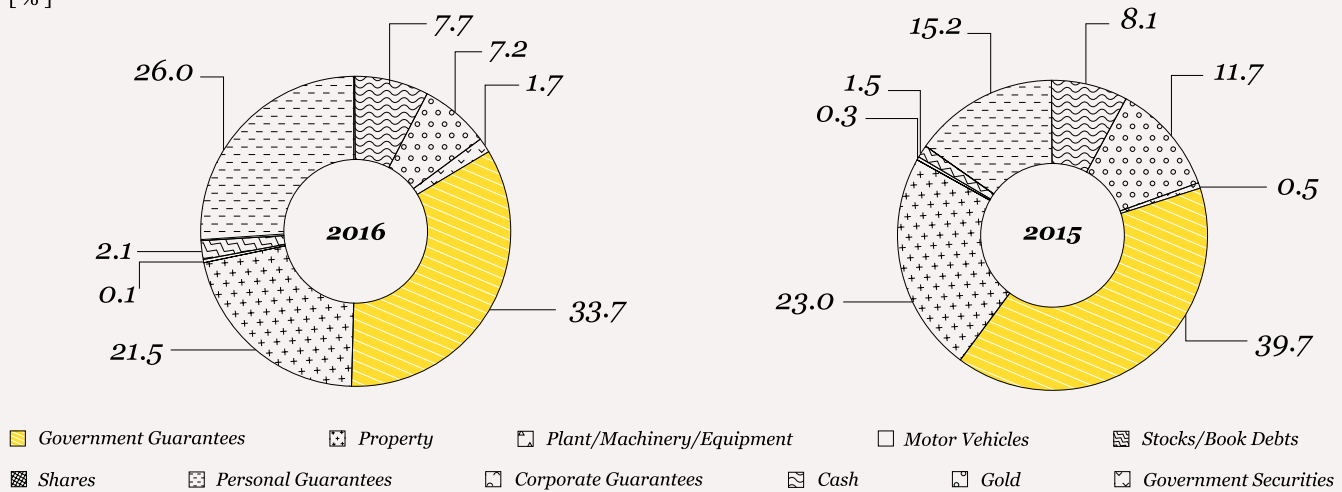


Figure 11: Collateral Mix of the Bank

Risk Transfer is another strategy used by the Bank to minimise risk in credit. The Bank uses insurance as a strategy to transfer uncontrollable risks in lending. Fulfilling of prescribed insurance requirements would further minimise the risks due to inadequate or no collaterals. Customers are encouraged to obtain title insurance and DTA Policy. For project loans, it is mandatory to obtain insurance for project assets covering all possible risks and assigned to the Bank. The Bank's Indemnity Policy covers losses arising from claims secured by gold.

Concentration Risk

Concentration risk stems from high lending exposure to a single counterparty, a group of connected counterparties, a geographic region, a particular industry sector in the economy, a type of credit facility or a type of collateral.

Concentration Risk Management is mainly by diversification of the Bank's lending exposure and is consistently monitored by CRMU against the limits defined in Bank's Risk Appetite Statement and reports to the Board through BIRMC.

CRMU ensures adherence to Single borrower limits, Group borrower limits imposed by the CBSL in Maximum Amount of Accommodation in Directions, Determinations and Circulars issued to Licensed Specialised Banks (LSBs) and sub limits based on product and other criteria stipulated in Credit Policies, Investment Policy and the Risk Appetite Document.

Name concentration arises from imperfect diversification of the credit exposure due to large exposures to specific individual

obligors. Bank's credit portfolio is well diversified with exposure spread across a large number of customers in retail lending.

| Large Loan Exposures – % of Total Loan Portfolio (Cumulative) | 2016 | | 2015 | |
|---|-------|--------|-------|--------|
| | Top 5 | Top 10 | Top 5 | Top 10 |
| | 13% | 18% | 15% | 22% |

Concentration of Loans by Types of Borrowers >

[%]

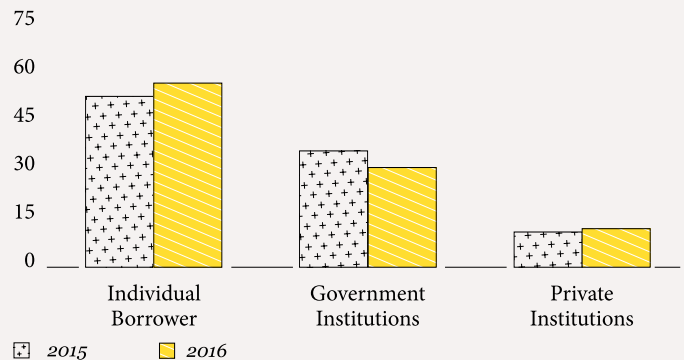


Figure 12: Concentration of Loans by Types of Borrowers

Considering the Bank's role as a State-Owned Bank, risk appetite for sector concentration is moderate. CRMU monitors the sector-wise credit distributions to ensure maintaining the sector concentrations within the risk appetite levels of the Bank.

Sector Concentration >

[%]

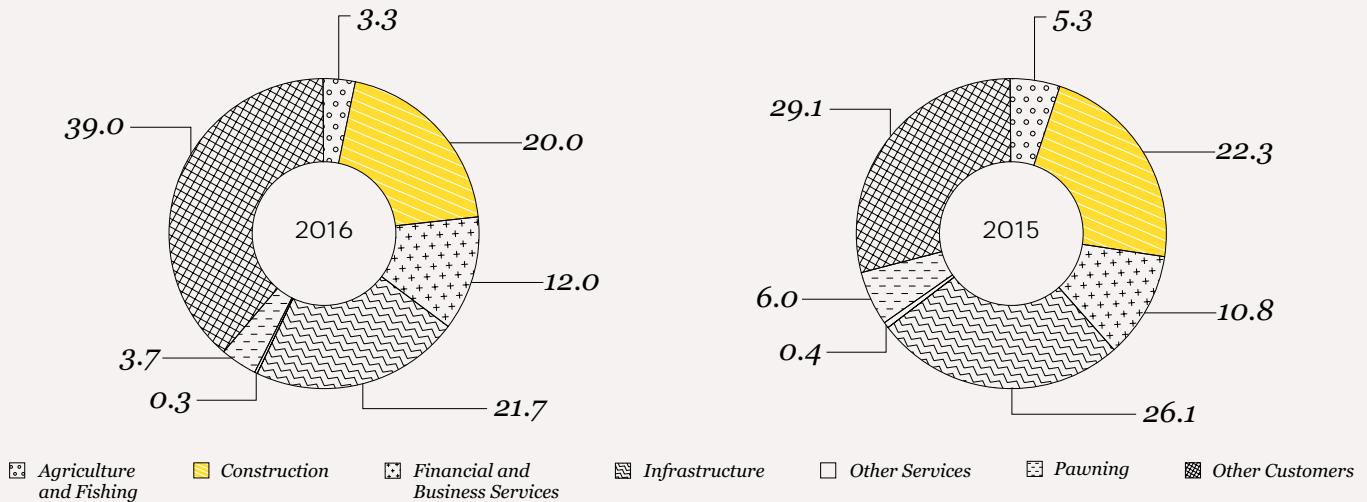


Figure 13: Sector Concentration

The geographical analysis of Bank's credit portfolio reflects a high concentration of lending in the Western Province due to concentration of economic activities and accounting all corporate lending facilities for Head Office. However, growth in retail lending continued across all provinces in 2016.

Geographical Concentration >

[%]

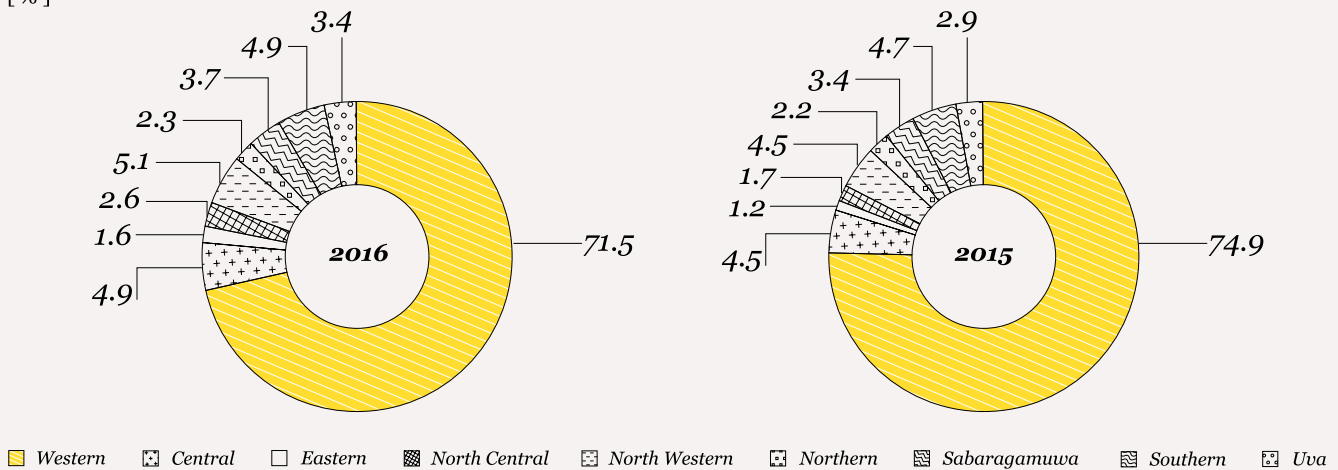


Figure 14: Geographical Concentration

Market Risk

Overview

Market risk is the risk of losses caused by changes in the market values of the Bank's financial assets, liabilities and Off-Balance-Sheet items resulting from changes in market prices or rates.

The Bank encounters losses from Interest Rate Risk, Equity Risk and Foreign Exchange Rate Risk in its normal course of business due to engage in trading and non-trading activities. The Bank is not exposed to commodity risk since the Bank does not deal in commodities.

Market risk affects the Bank's Financial Statements through the valuation of some of the Balance Sheet items; by means of market variables such as interest rates, equity prices and exchange rates, hence unfavourable movements lead to decline the earnings and/or value of the Bank.

Framework for Market Risk Management at NSB

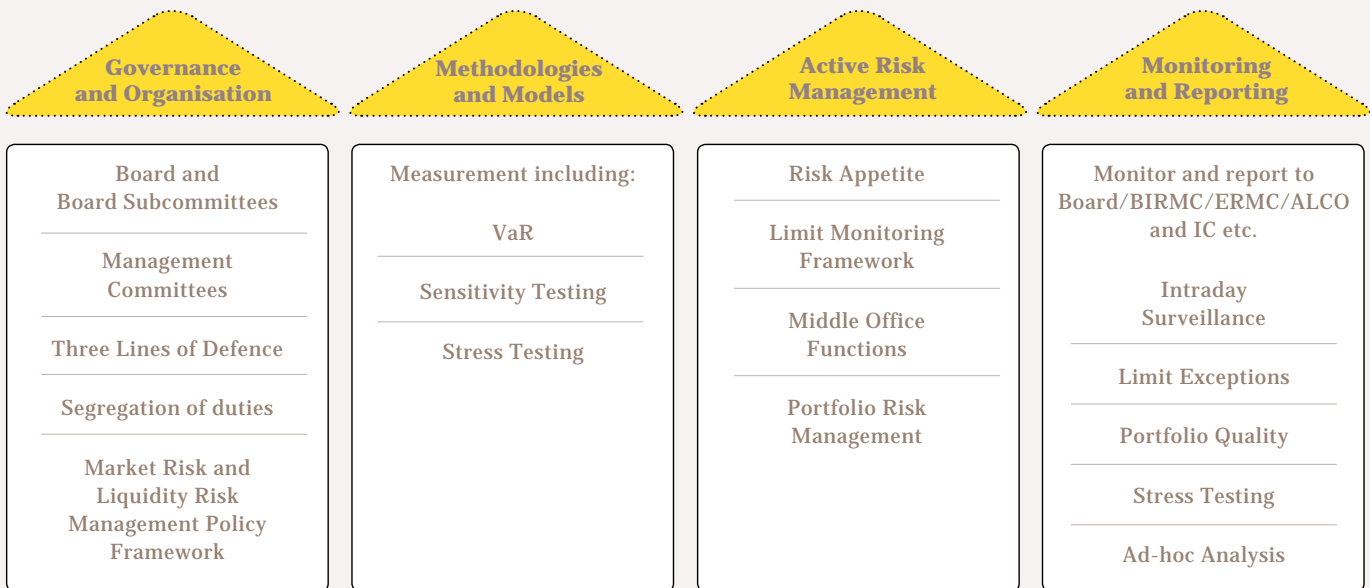


Figure 15: Market Risk Management Framework

Governance Structure

Responsibility for Market Risk Management (MRM) resides at all levels of the Bank. The Board and BIRMC are entrusted to spearhead the overall risk management functions and decide the policy and strategy for integrated risk management containing various risk exposures of the Bank including the market risk.

MRM governance emanates at Board level cascaded through the Bank via Risk Appetite Statement, Limit Structure, Integrated Risk Management Policy, Market Risk and Liquidity Risk Management Policy. ALCO is the apex committee at corporate level responsible for managing the Balance Sheet within the performance/risk parameters. IC recommends actions if considered necessary or desirable to invest or divest the Bank's investment portfolio.

Market Risk Management Unit (MRMU) of the RMD is responsible for providing the Board, BIRMC and the Corporate Management with a clear and comprehensive understanding of the market risks to which the Bank is exposed to.

Treasury Middle Office (TMO) is an integral part of MRMU functions independent from the Bank's Treasury Front Office (TFO) & Treasury Back Office (TBO). TMO monitors, measures, analyses & reports risks inherent in Treasury operations of the Bank on daily, weekly, monthly, quarterly and ad-hoc basis to the IC, ALCO and TFO providing an independent opinion.

The Bank has put in place a prudent market risk management framework that is responsible for risk identification, measurement, monitoring, control and management reporting in relation to Market Risk.

Risk Review and Management Approach

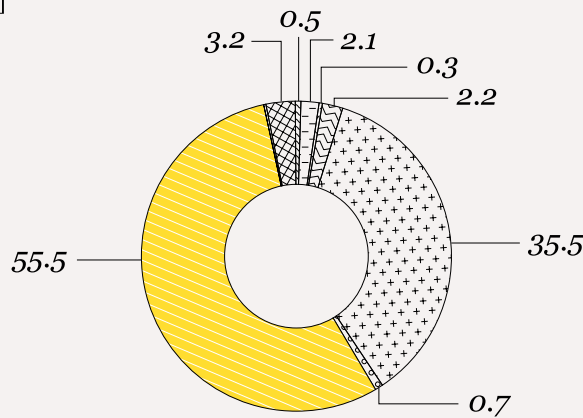
Market risk of the Bank is reviewed in terms of interest rate risk, foreign exchange risk and equity price risk. This is done for both traded and non-traded exposures.

| Description | Total (Rs. Million) | Primary Market Risk Factor |
|--|---------------------|---|
| Assets | | |
| Cash and cash equivalents | 4,620 | Interest Rate Risk |
| Placements with banks | 19,014 | Interest Rate Risk, Foreign Exchange Risk |
| Derivative financial instruments | 2,728 | Foreign Exchange Risk |
| Other financial assets – Held for Trading (HFT) | 20,291 | Equity Price Risk, Interest Rate Risk |
| Loans and receivables | 323,811 | Interest Rate Risk |
| Financial investments – Available-for-Sale (AFS) | 6,228 | Interest Rate Risk, Equity Price Risk |
| Financial investments – Held-to-Maturity (HTM) | 505,824 | Interest Rate Risk |
| Liabilities | | |
| Due to Banks | 115 | Interest Rate Risk |
| Due to Other Customers | 657,280 | Interest Rate Risk |
| USD Borrowings | 152,928 | Interest Rate Risk, Foreign Exchange Risk |
| Other Borrowings | 54,112 | Interest Rate Risk |
| Subordinated Term Debts | 6,006 | Interest Rate Risk |

Table 1: Key Balance Sheet Exposure to Market Risk

Composition of Asset Structure >

[%]

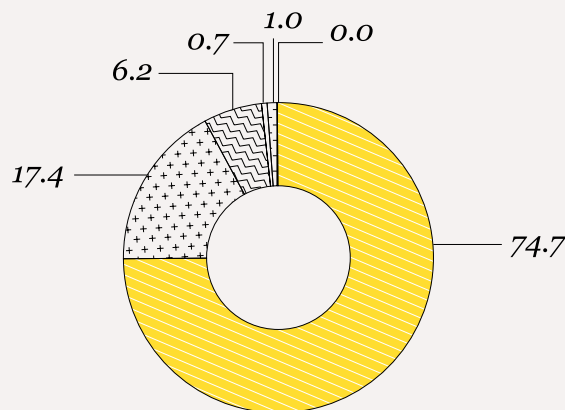


- Cash and Cash Equivalents
- Derivative Financial Instruments
- Other Financial Assets - HFT
- Financial Investments - AFS
- Financial Investments - HTM
- Investment in Subsidiary - 0.02%
- PPE & Other Assets
- Placements with Banks
- Loans and Receivables

Figure 16: Composition of Asset Structure - 2016

Composition of Liability Structure >

[%]



- Due to Banks
- Due to Other Customers
- USD Borrowings
- Other Borrowings
- Subordinated Term Debts
- Other Liabilities

Figure 17: Liabilities Structure - 2016

The Bank manages and monitors the market risk profile using a well defined limit structure, risk assessment models and methodologies. Bank's exposure to trading and non-trading related market risks are monitored using pre-determined limits and operational targets that govern & control the market risks. MRMU/TMO submits weekly, monthly, quarterly and ad-hoc reports to the ALCO, IC, ERMC and to the Board through BIRMC.

Interest Rate Risk

Interest rate risk (IRR) is the potential for changes in interest rates to reduce the Bank's earnings and lower its net worth. Re-pricing risk, yield curve risk and basis risk are main components of IRR. IRR materialise from trading activities (traded interest rate risk) as well as banking activities (Interest Rate Risk in the Banking Book or IRRBB).

Being the highest contributing market risk factor IRR may arise from following principal sources:

- Mismatches between the re-pricing dates of interest-bearing assets and liabilities; and
- The investment of capital and other non-interest bearing liabilities in interest-bearing assets

The Bank is exposed to IRR mainly due to the mandatory requirement to invest 60% of the deposits in Government Securities both in trading and banking book.

At the end of year 2016, investments in Government Securities amounted to 58% of the total On-Balance Sheet assets and 80% of the total deposits. Government Securities HFT portfolio is only 3% of the total Government Securities Portfolio; hence the IRR in trading book is minimum.

The Bank assesses IRR primarily through an interest rate re-pricing gap analysis. Interest rate re-pricing gap analysis measures the difference between the amount of interest rate sensitive assets and interest rate sensitive liabilities that can be re-priced within defined maturity buckets.

| Rs. Million | Up to 1 Month | 1 to 3 Months | 3 to 6 Months | 6 to 12 Months | 1 to 3 Years | 3 to 5 Years | Over 5 Years |
|----------------------------------|---------------|---------------|---------------|----------------|--------------|--------------|--------------|
| Rate Sensitive Assets (RSA) | 39,406 | 27,910 | 83,255 | 59,247 | 301,346 | 114,917 | 244,077 |
| Rate Sensitive Liabilities (RSL) | 153,559 | 248,185 | 123,115 | 164,440 | 171,657 | 9,486 | - |
| Period gap (RSA-RSL) | (114,153) | (220,274) | (39,860) | (105,194) | 129,689 | 105,431 | 244,077 |
| Cumulative gap | (114,153) | (334,427) | (374,287) | (479,481) | (349,791) | (244,360) | (283) |
| Actual gap as % of RSL – 2016 | -74% | -89% | -32% | -64% | 76% | 1,111% | |
| Actual gap as % of RSL – 2015 | -83% | -88% | -46% | -49% | 154% | 165% | |

Table 2: Rate Sensitive Gap Analysis

The IRR of the Bank is measured from an Economic Value Perspective and Earnings Perspective. Therefore, the Bank monitors the IRR based on the impact to the Net Interest Income (NII) under stressed scenarios and the changes in present value of future cash flows for trading, AFS and HTM portfolios to assess traded interest rate risk and IRRBB.

IRR in trading book is marked-to-market on a daily basis using market yields. Limits assigned for mark-to-market losses are monitored against the actual performance as a risk monitoring measure. Further, quarterly capital charge for IRR is monitored against the pre-determined risk appetite limits.

Equity Risk

Equity risk is the potential variation in income and reserves, arising from changes in the market prices or values of securities in the equity portfolio. Equity risk of the Bank arises from the investments in listed & unlisted equity instruments and investments in unit trusts. The Bank's listed equity portfolio comprises both HFT and AFS shares. The equity portfolio represents only 1.0% of the total On-Balance Sheet assets indicating manageable level of equity risk exposure.

During the year under review, stock market witnessed a sluggish performance which weakened local and foreign investor sentiment towards investments in listed equities. Accordingly, in 2016 ASPI declined by 10% while S&P SL 20 Index declined by 4%. Irrespective of the decline in market indices, the Bank was able to maintain a favourable return compared with the performance of ASPI.

Performance of Equity Portfolio Vs ASPI →

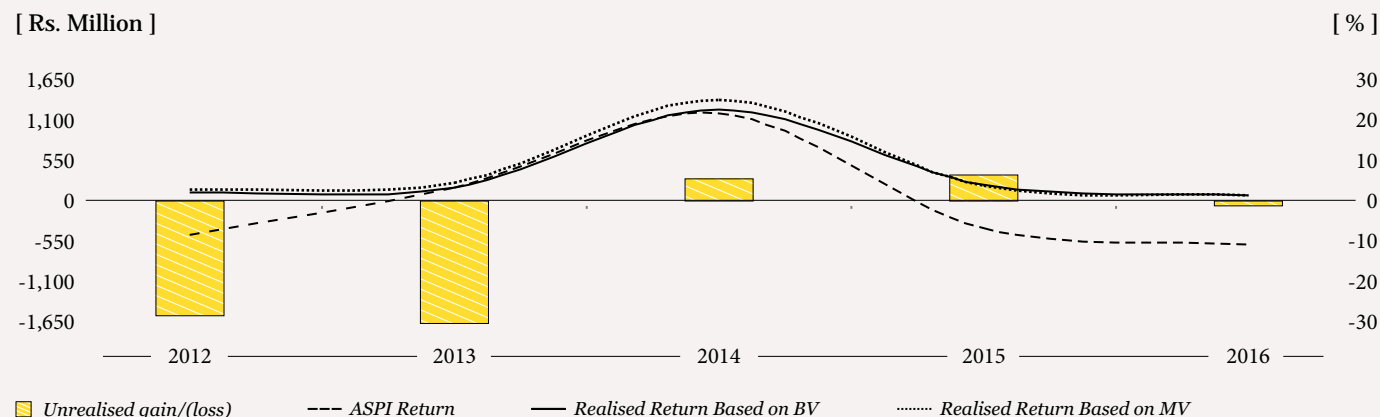


Figure 18: Performance of Equity Portfolio Vs ASPI

TMO of MRMU monitors the equity investments. Equity trading portfolio and AFS portfolio are marked-to-market on a daily basis to identify the impact due to volatility in the market.

Unrealised losses on trading portfolio are monitored against pre-determined loss limits and Equity VaR. The Bank computes Equity VaR in line with Basel II MRM framework, considering a 99% confidence level and holding period of 10 trading days. The calculated Equity VaR is monitored against the risk appetite of the Bank. Limit breaches and exceptions are reported to the Head of Treasury/DGM Treasury, IC and to the Board.

Movement of 10-Day Equity VaR at 99% Confidence Level >

[Rs. Million]

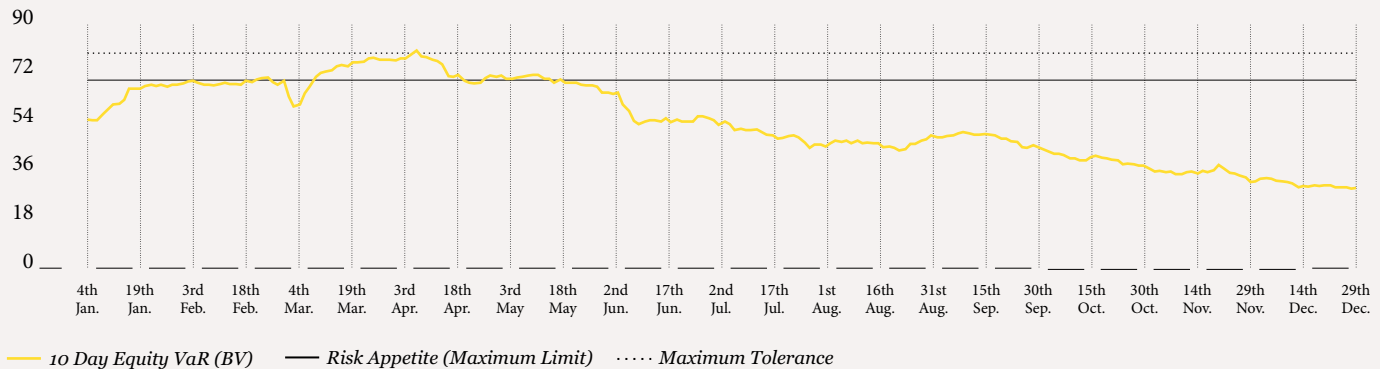


Figure 19: Movement of 10-Day Equity VaR at 99% Confidence Level

Foreign Exchange Risk

Foreign Exchange (FX) risk arises when the Bank holds assets or liabilities in foreign currencies and impacts the earnings and capital of the Bank due to the fluctuations in the exchange rates. FX risk can be either transactional or it can be translational.

The Bank expanded its business in foreign currency with the regulatory approval for trading and other business operations. This resulted in an increase in the Bank's Foreign Currency (FC) exposure compared to the previous year. During the year under review, USD/LKR average rate fluctuated between LKR 143.72 and 150.49 (Source: CBSL). The annual Rupee depreciation was 3.95% for the year 2016.

In order to review the FX risk, the Bank sets internal Net Open Position (NOP) limit that is within the regulatory limit & the risk appetite and monitors on a daily basis. To assess the vulnerabilities of exchange rate fluctuations, Bank's foreign currency exposures are stress tested.

The Bank uses matching of foreign currency exposure from deposits through FC placements for more or less the same tenor; as an internal hedging strategy. The Bank manages the FX risk through continuous limit monitoring. Further, the Bank is exposed to FX risk due to issuance of an international dollar bond in the years 2013 and 2014. Bank covered the FX risk in capital redemption via SWAP agreements with CBSL and invests in Sri Lanka Development Bond (SLDB) & USD lending to SOE's in a manner, which will enable the bullet payments due in 2018 and 2019 respectively.

MRMU closely monitors the fluctuations in Foreign Exchange rates and assesses the impact on earnings & capital and reports to ALCO periodically. The established internal NOP Limit as well as Regulatory Limit act as a main monitoring tool of FX risk. FX Risk is minimal as per limit monitoring results. Bank stress tests the foreign currency exposure to assess the impact of exchange rate fluctuations to the profitability and capital adequacy.

Liquidity Risk

Overview

Liquidity risk is defined as the risk that an entity, although solvent, cannot maintain or generate sufficient cash resources to meet its On and Off-Balance Sheet obligations in full as they fall due without incurring in a material loss, or can only do so at materially disadvantageous terms.

This may arise where counterparties, who provide the Bank with short-term funding, withdraw or do not roll over that funding, or normally liquid assets become illiquid as a result of a generalised disruption in asset markets. Liquidity Risk is inherent in all banking operations and can materialise due to bank specific or market-wide events.

The main objective of liquidity risk management is to assess the need for funds to meet the obligations and adequacy of funds to fulfil the needs under normal and stress conditions.

Governance Structure

Liquidity Risk Management emanates at Board level. Board monitors the liquidity risk management via risk appetite limits and other performance/risk parameters to ensure adequate liquidity to comply with the regulatory minimum levels and to continue operating under normal and stress scenarios. The Board approved Market and Liquidity Risk Management Policy and Liquidity Contingency Plan provide guidelines to identify, measure, monitor and control liquidity risk at all levels of the Bank.

ALCO is the main Management Committee responsible for implementation of liquidity risk management. MRMU reports liquidity risk using risk appetite limits and key liquidity risk indicators to ALCO and the Board through BIRMC.

Liquidity risk management ensures that the Bank has appropriate amounts and diversified liquid funds to support its asset base at all times.

Risk Review and Management Approach

To comply with NSB Act No 30 of 1971, the Bank invests a minimum of 60% of its deposits in Government Securities and Loans to Deposits ratio of 49.5% (in 2016). This contributes in minimising the liquidity risk of the Bank. Liquidity ratios calculated as per CBSL guidelines remains favourable.

| Tactical (Short-Term) Liquidity Risk Management | Structural (Long-Term) Liquidity Risk Management | Contingency Liquidity Risk Management |
|---|---|---|
| Monitor daily cash flow requirements | Identify and manage structural liquidity mismatches | Monitor and manage early warning liquidity indicators |
| Monitor intra-day liquidity positions | Determine and apply behavioural profiling | Establish and maintain contingency funding plans |
| Monitor short-term cash flows | Preserve a diversified funding base | Undertake regular liquidity stress testing and scenario analysis |
| | Monitor long-term cash flows and long-term liquidity position using ratios under stock approach and Liquidity Monitoring Tools under Basel Guidelines | Set liquidity buffer levels in accordance with anticipated stress events |
| | Establish liquidity risk appetite | Ensure compliance with Statutory Liquid Asset Ratio (SLAR) and Liquidity Coverage Ratio (LCR) |

Table 3: Liquidity Risk Management Categories

The Bank uses both the stock approach as well as the flow approach in measuring the liquidity risk of the Bank.

The two main Statutory Ratios from which the liquidity risk is measured are SLAR and LCR. As at the end of 2016, all the Bank's liquidity risk indicators met regulatory requirements and are well above the Risk Appetite Levels.

| | 2016 | 2015 | Regulatory Minimum |
|--------------------|------|------|--------------------|
| SLAR | 73% | 81% | 20% |
| LCR – Rupee | 379% | 441% | 100% |
| LCR – All currency | 394% | 446% | 100% |

Table 4: Statutory Liquidity Ratios

The Bank uses other ratios to assess the liquidity risk under stock approach as directed by the CBSL which are favourable indicating a low liquidity risk.

Asset and liability mismatch increases vulnerability to liquidity risk. Under the flow approach, liquidity gap analysis is one of the methods used by the Bank to assess and monitor vulnerabilities arising from liquidity gaps. Liquidity gap results are periodically calculated, monitored and used for sensitivity analysis and stress testing. As at the end of 2016, the Bank's maturity gap in short-term tenor increased mainly on account of increased deposit liabilities.

Statutory Liquidity Ratios →

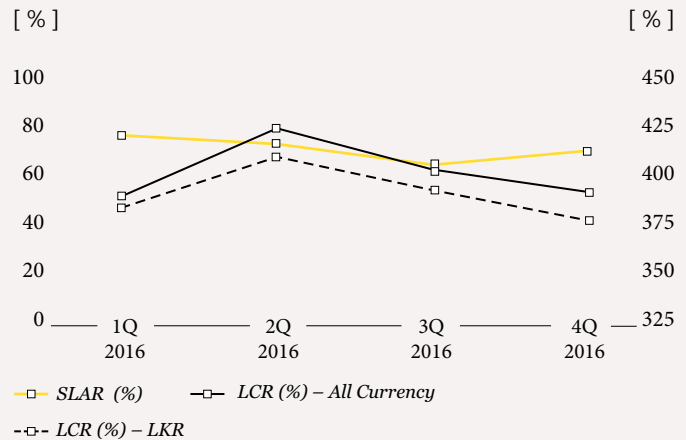


Figure 20: Statutory Liquidity Ratios

Liquidity Ratios Under Stock Approach →

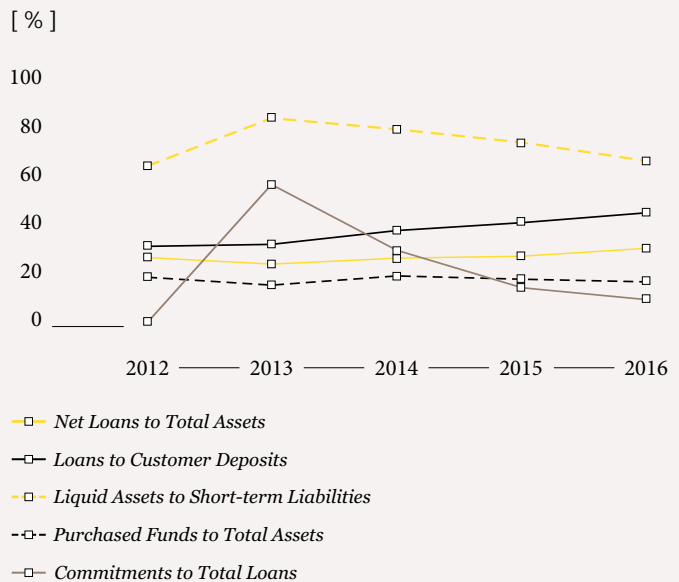


Figure 21: Liquidity Ratios Under Stock Approach

| Bank | Up to 3 Months | 3 to 12 Months | 1 to 3 Years | 3 to 5 years | More Than 5 Years | Total |
|--|------------------|------------------|------------------|------------------|-------------------|----------------|
| Total Assets | | | | | | |
| Cash and cash equivalents | 4,620 | – | – | – | – | 4,620 |
| Placements with banks | 5,707 | 13,307 | – | – | – | 19,014 |
| Loans and receivables to banks | 3,122 | 9,267 | 14,025 | 5,420 | – | 31,834 |
| Loans and receivables to other customers | 17,663 | 36,750 | 94,350 | 48,287 | 94,927 | 291,977 |
| Other financial assets – HFT | 1,574 | 3,855 | 6,779 | 5,561 | 2,522 | 20,291 |
| Financial investments – AFS | 70 | 12 | – | 429 | 5,716 | 6,228 |
| Financial investments – HTM | 37,743 | 81,633 | 186,192 | 55,220 | 145,036 | 505,824 |
| Derivative financial instruments | 628 | 1,050 | 1,050 | – | – | 2,728 |
| Investments in subsidiaries | – | – | – | – | 150 | 150 |
| Property, plant & equipment | – | – | – | – | 7,120 | 7,120 |
| Intangible assets | – | – | – | – | 157 | 157 |
| Deferred tax assets | – | – | – | – | – | – |
| Other assets | 2,407 | 7,485 | 5,623 | 2,375 | 3,872 | 21,761 |
| Total Asset | 73,534 | 153,359 | 308,019 | 117,292 | 259,500 | 911,704 |
| Total Liabilities | | | | | | |
| State capital/assigned capital | – | – | – | – | 6,200 | 6,200 |
| Statutory reserve fund | – | – | – | – | 2,522 | 2,522 |
| Other reserves | – | – | – | – | 23,523 | 23,523 |
| Due to banks | 115 | – | – | – | – | 115 |
| Due to other customers | 359,589 | 272,132 | 22,073 | 3,486 | – | 657,280 |
| Other borrowings | 42,040 | 15,416 | 149,584 | – | – | 207,040 |
| Subordinated liabilities | – | 6 | – | 6,000 | – | 6,006 |
| Deferred tax liabilities | – | – | – | – | 416 | 416 |
| Other liabilities | 1,254 | 2,094 | 1,337 | 1,331 | 2,585 | 8,600 |
| Total liabilities | 402,998 | 289,649 | 172,994 | 10,817 | 35,246 | 911,704 |
| Maturity gap | (329,464) | (136,290) | 135,026 | 106,476 | 224,253 | |
| Cumulative gap | (329,464) | (465,755) | (330,729) | (224,253) | – | |

Table 5: Maturity Gap Analysis

Bank's deposit is the primary funding source. To monitor the potential risks, the Bank conducts a volume analysis of deposits to gauge the liquidity risk under flow approach.

From the deposit mix 73% consists of fixed deposits. Further, more than 80% of the deposits are individual deposits which minimise the liquidity risk arising from adverse maturity gaps.

Concentration of Funding >

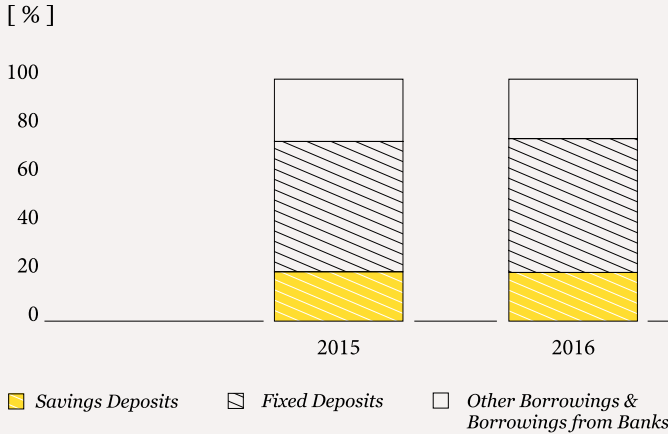


Figure 22: Concentration of Funding

Deposit Mix >

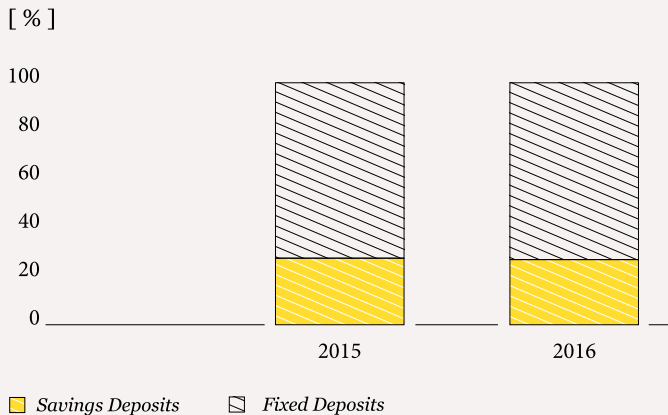


Figure 23: Deposit Mix

Operational Risk

Overview

Operational risk is defined as the risk of direct or indirect losses stemming from inadequate or failed internal processes, people and systems or from external events, which disrupts the normal flow of business processes. Operational risk includes legal risks but excludes reputational and strategic risk.

Operational risk, unlike the other key financial risks (credit and market risks), is not linked primarily with the Bank's portfolios (loans and advances, trading or investment), but instead relates to its processes, operations and the main elements thereof people, processes and systems.

Just as in any other field of business, factors such as people, internal processes, technological systems and external events play a key role in the Bank. It is in the natural interests of the Bank to ensure that such factors provide maximum support in achieving its business goals. However, these factors inherently involve various risks stemming from potential failures which can affect the operations, outputs and results of the Bank.

Operational risk is embedded in all banking products, activities, processes & systems and the Bank has a conducive Operational Risk Management (ORM) framework to achieve more efficient, transparent, profitable and sustainable business operations.

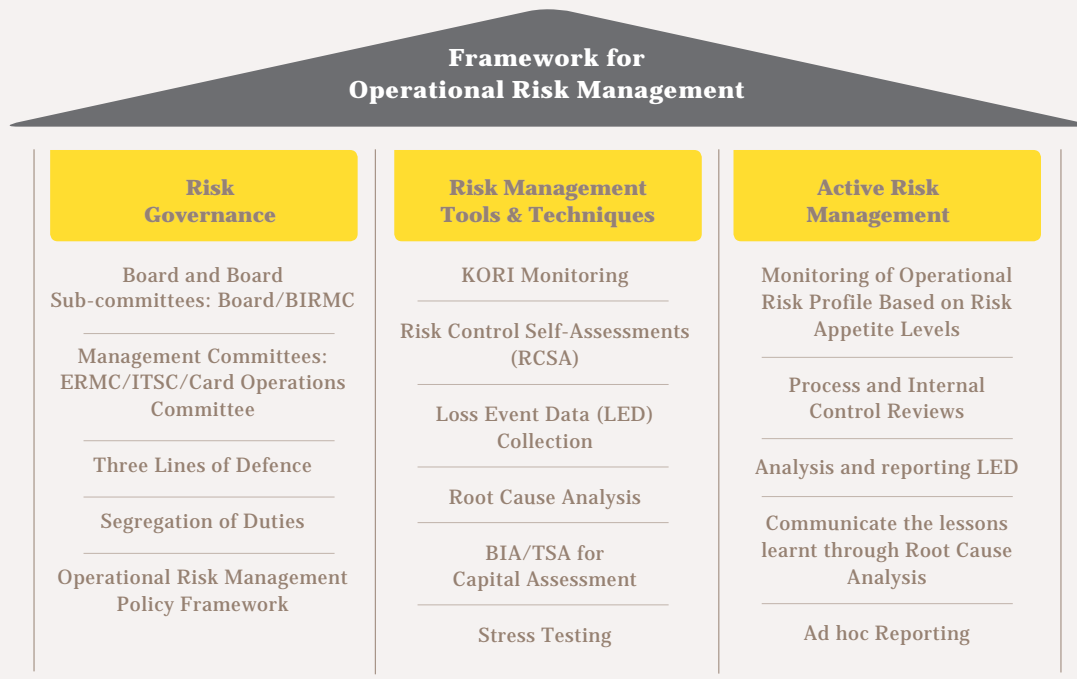


Figure 24: Operational Risk Management Framework

Governance Structure

The Board of Directors are responsible for ensuring that a sufficiently robust framework is in place to manage operational risk. Board approved Risk Appetite Statement, Integrated Risk Management Policy, Operational Risk Management Policy, Information Security Policy and Business Continuity Plan are in place to govern ORM framework of the Bank.

Operational Risk Management Unit (ORMU) reports to operational committees such as IT Steering Committee and Card Operations Committee on identified vulnerabilities in respective business operations. ORMU independently reports to ERM/ITSC and to the Board through BIRMC on operational risk vulnerabilities using risk appetite limits, Key Operational Risk Indicators (KORIs) etc. on a regular basis.

ORMU works closely with IAD to identify the vulnerabilities in internal control structure in a Bank-wide basis and to implement the required corrective and preventive actions.

Risk Review and Management Approach

Bank's operational losses for the year remained far below the alert levels despite of having a Risk Appetite to tolerate operational losses up to 2% of total-weighted average gross income.

Risk Tolerance Limit of Actual Loss Events > — [%]

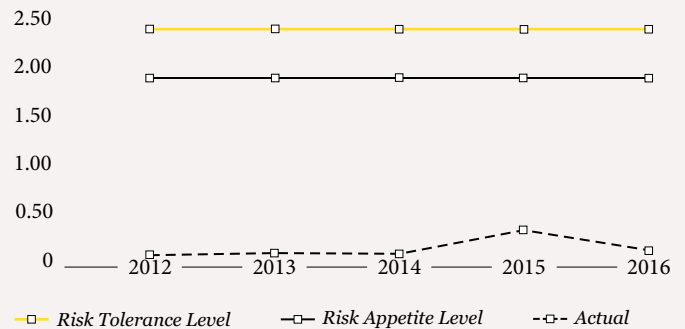


Figure 25: Actual Loss Events Vs Risk Tolerance and Risk Appetite Level

Loss Event Data Collection

ORMU continuously collects loss event data over a period and such operational losses are categorised into seven types of loss events as per Basel II Level II classification. Loss event data is subject to stringent analysis to identify the nature, root causes and the probability of occurrence in order to take prompt corrective and preventive action. ORMU provides descriptive reports on Operational Loss Data to ERM and to the Board through BIRMC. Further, significant loss events above the specified minimum levels are reported to CBSL on a quarterly basis.

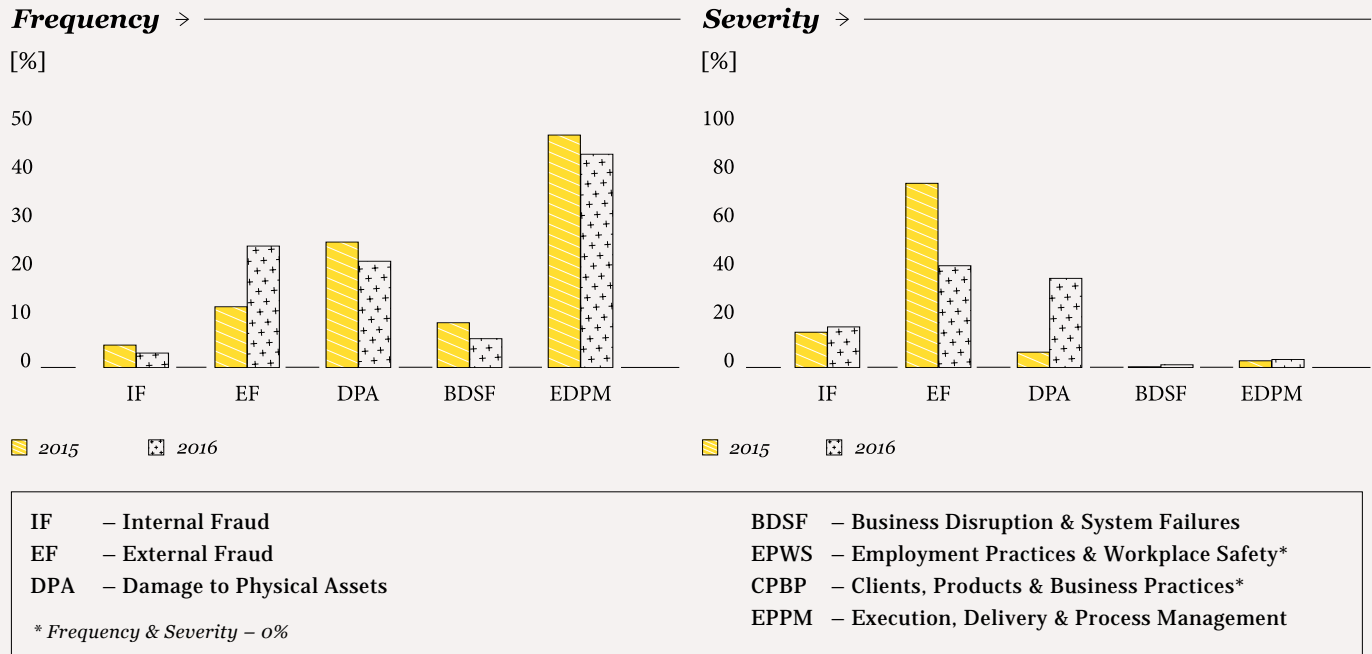


Figure 26: Analysis of Loss Events Distribution

Operational losses encountered by the Bank during 2016, reflects the typical operational loss patterns i.e. low frequency operational loss events account for high impact and vice versa.

Accordingly, out of the total reported operational loss incidents, 2% of operational loss incidents accounts for losses above Rs. 500,000/- and which is 60% of the total gross value during the year. During the past two years, Bank was not exposed to any incident relating to Employee Practices and Workplace Safety (EPWS) and Client Products and Business Practices (CPBP).

In the year 2016, highest frequency of operational losses attributed to Execution, Delivery and Process Management (EDPM) though the severity is at low level. External Frauds (EF) and Damage to Physical Assets (DPA) constitute the highest

severity within the year. Losses from DPA were increased during the year due to flood affected branches located in Western Province.

Key Operational Risk Indicators (KORIs)

Bank's KORI index covers business operations in order to identify and assess operational risk profile by focusing areas namely Audit Issue Management, Business Continuity and Information Security, Product Quality, Process Quality and Compliance. Each area comprises KORIs to assess the risks based on predefined threshold limits.

The threshold limits are revised through risk appetite document annually, considering historical trends, business objectives and level of risks involved.

Risk Control Self-Assessment (RCSA)

RCSA facilitates each business function proactively identifying & assessing its significant operational risk and controls in place to manage those risks.

During the year, ORMU conducted comprehensive examination in critical operations/functions of the Bank such as Card Centre operations, Treasury operations and Credit function within the RCSA process.

Customer Complaints

Customer complaints are received and recorded by the Customer Call Centre and disseminated to the respective authorities for actions and results are informed to the management. ORMU receives the data relating to customer complaints on monthly basis to monitor the trends and to take actions to mitigate risks.

Composition of Customer Complaints 2015 and 2016

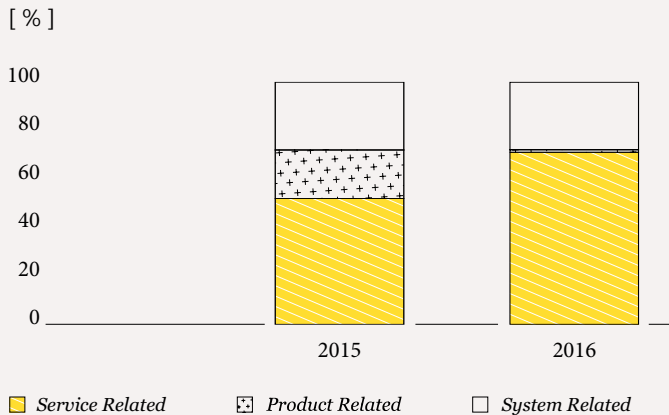


Figure 27: Composition of Customer Complaints

Complaints relating to customer service comprise highest out of the total complaints, which is common to any service provider. The Bank, during the year established a customer charter as per the CBSL Direction and streamlined customer complaints handling process. It enabled the customers to communicate their grievances formally through multiple communication channels.

The Bank uses operational risk mitigation strategies that are associated with industry best practices, strong risk governance framework and high standards of ethics & integrity. Commitment to

effective corporate governance underpins the Bank's effective risk mitigation. Further segregation of duties, avoidance of conflicts of interest and clear lines of management responsibility, accountability and reporting facilitate to minimise operational risks.

Some of the operational risk mitigating strategies used by the Bank are described below:

Outsourcing policy approved by the Board, complies with CBSL direction and Bank's procurement guidelines. The risk arising from outsourcing business operations are monitored by the Outsourcing Unit established within the Support Service Division.

All the service providers should undergo a comprehensive due diligence process exercised by the Bank when entering in to new service level agreements/renewals of existing agreements. Due diligence confirms and addresses the factors such as service provider's company profile & strategy, financial status, process expertise, technology & infrastructure stability, reputation and customer references preferably from similar outsourced processes.

Other important factors include service provider's security & audit controls, legal & regulatory compliance, any outstanding complaints or litigation, insurance, disaster recovery, security and business continuity policies.

Business Continuity Plan (BCP)/Disaster Recovery Plan (DRP) recognises that services/products or operations must be continuously delivered without interruption. The Bank has established a BCP which includes:

- Plans, measures and arrangements to ensure the continuous delivery of critical services and products.
- Identification of necessary resources to support business continuity, including personnel, information, equipment, financial allocations, legal counsel and infrastructure protection.

BCP is a proactive planning process that ensures critical services/products, systems or operations are delivered despite a disruption.

Creating and maintaining a BCP ensures that the Bank has the resources and information needed to deal with emergencies such as natural disasters, accidents, power & energy disruptions, communications, transportation, safety & service sector failure, environmental disasters such as pollution & hazardous materials spills and cyber attacks. Having a BCP minimises financial, operational and reputational losses to the Bank.

DRP is generally a part of BCP. Hence, the Bank developed DRP in conjunction with BCP. Bank's Disaster Recovery Centre is located outside the Colombo with alternative arrangements for unexpected events. DRP is adaptable and routinely updated.

Insurance has long been an effective measure to protect the Bank against operational risk losses. Losses from high severity and low frequency events such as natural disasters, burglary, frauds, errors and omissions etc. are transferred using insurance. ORMU continuously monitors insurance policy, process and recovery trend and reports to the management.

Training ensures that adequate operational and risk management competency levels are achieved and maintained at all levels of the Bank. Bank conducts regular training programmes on business operations/procedures, risk management, compliance and auditing & its application in the Bank.

RMD conducts Risk Management training sessions with the aim of improving awareness on risk management function and changes in regulatory framework, i.e. Basel II to Basel III. ORMU of RMD conducts workshops/awareness sessions within the risk and control assessment process to enhance operational efficiencies and strengthen internal controls.

Information Security Management

The laws and regulations relating to Information and Communications Technology (ICT) are evolved to provide a safe banking service to customers in terms of accuracy, control, integrity and confidentiality of the information from the emerging vulnerabilities.

Bank has taken steps to comply with the Baseline Security Standards (BSS) with the assistance of industry expertise and monitored through IT Steering Committee. Accordingly, Bank's improved ICT infrastructure and Information Security Management System (ISMS) are reviewed and updated taking into consideration IS Audit findings and the vulnerabilities identified through vulnerability assessment tests.

Information Security Policies are reviewed with expert opinions to streamline the current practices. During the year under consideration, Bank revised Information Security Policies to streamline the current practices incorporating expert advice to ensure compliance with best practices. ORMU monitors implementation of information security through progress reviews and provide recommendations if any to further improvements on regular basis.

Fraud Risk Management

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

The Bank's Fraud Risk Management and Whistle Blowing Policy, encourage employees to report any suspicious activity on fraud, corruption, collusion, coercion, irregularity, deficiency, misappropriation, misconduct or any other serious infringements and breach of confidentiality. The policy allows an employee to directly report to the IAD or Chairman or/and members of the BAC by passing all line authorities.

Legal Risk

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

Legal risk includes, but not limited to risk of losses due to:

- inaccurately drafted contracts and their execution
- absence of written agreements or inadequate agreement
- fines, penalties and punitive damages resulting from regulatory agency actions

Bank's legal risk is managed by the Legal Division. In managing risks, the Legal Division collaborates with the Legal Staff in the Division and the Regions. The Legal Division functions as a 'legal watch', which provides legal analysis/advice to all business units and/or employees at every level of the Bank in order to manage the legal risk by ensuring that the applicable laws and regulations are fully taken into consideration in all relationships and contracts in maintaining business relationships and they are supported by required documentation.

ORMU monitors the plausible operational loss events arising from legal risk on a periodical basis.

The legal risk mitigation process involves the following:

- Appraisal/assessment in the form of legal reviews when a new product/process is introduced or additions/changes are made to an existing product/process to ensure conformity with applicable laws and regulations.
- Conduct regular reviews of all business agreements in order to ensure compliance with prevailing laws and regulations.
- Provide legal advice to Business Units, Operational Units and update on legal & regulatory changes.
- Monitor legal issues intensively, particularly lawsuits on actions filed against the Bank.

Compliance Risk

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or loss to reputation, the organisation may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to its activities.

Compliance risk is deemed crucial since Bank's financial status and reputation will be directly affected due to non-compliance with applicable laws and regulations, codes of conduct and standards of practice in the banking industry.

Compliance Division is headed by the Compliance Officer (CO), takes measures to mitigate key risks and reports directly to the Board through BIRMC on risk of non-compliance with laws and regulations governing the banking industry, weaknesses identified in complying with money laundering laws, risk of non-submission or late submission of mandatory reports to regulators and awareness & compliance level of the staff to internal/external rules and regulations.

The Bank is in compliant with the following statutory compliance directives:

- All applicable directives declared by the CBSL
- All relevant laws, regulations and guidelines inclusive of Convention on Suppression of Terrorist Financing Act No. 25 of 2005
- Prevention of Money Laundering Act No. 05 of 2006
- Financial Transaction Reporting Act No. 06 of 2006
- Customer Charter of Licensed Banks issued by CBSL

- Signatory to the Foreign Account Tax Compliance Act (FATCA) USA, requiring NSB to report transactions of USA clients to the Internal Revenue Service (IRS)
- Exchange Control Act (ECA) No. 24 of 1953 and Banking Act directions under ECA

Reputational Risk

Reputation risk is the risk of adversities to earnings and solvency of the Bank due to negative stakeholder perception on business practices. Reputational risk may cause threat to the operation or perhaps to the very existence of the Bank.

Board oversees the reputational risk management which is carried out by the GM/CEO and corporate management. Risk appetite statement approved by the Board stipulates qualitative and quantitative indicators/statements on Bank's appetite towards reputational risk.

Communication Policy and Internal Information Disclosure Policy of the Bank provide an effective and efficient framework to facilitate timely dissemination of information with accountability to minimise the damage to reputation and corporate image of the Bank.

RMD monitors the reputational vulnerabilities using tools such as KORIs, customer complaint analysis and monitoring of actual events against risk appetite of the Bank. Reports on same are submitted to ERM and Board through BIRMC.

Strategic Risk/Business Risk

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

Strategic goals are determined through the strategic planning and budgeting process to achieve Bank's vision, mission and the risk appetite. Strategic risk may arise from internal factors and external factors. Internal factors causing strategic risk are managed by the Budget Unit of the Finance and Planning Division through scenario analysis and rigorous monitoring in the implementation process.

Strategic risk could arise due to worsening of general economic conditions locally and globally. Variation in factors such as interest rates, inflation, investor sentiment, availability & cost of

credit, foreign exchange risk, credit worthiness of counterparties, liquidity of the financial markets and volatility of equity prices, agents the assumptions could significantly increase the strategic risk. Research Division of the Bank continuously monitors the general economic conditions and provides valuable inputs to minimise the strategic risk.

RMD assesses and monitors the strategic risk on a continuous basis and reports the same to the BIRMC and Board.

Capital Management

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

Basel II and III accords focus on risk management in banks and intends to link the business profile of the Bank to the risk profile consequently to the regulatory capital in terms of affiliation to the system. Internal capital can differ from the regulatory capital, which requires extra cushion to manage the entire risk profile of the Bank.

Bank commenced calculating capital requirements under the Basel II capital framework from 2008 onwards. Bank manages its businesses and reports capital requirements on Basel II basis. Bank maintained the Basel II capital adequacy ratios above the regulatory minimum with sufficient buffers to cover Pillar II risk assessments in both solo and consolidated basis.

Capital Adequacy Trend

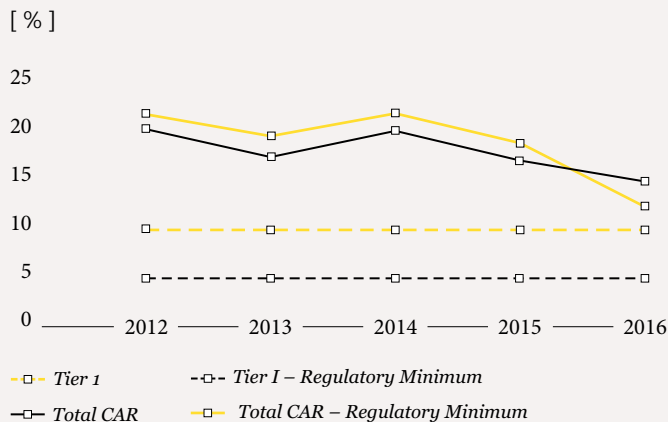


Figure 28: Capital Adequacy Trend

During the transition period for the adoption of Basel III, Bank's capital requirements prevailed above the regulatory minimum transitional floor. The Bank performed parallel calculations under Basel III for regulatory reporting purposes and ensures the ratios are maintained above the regulatory minimum capital requirements and buffers.

Capital Levels

In the year 2016, the Bank maintained a Core Capital (Tier 1) ratio of 12.53% and a Total capital ratio of 14.68%, which is above the regulatory minimum and industry average level.

During the year, the Bank paid a dividend and issued a subordinated debenture qualifying for regulatory capital purposes. These movements slightly changed the composition of capital during the year 2016.

Comparison of Tier I & Tier II Capital – 2015 and 2016

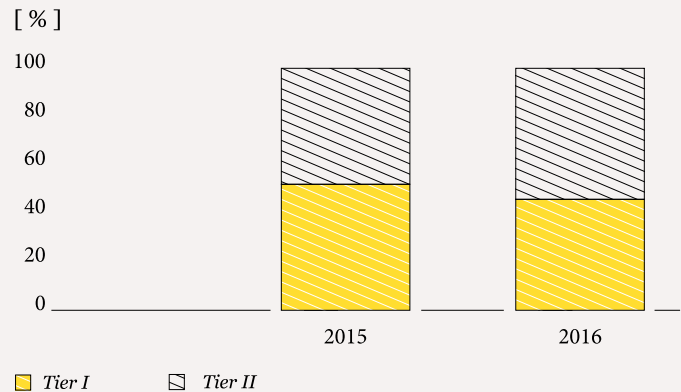


Figure 29: Composition of Tier I and Tier II Capital

Risk Weighted Assets

RMD devotes substantial effort in maintaining healthy capital adequacy level which reflects the Bank's ability to absorb losses and external shocks which would arise in stress situations where capital buffer sets as a cushion. Strong capital adequacy level preliminary depends on managing Risk Weighted Assets (RWAs).

RWAs of the Bank increased during the past three years resulting from Bank moving into new business lines. However, RWAs as a percentage of total assets of the Bank is 22%, which is within the acceptable levels.

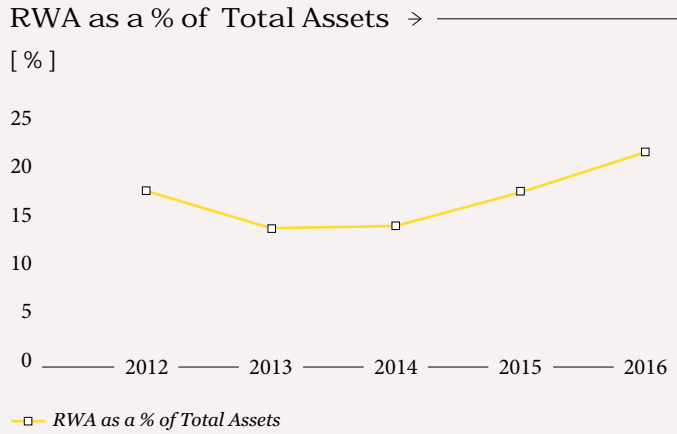


Figure 30: RWA as a percentage of Total Assets

Risk Weighted Assets Mix of the Bank →

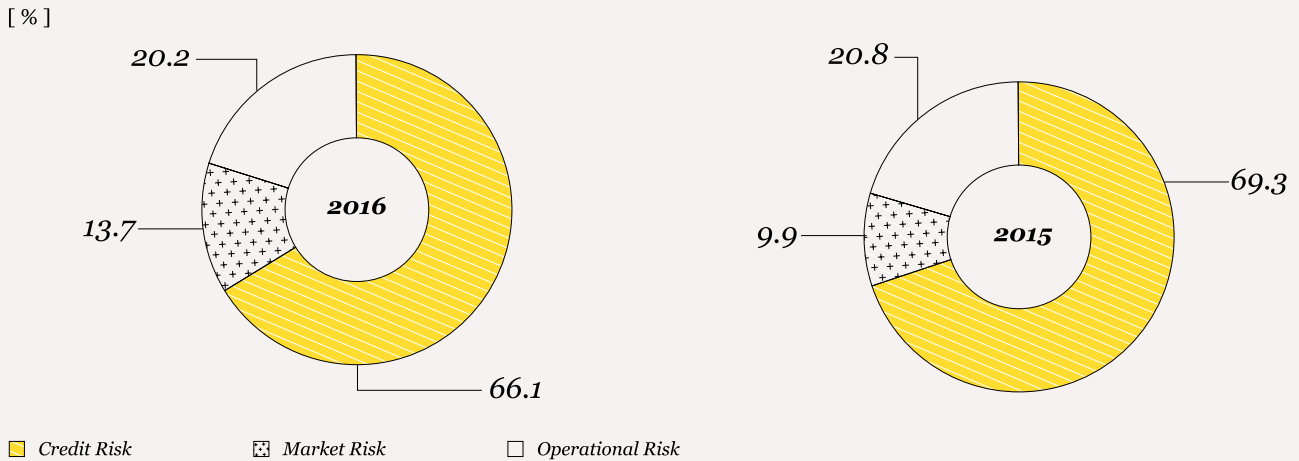


Figure 31: RWA mix of the Bank

Bank uses Standardised Approach (SA) to calculate RWAs for Credit Risk. Credit risk-weighted assets dominate the total risk-weighted asset composition. However, from the total credit exposure, 70% of the exposures are risk weighted at 0%.

2016 Credit RWA Distribution >

[Rs. Million]

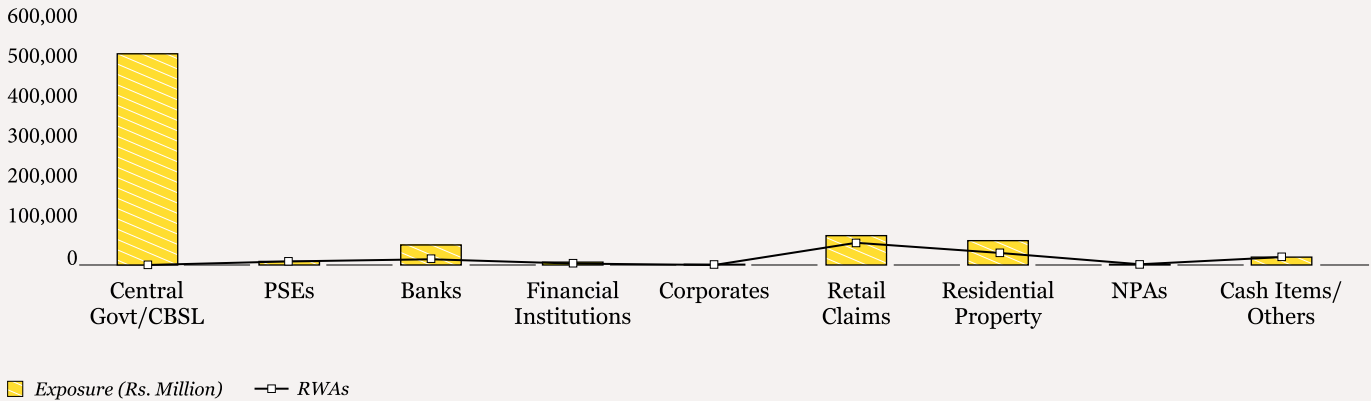


Figure 32: Composition – Credit Risk Weighted Assets/Total Credit Risk Exposures

CRMU monitors Credit RWAs using risk appetite limits to optimise the RWAs mix for Credit Risk. Further the Bank has introduced internal credit rating to facilitate reaching advanced approaches in credit risk capital calculations.

The Bank uses the Standardise Measurement Method (SMM) to calculate RWAs for market risk which is 14% of total RWAs composition in 2016.

Composition of Market Risk Weighted Assets >

[%]

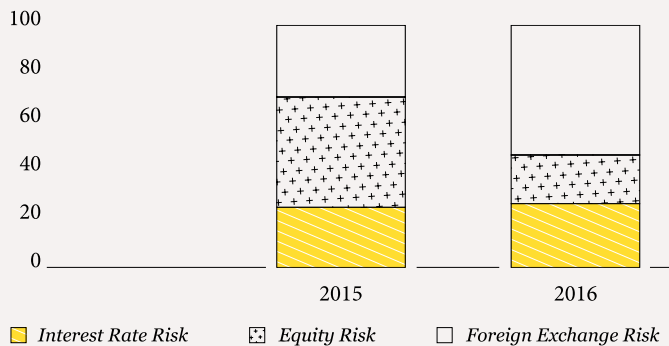


Figure 33: Composition of Market Risk Weighted Assets

From the market risk RWAs mix; composition of RWAs for foreign exchange risk increased during the year 2016 mainly on account of the expanded foreign currency trading and business activities of the Bank.

MRMU monitors RWAs calculated using SMM and is in the process of building the models to reach advance approaches i.e. Internal Models Approach (IMA) in market risk capital calculation.

Operational Risk Weighted Assets – BIA >

[Rs. Million]

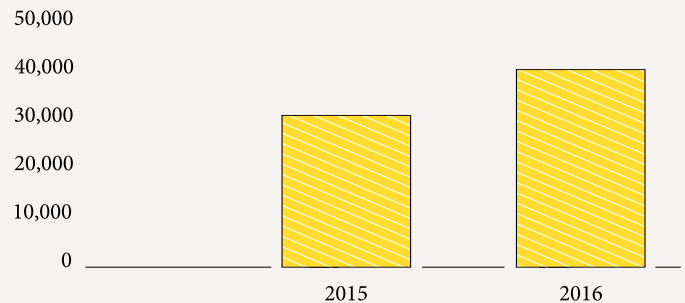


Figure 34: Operational Risk Weighted Assets

Bank uses Basic Indicator Approach (BIA) to calculate the RWAs for operational risk, which is 20% of the total RWAs. ORMU conducts parallel RWAs calculations using The Standardised Approach (TSA) and Alternative Standardised Approach (ASA). There is an improvement in RWAs under TSA due to high proportion of annual gross income generate from retail banking business line.

Internal Capital Adequacy Assessment Process (ICAAP)

Bank's ICAAP is in line with the directions stipulated by CBSL and international best practices. ICAAP is an internal process to assess overall capital adequacy in relation to the risk profile and strategy for maintaining capital levels.

Bank's ICAAP framework devise procedures and measures to ensure risk identification and measurement processes are appropriate; level of internal capital commensurate to the Bank's risk profile and risk management systems are suitably developed and applied.

The purpose of this ICAAP is to identify the risks inherent in the business, set out the risk control and management approach & to consider the mitigants that the Bank uses with respect to the risks that it takes.

ICAAP requires the Bank to identify and assess risks, which are not assessed under Pillar I and maintain sufficient capital buffer to face those risks based on the appropriate risk-measurement techniques to maintain adequate capitalisation on an ongoing and forward looking basis. It integrates Bank's strategic business plan, risk appetite and stress testing to plan the capital levels to commensurate with the risk profile of the Bank.

Stress Testing

Stress testing is an integrated, multi-variant and probabilistic test that shows degrees of severity of unforeseen scenarios. The term 'integrated' refers to the fact that assumptions for both independent and dependent variables reflect inter-relationships between variables.

Even if a crisis never occur, evaluations of stressed scenarios can aid the Bank's management. Stress tests reveal vulnerabilities. Advance planning can prevent a crisis or reduce the severity of a potential crisis by addressing revealed vulnerabilities before any threats materialise.

Stress Testing is an integral part of ICAAP. Bank's stress testing policy framework approved by the Board complies with the CBSL direction, clearly setting out risk areas, procedures and methodology to be adopted in conducting and reporting of stress tests.

In principle, stress testing evaluates the potential impact on Profitability, Capital Adequacy, Liquidity and Leverage ratios as a result of specific changes in defined variables linked to various types of risks to ensure the stability of the Bank and its resilience in facing unexpected socioeconomic calamities.

Stress testing results provide valuable inputs to strategic planning, setting risk appetite limits, ICAAP and capital planning & contingency planning processes.

The Bank carries out stress tests to measure the resilience of its financial position to adverse movements by applying low, moderate and high level shocks on plausible scenarios mentioned in the Stress Test Policy and reports results to relevant Management Committees, BIRMC and the Board.

The scope of risk management is not limited to the Bank, but also with the subsidiary i.e., NSB Fund Management Company Ltd. However, this Report mainly elaborates Risk Management in the Bank considering the materiality of the Bank's operation in NSB Group. (Bank contributes 98.9% to consolidated assets and 95.4% to consolidated capital.)

The Bank is aware that the risk profile would change with the emerging inward and outward looking approach for growth and stability in the future and therefore proactive approach is required to arrest any possible risk that may develop in the process.

In conclusion, NSB continuously taking effort to strengthen its risk management governance, risk assessment mechanism, risk mitigation & monitoring and risk reporting by engrafting risk management practices amongst all levels of employees, through both top down and bottom-up approaches in order to create a strong risk aware culture.



Financial Reports

Financial Calendar - 180

Annual Report of Board of Directors - 181

*Statement of Directors' Responsibility for
Financial Reporting - 188*

*Directors' Statement on Internal Control Over
Financial Reporting - 190*

Independent Assurance Report on Internal Controls - 192

*General Manager/CEO's and Deputy General Manager's
(Finance and Planning) Statement of Responsibility - 193*

Auditor General's Report - 195

Statement of Comprehensive Income - 196

Statement of Financial Position - 198

Statement of Changes in Equity - 200

Statement of Cash Flows - 204

Notes to the Financial Statements - 205

Financial Calendar

Financial Calendar 2016

| | |
|---|---------------------------|
| Publication of Interim Financial Statements for the quarter ended 31st March 2016 | 17th May 2016 |
| Publication of Interim Financial Statements for the quarter ended 30th June 2016 | 29th August 2016 |
| Publication of Interim Financial Statements for the quarter ended 30th September 2016 | 30th November 2016 |
| Publication of Financial Statements (Audited) for the year ended 31st December 2016 | 31st March 2017 |

Proposed Financial Calendar 2017

| | |
|--|---------------------------|
| Publication of Interim Financial Statements for the quarter ending 31st March 2017 | 30th May 2017 |
| Publication of Interim Financial Statements for the quarter ending 30th June 2017 | 30th August 2017 |
| Publication of Interim Financial Statements for the quarter ending 30th September 2017 | 30th November 2017 |
| Publication of Financial Statements for the year ending 31st December 2017 | 30th March 2018 |

Annual Report of Board of Directors

General →

The Directors of the National Savings Bank have pleasure in presenting their Integrated Annual Report on the affairs of the Bank together with the Audited Financial Statements of the Bank and Consolidated Financial Statements for the year ended 31st December 2016. We ascertain that it gives the strategic picture of the Bank's business that explains how the Bank creates and sustains value over the years and in the future.

The draft Financial Statements were approved by the Board of Directors at the Board meeting held on 28th February 2017 and submitted to the Auditor General on 28th February 2017. The audited Financial Statements were authorised to be issued on 28th March 2017. The Report also includes certain disclosures required to be made under the Banking Act No. 30 of 1988 and amendments thereto and the Direction on Corporate Governance. The Annual Report and Financial Statements, together with the Auditor General's Report will be submitted to the Minister of Finance, on or before 31st May 2017 as per Circular No. PED/27 of 27th January 2005, issued by the Director General of the Department of Public Enterprises to be placed before the Parliament of Sri Lanka.

National Savings Bank is incorporated in Sri Lanka by National Savings Bank Act No. 30 of 1971 and was granted the status of Licensed Specialised Bank in terms of Banking Act No. 30 of 1988. The Bank has been assigned AAA (Ika) long-term credit rating by the Fitch Rating Lanka (Pvt) Ltd. for the 14th consecutive year. It has also been awarded international credit ratings of B+ negative by Fitch Inc. and B+ negative by Standard and Poor Rating services.

Vision, Mission and Values →

The Bank's Vision, Mission and Values are given on Page 2 of this Annual Report. The Bank invented new 'Vision' and 'Values' during the year while developing Strategic Business Plan 2017-2019. All permanent employees are being abided by the Code of Conduct of the Bank and the Government Oath with the view of reaching the Vision and Mission of the Bank.

Principal Activities →

Bank

The principal activity of the National Savings Bank is promotion of savings among the people of Sri Lanka and profitable investments of savings so mobilised.

Subsidiary

NSB Fund Management Company Ltd., is the bank's only Subsidiary and the principal activity of the Company is dealing in Government Securities as a primary dealer authorised by the Central Bank of Sri Lanka. Details of the transactions are given in Note 40 (b) to the Financial Statements.

There were no significant changes in the nature of the principal activities of the Bank and the Group.

Review of Business Performance →

The overall financial performance of the Bank for the financial year 2016 and its financial position as at 31st December 2016 were reviewed in the Chairman's Message (Page 32), General Manager/CEO's Review (Page 36), the 2016 story (page 22) and Audited Financial Statements (page 196). These reports form an integral part of the Annual Report.

Network Expansions and Future Developments →

Widening the Bank's presence in the island, five branches were added to the network during the year under review. At the end of the year the Bank has 250 branches in its network. The ATM network was further expanded enhancing customer convenience. The Bank installed eight ATMs during the year across the island bringing out the total ATMs to 279 excluding peer banks' ATMs through which customers of NSB can transact.

The Bank intends to tie up with technological advancements in the coming years. This will enhance the convenience to customer base of the Bank. An overview of the future developments of the Bank is given in the Chairman's Message (page 32), General Manager/CEO's Review (page 36) and the 2016 story (page 22).

Going Concern →

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

Financial Statements →

The Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (SLFRs/LKAs) laid down by The Institute of Chartered Accountants of Sri Lanka and comply with the requirements of Banking Act No 30 of 1988. The Financial Statements of the Bank and the Group for the year ended 31st December 2016 duly certified by the Deputy General Manager – Finance and Planning and approved and signed by the General Manager/CEO and two Directors including Chairman of the Bank are given on page 196 which form an integral part of the Annual Report of the Bank.

Directors' Responsibilities for Financial Reporting →

The Directors are responsible for the preparation of the Financial Statements that will reflect a true and fair view of the state of affairs of the Bank as at 31st December 2016 and its profit for the year then ended. The Directors are of the view that Statements of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement, Significant Accounting Policies and Notes there to have been prepared in conformity with the requirements of the Sri Lanka Accounting

Standards(SLFRs/ LKAs) and the Banking Act No. 30 of 1988 and its amendments. The Statement of Directors' Responsibility for Financial Reporting appearing on page 188 of this Annual Report describes in detail the Directors' Responsibilities in relation to Financial Statements, which form an integral part of the Annual Report of the Board of Directors.

Auditors' Report →

The Auditor General had carried out the audit of the Financial Statements of the Bank and the Consolidated Financial Statements of the Group for the year ended 31st December 2016. Messrs Ernst & Young carried out the audit of NSB Fund Management Company. In 2016, the continuous audit was carried out throughout the year for the Bank. Issues identified in their reports were submitted to the management regularly for prompt action. Having confirmed the accuracy of the financial reporting, the Financial Statements, together with the necessary data and information were made available to the Auditor General for examination. The Auditor General's opinion on the Financial Statements appears on page 195 of this Annual Report.

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

Significant Accounting Policies and Changes during the Year →

The Bank prepared its Financial Statements in accordance with Sri Lanka Accounting Standards (SLFRs/LKAs). The Board of Directors wish to confirm that there were no significant changes to the Accounting Policies during the year. Significant Accounting Policies adopted in the preparation of Financial Statements for the year are given on page 205.

Strategic Business Plan →

The Bank developed its latest Strategic Business Plan for 2017-2019 during the year 2016. Focusing areas and Strategic Initiatives were identified in this process. The Bank will strive to operate within the parameters set out in the new Business Plan, which will help to accelerate the future momentum of NSB. In line with Strategic Business Plan Balance Score Card with KPI was introduced for each operation and service unit for the purpose of easy monitoring.

Income →

The gross income of the Bank for 2016 was Rs. 87,399 Million (2015 – Rs. 79,282 Million) while the Group's income was Rs. 88,039 Million (2015 – Rs. 79,890 Million). Details of the income are given in Note 3 to the Financial Statements.

Results and Appropriation →

The profit before income tax of Bank and Group amounted to Rs. 13,303 Million and Rs. 13,397 Million (2015 – Rs. 13,034 Million and Rs. 13,272 Million). This is an increase of 2.07% for the Bank and 0.94% for the Group (2015 – 24% and 23% increase).

The profit after tax of the Bank and Group stood at Rs. 9,498 Million and Rs. 9,562 Million respectively (2015 – Rs. 8,672 Million and Rs. 8,832 Million). This is an increase of 9.52% and 8.27% for the Bank and the Group (2015 – 26% and 25%). Details of profit relating to the Bank are given in the following Table:

| | 2016 Rs. Million | 2015 Rs. Million |
|---|---------------------|---------------------|
| Profit for the Year after Payment of all Expenses and Providing for Depreciation, Possible Loan Losses and Contingencies before VAT, NBT and Tax | 16,094 | 15,470 |
| VAT on Financial Services | 2,405 | 2,062 |
| NBT on Financial Services | 386 | 375 |
| Provision for Income Tax | 3,805 | 4,361 |
| Net Profit | 9,498 | 8,672 |

Provision for Taxation →

The Income Tax Rate applicable for the Bank on its operation is 28%, the Bank's operations are liable for Value Added Tax on Financial Services at the rate of 15% and Nation Building Tax at the rate of 2%.

The Bank provided deferred tax on all known temporary differences under the liability method in accordance with Sri Lanka Accounting Standard (LKAS) 12 – 'Income Taxes'. Information of Income Tax expenditure and Deferred Taxation are given in Notes 13 and 29 respectively on pages 227 and 262.

Stated Capital →

The authorised share capital of the Bank is Rs. 10 Billion which is made of One Billion ordinary shares of Rs. 10/- each. The Bank has issued 300 Million ordinary shares of Rs. 10 using unclaimed deposit reserve to the Secretary to the Treasury on 31st December 2016. The issued share capital of the Bank as at 31st December 2016 stood at Rs. 6.2 Billion. The Secretary to the Treasury in his official capacity holds the entirety of the issued share capital.

Borrowed Capital →

The Bank issued an International Bond for a value of USD 250 Millions in September 2014. This is in addition to the Bond of USD 750 Million issued in September 2013. This was the highest amount of foreign funds raised in a single issue by a bank so far from foreign investors. Information of Borrowed capital is given in Note 33 respective on page 265.

Shareholding →

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

Reserves →

The Bank's Reserves consist of –

| | 2016 Rs. Million | 2015 Rs. Million |
|------------------------|---------------------|---------------------|
| Statutory Reserve Fund | 2,522 | 2,048 |
| Revaluation Reserve | 3,297 | 3,297 |
| Retain Earnings | 2,379 | - |
| Other Reserves | 17,848 | 23,879 |
| | 26,046 | 29,224 |

Information on changes of reserves is given in the Statement of Changes in Equity on page 200.

Contribution to the Government →

The Bank contributed Rs. 19,250 Million by way of taxes and levies to the Government in 2016 (2015 – Rs. 11,015 Million). This consisted of Rs. 3,805 Million of Income Tax (2015 – Rs. 4,361 Million), Rs. 2,405 Million of Value Added Tax (2015 – Rs. 2,062 Million), Rs. 386 Million of Nation Building Tax (2015 – Rs. 375 Million), Rs. 533 Million of Special Fee (2015 – Rs. 1,333 Million), Rs. 12,026 Million of contribution to the Consolidated Fund (2015 – Rs. 2,800 Million) and Rs. 95 Million of contributions to National Insurance Trust Fund (2015 – Rs. 84 Million).

Service Charges to Postmaster General (PMG) →

Service charges to the PMG for 2016 amounting to Rs. 128 Million has been provided for on the same basis as in 2015.

Pension Fund →

A sum of Rs. 829 Million (2015 – Rs. 893 Million) has been provided in the Financial Statements on account of 5,021 employees (including retired employees) who are eligible for the Non-Contributory Pension Scheme.

Corporate Sustainability and Responsibility →

The programmes carried out under the Corporate Social Responsibility are detailed on pages 92 to 94 in this Annual Report.

Property, Plant & Equipment and Intangible Assets →

The value of Property, Plant & Equipment and Intangible Assets as at the year end 2016 was Rs. 10,188 Million and Rs. 639 Million respectively (Rs. 9,788 Million and Rs. 504 Million in 2015).

The total capital expenditure incurred by the Bank on the acquisition of property, plant & equipment and Intangible Assets (Including capital work-in-progress) during the year amounted to Rs. 750 Million (2015 – Rs. 510 Million) and Group amounted to Rs. 751 Million (2015 – Rs. 512 Million), the details of which are given in Notes 27 and 28 to the Financial Statements on pages 254 to 260 of this Annual Report.

Market Value of Freehold Property →

The Bank carried out a revaluation of freehold land and buildings of the Bank as of 31st December 2015 in accordance with the Section 3 of the Central Bank Direction No. 01 of 2014 on 'Valuation of Immovable Properties of Licensed Specialised Banks'. The revaluation process of the land and buildings of the Bank was carried out by professionally-qualified independent valuers as per above Direction. The Board of Directors is on the view that revalued amounts of freehold land and buildings are not in excess of its market value.

Events after the Reporting Date →

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

Outstanding Litigation →

In the opinion of the Directors and the Bank's lawyers, outstanding litigation against the Bank disclosed in Note 45 to the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

Board of Directors →

The Board of Directors comprises seven Directors including the Chairman and two Ex Officio Members representing the Ministry of Finance and the Postmaster General. The Minister of Finance appoints the Chairman and other four Directors. The following were the Directors during the year and their brief profiles appear on page 100 of this Annual Report.

| Name of the Director | Period | Status |
|---|-------------------|-----------------|
| | From | |
| <u>Mr. Aswin De Silva, Chairman</u> | <u>09.02.2015</u> | <u>NED/NIND</u> |
| | From | |
| <u>Mr. D.L.P.R. Abeyaratne, Director (Ex Officio)</u> | <u>09.02.2012</u> | <u>NED/NIND</u> |
| | From | |
| <u>Mr. A.K. Seneviratne, Director (Ex Officio)</u> | <u>27.05.2015</u> | <u>NED/NIND</u> |
| | From | |
| <u>Mr. Suranga Naullage, Director</u> | <u>09.02.2015</u> | <u>NED/NIND</u> |
| | From | |
| <u>Mr. Ajith Pathirana, Director</u> | <u>20.03.2015</u> | <u>NED/NIND</u> |
| | From | |
| <u>Mr. Anil Rajakaruna, Director</u> | <u>02.11.2015</u> | <u>NED/NIND</u> |
| | From | |
| <u>Mr. Chandima Hemachandra, Director</u> | <u>02.11.2015</u> | <u>NED/NIND</u> |

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

Directors' Remuneration and Other Benefits →

Details of Directors' emoluments and other benefits in respect of the Bank and Group for the financial year 2016 are given in Note 40 to the Financial Statements.

Board Subcommittees →

The Board while assuming the overall responsibility and accountability has also appointed the following Board Subcommittees to ensure conformity with Corporate Governance Standards of the Central Bank and other statutory compliances.

The four mandatory Subcommittees and their composition as at 31st December 2016 are as follows:

Board Audit Committee →

| | |
|-------------------------|----------------------------|
| Mr. D.L.P.R. Abeyaratne | Chairman (From 30.11.2015) |
| Mr. A.K. Seneviratne | Member (From 04.06.2015) |
| Mr. Anil Rajakaruna | Member (From 30.11.2015) |

The Report of the Board Audit Committee is given on page 139 to 141.

Board Human Resource and Remuneration Committee →

| | |
|------------------------|----------------------------|
| Mr Aswin De Silva | Chairman (From 12.03.2015) |
| Mr. D.L.P.R Abeyaratne | Member (From 12.03.2015) |
| Mr. Ajith Pathirana | Member (From 30.11.2015) |

The Report of the Board Human Resource and Remuneration Committee is given on pages 142 and 143.

Board Nomination Committee →

| | |
|-----------------------|----------------------------|
| Mr Aswin De Silva | Chairman (From 12.03.2015) |
| Mr Ajith Pathirana | Member (From 30.04.2015) |
| Mr D L P R Abeyaratne | Member (From 30.11.2015) |

The Report of the Board Nomination Committee is given on pages 146 and 147.

Board Integrated Risk Management Committee →

| | |
|--------------------------|----------------------------|
| Mr. A.K. Seneviratne | Chairman (From 30.11.2015) |
| Mr. S. Naullage | Member (From 30.11.2015) |
| Mr. Chandima Hemachandra | Member (From 30.11.2015) |

The Report of the Board Integrated Risk Management Committee is given on pages 144 and 145.

Directors' Meetings →

The number of Directors' meetings which comprise Board meetings, Board Audit Committee meetings, Nomination Committee meetings, Board Integrated Risk Management Committee meetings and Human Resource and Remuneration Committee meetings and the attendance of Directors at these meetings are given on Corporate Governance Report (page 119) of this Annual Report.

Directors' Interests in Contracts →

Directors' interests in contracts with the Bank, both direct and indirect are referred to in Note 40 to the Financial Statements. These interests have been declared at the Board meetings. The Directors do not have any direct or indirect interest in other contracts or proposed contracts with the Bank.

Related Party Transactions →

The Directors have also disclosed the transactions if any, that could be classified as related party transactions in terms of Sri Lanka Accounting Standard (LKAS) 24 – 'Related Party Disclosures' which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 40 to the Financial Statements forming part of the Annual Report of the Board of Directors.

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 of Directors.

Human Resources →

The Bank continued to develop and maintain dedicated and highly-motivated employees who are committed to create sustainable value through high quality service. Significant investments have been made in the development of quality of Human Capital of the Bank. The policies and procedures adopted by the Bank to upgrade Human Capital is described the 2016 Story on page 72.

Environmental Protection →

The Bank has taken initiatives to safeguard and enhance the environment which are vital for sustainable development and growth of the Bank. The Bank and the Group have not engaged in any activity that is harmful or hazardous to environment.

Statutory Payments →

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

Risk Management, Internal Controls and Management Information Systems →

The Board of Directors assumes overall responsibility for managing risk. For this purpose, the Board of Directors has instituted and implemented an effective and comprehensive system of internal controls and management information systems in the Bank. Internal control systems have been redesigned to mitigate the risks to which the Bank is exposed, to provide reasonable assurance against material misstatements or loss. There is an ongoing process for identifying evaluating and managing the risks that are faced by the Bank. The specific measures taken by the Bank in mitigating the risk are detailed on pages 150 to 177 of this Report.

Corporate Governance →

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

Compliance with Laws, Regulations and Prudential Requirements →

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

Government Guarantee →

The Government of Sri Lanka guarantees the repayment of the monies deposited with the Bank together with interest thereon.

Auditors →

The Auditor General carried out the audit of the Financial Statements of the Bank for the financial year ended 31st December 2016.

By Order of the Board,



Aswin De Silva
Chairman

28th March 2017
Colombo



M.A.P. Muhandiram
Secretary to the Board

Statement of Directors Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the National Savings Bank (Bank) and Consolidated Financial Statements of the Bank and its Subsidiary (Group) is set out in this statement.

Financial Statements →

The Directors of the Bank are responsible for ensuring that the Bank and the Group keep proper books of accounts of all the transactions and prepare Financial Statements in accordance with Generally Accepted Accounting Principles, Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards that give a true and fair view of the financial position of the Bank and the Group at the end of each financial year in compliance with the relevant statutory requirements. The Financial Statements comprise of Statement of Comprehensive Income, Statement of Financial Position as at 31st December 2016, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes there to.

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

1. Financial Position of the Bank and its Subsidiary as at 31st December 2016; and
2. Financial performance of the Bank and its Subsidiary for the financial year then ended 31st December 2016.

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

1. The accounting policies adopted to prepare the Financial Statements which are depicted in page 205 to page 310 were appropriate according to the existing financial reporting frame work. These policies were consistently applied and adequately disclosed.
2. Reasonable and prudent judgments have been made where necessary to ensure the proper reflection of the form and substance of transaction when preparing the Financial Statements.

3. All applicable Accounting Standards as relevant have been followed.

As per the provisions of the Finance Act No. 38 of 1971, the Banking Act No. 30 of 1988 and Section 7 (i) of NSB Act No. 30 of 1971, the Board of Directors is required to control and administer the affairs and the business of the Bank.

The Board of Directors ensures that the Financial Statements comply with the prescribed format issued by the Central Bank for Licensed Specialised Banks.

The Board of Directors in also responsible for ensuring that proper accounting records, which correctly record and explain the Bank's financial position, with reasonable accuracy at any point of time is determined by the Bank, enabling preparation of the Financial Statements. The Board of Directors accepts the responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report. (Financial Statements exhibited on pages 196 to 310) The Financial Statements for the year 2016 prepared and presented in this Annual Report are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and Banking Act No. 30 of 1988 and amendments thereto.

Internal Controls →

The Board of Directors has been responsible for taking reasonable measures and care to safeguard the assets of the Bank and the Group, detect frauds and other irregularities and has also instituted an effective and comprehensive system of internal controls and an effective system of monitoring its effectiveness which includes internal audit. The Directors ensure that the Financial Statements are reviewed by them directly at their regular meetings and also through the Board Audit Committee. The Directors' Statement on Internal Control Over Financial Reporting is given on page 190 of this Annual Report and Independent Assurance Report on the Bank's Internal Control is given on page 192.

Audit Report →

The Auditor General has been made available with all records of the Bank, including the Financial Statements by the Board of Directors and provided every opportunity to undertake the inspections they considered appropriate all of which the Auditor General's Department has examined and have expressed the Auditor General's opinion which appears as reported by him on page 195 of this Annual Report.

Compliance Report →

The Directors confirm that to the best of their knowledge and belief that all taxes payable by the Bank and the Group and all contributions and taxes payable on behalf of and in respect of employees of the Bank and the Group, and all other known statutory dues to the Government and the other relevant regulatory and statutory authorities, which were due and payable by the Bank and the Group as at the date of Statement of Financial Position, have been paid or where relevant provided for. Further, the Directors have confirmed that after considering the financial position, operating conditions and regulatory and other factors required to be addressed in the 'Corporate Governance Code issued jointly by CA Sri Lanka and the SEC, the Bank and the Group have adequate resources to continue in operation for the foreseeable future and to justify the application of the going concern basis in preparing these Financial Statements and the Board has taken all necessary measures to comply with the directives issued by the Central Bank of Sri Lanka.

By Order of the Board,



M.A.P. Muhandiram
Secretary to the Board

28th March 2017
Colombo

Directors' Statement on Internal Control Over Financial Reporting

This report has been issued in line with the Banking Act Direction No. 12 of 2007, Section 3 (8) (ii) (b), and prepared based on the guidelines issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The Board of Directors (Board) is responsible for ensuring that an adequate and effective system of internal control is established and maintained at the National Savings Bank. However, such a system is designed to manage the Bank's significant risk areas within acceptable risk parameters, rather than eliminating the risk of failure to achieve business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or frauds.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory requirements and other guidelines. The process is regularly reviewed by the Board and confirmed the compliance with the Guidance for Directors of the Bank's on the Directors Statement on Internal Controls issued by The Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system taking into principles for the assessment of internal Control System as given in that guidance.

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of Financial Statements for external purposes and is in accordance with the relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced by the Bank, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

The Board has also put in place the system of reviewing the design and the effectiveness of system of internal control periodically. The key processes, among other things include the following:

- The Board Subcommittees have been established with defined scopes and functions to assist the Board in ensuring the effectiveness of the Bank's operations and that the Bank's operations are in accordance with the corporate objectives, strategies, and policies and business directions that have been approved.
- The Board Audit Committee (BAC) reviews periodically the internal control issues identified by the Internal Audit Division of the Bank, the External Auditors, Regulatory Authorities and corrective actions taken to rectify such deficiencies. The Auditor General carries out the external audit of the Bank. The Superintendent of the Government Audit is generally invited to BAC meetings.
- The BAC reviews the internal audit function with particular emphasis on the scope of audits and quality of the same. The activities attended to by the BAC during the year 2016 are set out in the Board Audit Committee report appearing on page 139 of this Annual Report. The Internal Audit Division of the Bank carries out audit of branches, divisions and other units as per the Annual Audit Plan. The frequency of audit is determined by the level of risk assessed. The Audit Plan is approved by the BAC for implementation. The Internal Audit Division carries out audit checks to ensure compliance with policies and procedures and the effectiveness of the internal control systems and reports its findings in respect of any non-compliance. Audits are carried out to provide an independent and objective report on operational and management activities. The findings of the audits are submitted to the BAC for review at their periodic meetings. The activities of the BAC, along with minutes of the Committee meetings are submitted for information of the Board on a periodic basis.
- The Board Integrated Risk Management Committee (BIRMC) has been established by the Board to assist the Board to oversee the overall management of principal areas of risk of the Bank. The Executive Risk Management

Directors' Statement of Internal Control Over Financial Reporting

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

- Management level committees have also been functioning with appropriate empowerment to ensure effective management and supervision of Bank's core areas in the day-to-day business operations. The assessment covered only the process applied by the Bank and did not include the processes carried out by its Subsidiary.

Confirmation →

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the Statement by the External Auditors →

The External Auditors, The Auditor General will be reviewed the above Directors' Statement on Internal Control Over Financial Reporting for the year ended 31st December 2016 and reported to the Board of Directors. Their report on the Statement on Internal Control Over Financial Reporting is given on page 192 of this Annual Report.

By Order of the Board,



Aswin De Silva
Chairman



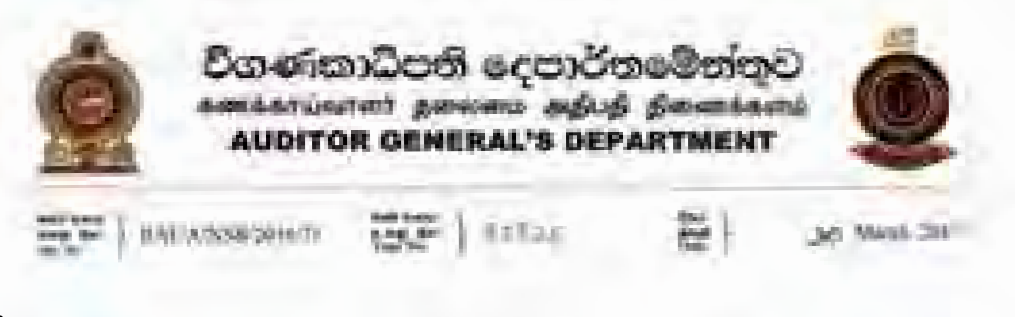
D.L.P.R. Abeyaratne
Chairman – Board Audit Committee/Director



Ajith Pathirana
Director

28th March 2017
Colombo

Independent Assurance Report on Internal Controls



The Chairman

National Savings Bank

Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control of National Savings Bank →

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control ("Statement") of National Savings Bank included in the Annual Report for the year ended 31st December 2016.

Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Bank on the Directors' Statement on Internal Control" issued in compliance with the section 3 (8) (II) (b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

My Responsibilities and Compliance with SLSAE 3050

My responsibility is to issue a report to the Board of Directors on the Statement based on the work performed. I conducted my engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of Work Performed

My engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Bank.

The procedures performed are limited primarily to inquiries of bank personnel and the existence of documentation on a sample basis that supports the process adopted by the Board of Directors.

SLSAE 3050 does not require me to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require me to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

My Conclusion

Based on the procedures performed, nothing has come to my attention that causes me to believe that the Statement included in the Annual Report is inconsistent with my understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Bank.

H.M. Gamini Wijesinghe
Auditor General

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

The Financial Statements of the National Savings Bank and the Consolidated Financial Statements of the Bank and its Subsidiary (Group) as at 31st December 2016 are prepared and presented in compliance with requirements of the following:

- National Savings Bank Act No. 30 of 1971 and amendments thereto.
- Finance Act No. 38 of 1971.
- Sri Lanka Financial Reporting Standards (SLFRSs/LKASs) issued by The Institute of Chartered Accountants of Sri Lanka.
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.
- Banking Act No. 30 of 1988 as amended and Directions issued by Central Bank of Sri Lanka thereunder relating to Financial Statements formats and disclosure of information.
- Code of Best Practices on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka.
- The Banking Act Direction No. 12 of 2007 on Corporate Governance issued by Central Bank of Sri Lanka.

The formats used in the preparation of the Financial Statements and disclosures made, comply with the specified formats prescribed by the Central Bank of Sri Lanka, which are also in compliance with the disclosure requirements of the Sri Lanka Accounting Standard (LKAS 1) – ‘Presentation of Financial Statements’. The Group presents the financial results to its users on a quarterly basis.

The Significant Accounting Policies have been consistently applied by the Group. Application of Significant Accounting Policies and estimates that involved a high degree of judgement and complexity were discussed with the Bank's External Auditors and the Board Audit Committee. Comparative information has been reclassified wherever

necessary to comply with the current presentation and material departures, if any, have been disclosed and explained.

We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and other financial information included in this Annual Report, fairly present in all material aspects of the financial position, results of the operations and the cash flows of the Group during the period under review. We also confirm that the Group has adequate resources to continue in operation and has applied the going concern basis in preparing these Financial Statements.

We are responsible for establishing, implementing and maintaining Internal Controls and Procedures of the Bank and its Subsidiary. We ensure that effective Internal Controls and Procedures are in place ensuring material information relating to the Group is made known to us for safeguarding assets, preventing and detecting fraud and/or error as well as other irregularities, which are reviewed, evaluated and updated on an ongoing basis. We confirmed that there were no significant deficiencies and weaknesses in the design or operation of the Internal Controls and Procedures and no any fraud that management or other employees involved in, to the best of our knowledge. The Bank's Internal Auditors also conduct periodic reviews to ensure that the Internal Controls and Procedures are consistently followed. Directors' Statement on Internal Control over Financial Reporting is provided on Page 190 of this Annual Report. The Auditor General has audited the effectiveness of the Internal Control adapted by the Bank and has given an unqualified opinion, provided on Page 192.

The Financial Statements of the Bank and its Subsidiary were audited by the Auditor General and Messrs Ernst & Young, Chartered Accountants respectively. The Auditor General's Report on the Bank's Consolidated Financial

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


Statements is given on page 195 of this Annual Report. The Board Audit Committee, *inter alia*, reviewed all Internal Audit and Inspection Programmes, the efficiency of Internal Control Systems and Procedures and also reviewed the Significant Accounting Policies and their adherence to statutory and regulatory requirements, the details of which are given in the Board Audit Committee Report on pages 139 to 141 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 45 on page 289 of the Financial Statements;
- There are no material non-compliances;
- All taxes, duties, levies and all statutory payments payable by the Bank and the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and the Group as at 31st December 2016 have been paid, or where relevant, provided for.



S.D.N. Perera
General Manager/CEO



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

28th March 2017
Colombo

Auditor General's Report



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AUDITOR GENERAL'S DEPARTMENT



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The Chairman

National Savings Bank

Report of the Auditor General on the Financial Statements of the National Savings Bank and its Subsidiary for the year ended 31st December 2016 →

The Audit of the Financial Statements of the National Savings Bank ("Bank") and the Consolidated Financial Statements of the Bank and its subsidiary ("Group") for the year ended 31st December 2016 comprising the Statements of Financial Position as at 31st December 2016, the Statements of Comprehensive Income, Statements of Changes in Equity and Cash Flow Statements for the year then ended, and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Financial Statements of the subsidiary was audited by a firm of Chartered Accountants in public practice appointed by the members of 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 31st December 2016 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Opinion – Group

In my opinion, the Consolidated Financial Statements give a true and fair view of the financial position of the Bank and its subsidiary as at 31st December 2016 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.M. Gamini Wijesinghe
 Auditor General

Statement of Comprehensive Income

| For the year ended 31st December | Note | Bank | | | Group | | |
|---|------|------------------|------------------|-------------|------------------|------------------|-------------|
| | | 2016 Rs. '000 | 2015 Rs. '000 | Change % | 2016 Rs. '000 | 2015 Rs. '000 | Change % |
| Gross income | 3 | 87,399,144 | 79,282,222 | 10 | 88,038,610 | 79,890,224 | 10 |
| Interest income | | 86,390,039 | 78,128,498 | 11 | 87,142,784 | 78,747,364 | 11 |
| Less: Interest expenses | | 60,923,221 | 51,145,994 | 19 | 61,453,898 | 51,486,547 | 19 |
| Net interest income | 4 | 25,466,818 | 26,982,504 | (6) | 25,688,886 | 27,260,817 | (6) |
| Fee and commission income | | 650,164 | 475,374 | 37 | 651,160 | 477,214 | 36 |
| Less: Fee and commission expenses | | 137,432 | 111,135 | 24 | 140,122 | 112,109 | 25 |
| Net fee and commission income | 5 | 512,732 | 364,239 | 41 | 511,038 | 365,105 | 40 |
| Net gain/(loss) from trading | 6 | (39,270) | 297,847 | (113) | (136,897) | 301,417 | (145) |
| Net gain/(loss) from financial instruments designated at fair value through profit or loss | 7 | - | - | - | - | - | - |
| Net gain/(loss) from financial investments | 8 | 40,923 | 27,838 | 47 | 40,923 | 27,838 | 47 |
| Other operating income (net) | 9 | 357,288 | 352,665 | 1 | 340,640 | 336,391 | 1 |
| Total operating income | | 26,338,490 | 28,025,094 | (6) | 26,444,590 | 28,291,568 | (7) |
| Less: Impairment charge for loans and other losses | 10 | (99,693) | 2,139,553 | (105) | (99,693) | 2,139,553 | (105) |
| Net operating income | | 26,438,183 | 25,885,541 | 2 | 26,544,283 | 26,152,015 | 1 |
| Less: Expenses | | | | | | | |
| Personnel expenses | 11 | 6,235,370 | 5,910,552 | 5 | 6,266,515 | 5,937,068 | 6 |
| Other expenses | 12 | 4,108,538 | 4,504,120 | (9) | 4,068,918 | 4,469,936 | (9) |
| Operating profit before value added tax (VAT) and nation building tax (NBT) | | 16,094,275 | 15,470,869 | 4 | 16,208,850 | 15,745,011 | 3 |
| Less: Value added tax on financial services | | 2,405,618 | 2,062,246 | 17 | 2,423,091 | 2,092,524 | 16 |
| Nation building tax on financial services | | 385,670 | 374,954 | 3 | 388,482 | 380,456 | 2 |
| Operating profit after value added tax (VAT) and nation building tax (NBT) | | 13,302,987 | 13,033,669 | 2 | 13,397,277 | 13,272,031 | 1 |
| Profit before income tax | | 13,302,987 | 13,033,669 | 2 | 13,397,277 | 13,272,031 | 1 |
| Less: Income tax expenses | 13 | 3,805,271 | 4,361,355 | (13) | 3,834,995 | 4,439,799 | (14) |
| Profit for the year | | 9,497,716 | 8,672,314 | 10 | 9,562,282 | 8,832,232 | 8 |
| Profit attributable to: | | | | | | | |
| Equity holders of the Bank | | 9,497,716 | 8,672,314 | 10 | 9,562,282 | 8,832,232 | 8 |
| Profit for the year | | 9,497,716 | 8,672,314 | 10 | 9,562,282 | 8,832,232 | 8 |
| Earnings per share on profit | | | | | | | |
| Basic earnings per ordinary share (Rs.) | 14 | 29.68 | 27.10 | 10 | 29.88 | 27.60 | 8 |
| Diluted earnings per ordinary share (Rs.) | | 29.68 | 27.10 | 10 | 29.88 | 27.60 | 8 |

Statement of Comprehensive Income

| For the year ended 31st December | Note | Bank | | | Group | | |
|---|------|-------------------|------------------|-------------|-------------------|------------------|-------------|
| | | 2016 Rs. '000 | 2015 Rs. '000 | Change % | 2016 Rs. '000 | 2015 Rs. '000 | Change % |
| Profit for the year | | 9,497,716 | 8,672,314 | 10 | 9,562,282 | 8,832,232 | 8 |
| Other comprehensive income, net of tax | | | | | | | |
| Other comprehensive income to be reclassified to Income Statement | | | | | | | |
| Net gains/(losses) on cash flow hedges | | (137,256) | 144,610 | (195) | (137,256) | 144,610 | (195) |
| Net gains/(losses) on re-measuring available-for-sale financial assets | | (299,996) | 456,740 | (166) | (402,955) | 277,639 | (245) |
| Fair value gains transferred to the Income Statement on disposal of available-for-sale financial assets | | 46,952 | (24,297) | 293 | 46,952 | (24,297) | 293 |
| Total other comprehensive income to be reclassified to Income Statement | | (390,300) | 577,053 | (168) | (493,259) | 397,952 | (224) |
| Other comprehensive income not to be reclassified to Income Statement | | | | | | | |
| Net gains/(losses) on revaluation of property, plant & equipment | | - | 1,231,119 | (100) | - | 1,231,119 | (100) |
| Actuarial gains/(losses) on retirement benefit plans | | 2,379,307 | (452,002) | 626 | 2,379,640 | (451,624) | 627 |
| Total other comprehensive income not to be reclassified to Income Statement | | 2,379,307 | 779,117 | 205 | 2,379,640 | 779,495 | 205 |
| Other comprehensive income for the year, net of taxes | | 1,989,007 | 1,356,170 | 47 | 1,886,381 | 1,177,447 | 60 |
| Total comprehensive income for the year | | 11,486,723 | 10,028,484 | 15 | 11,448,663 | 10,009,679 | 14 |
| Attributable to: | | | | | | | |
| Equity holders of the Bank | | 11,486,723 | 10,028,484 | 15 | 11,448,663 | 10,009,679 | 14 |
| Total comprehensive income for the year | | 11,486,723 | 10,028,484 | 15 | 11,448,663 | 10,009,679 | 14 |

The Notes to the Financial Statements disclosed on pages 205 to 310 are integral parts of these Financial Statements.

Statement of Financial Position

| As at 31st December | Note | Bank | | | Group | | |
|--|------|--------------------|--------------------|-------------|--------------------|--------------------|-------------|
| | | 2016 Rs. '000 | 2015 Rs. '000 | Change % | 2016 Rs. '000 | 2015 Rs. '000 | Change % |
| Assets | | | | | | | |
| Cash and cash equivalents | 16 | 4,619,699 | 3,240,253 | 43 | 4,627,629 | 3,247,469 | 42 |
| Balances with central banks | 17 | - | - | - | 477 | 729 | (35) |
| Placements with banks | 18 | 19,013,572 | 12,626,509 | 51 | 19,013,572 | 12,626,509 | 51 |
| Derivative financial instruments | 19 | 2,728,445 | 3,735,284 | (27) | 2,728,445 | 3,735,284 | (27) |
| Other financial assets held-for-trading | 20 | 20,290,588 | 13,542,721 | 50 | 27,303,207 | 17,804,872 | 53 |
| Financial assets designated at fair value through profit or loss | 21 | - | - | - | - | - | - |
| Loans and receivables to banks | 22 | 31,834,072 | 23,717,823 | 34 | 31,834,072 | 23,735,825 | 34 |
| Loans and receivables to other customers | 23 | 291,976,942 | 248,032,842 | 18 | 291,178,121 | 248,037,737 | 17 |
| Financial investments – available-for-sale | 24 | 6,227,764 | 4,385,767 | 42 | 8,122,516 | 6,407,037 | 27 |
| Financial investments – held-to-maturity | 25 | 505,824,398 | 515,302,705 | (2) | 507,624,954 | 517,514,189 | (2) |
| Investments in subsidiaries | 26 | 150,000 | 150,000 | - | - | - | - |
| Property, plant & equipment | 27 | 7,119,651 | 6,967,070 | 2 | 7,121,823 | 6,969,292 | 2 |
| Intangible assets | 28 | 157,271 | 57,857 | 172 | 157,271 | 57,857 | 172 |
| Deferred tax assets | 29 | - | - | - | 588 | 228 | 158 |
| Other assets | 30 | 21,761,440 | 16,320,181 | 33 | 21,890,777 | 16,347,180 | 34 |
| Total assets | | 911,703,842 | 848,079,011 | 8 | 921,603,453 | 856,484,208 | 8 |
| Liabilities | | | | | | | |
| Due to banks | 31 | 115,391 | 75,093 | 54 | 2,858,673 | 110,196 | 2,494 |
| Due to other customers | 32 | 657,280,315 | 595,775,709 | 10 | 657,280,315 | 595,775,709 | 10 |
| Other borrowings | 33 | 207,039,909 | 207,025,525 | 0.01 | 212,629,427 | 213,703,431 | (1) |
| Current tax liabilities | | - | - | - | 17,153 | 99,409 | (83) |
| Deferred tax liabilities | 29 | 416,180 | 504,423 | (17) | 416,180 | 504,423 | (17) |
| Other liabilities | 34 | 8,600,056 | 12,274,434 | (30) | 8,608,506 | 12,286,296 | (30) |
| Subordinated liabilities | 35 | 6,006,411 | - | 100 | 6,006,411 | - | 100 |
| Total liabilities | | 879,458,262 | 815,655,184 | 8 | 887,816,665 | 822,479,464 | 8 |
| Equity | | | | | | | |
| Stated capital/Assigned capital | 36 | 6,200,000 | 3,200,000 | 94 | 6,200,000 | 3,200,000 | 94 |
| Statutory reserve fund | 37 | 2,522,467 | 2,047,581 | 23 | 2,522,467 | 2,047,581 | 23 |
| Retained earnings | | 2,379,307 | - | 100 | 3,708,614 | 1,285,911 | 188 |
| Other reserves | 38 | 21,143,806 | 27,176,246 | (22) | 21,355,707 | 27,471,252 | (22) |
| Total equity of the owners of the Parent | | 32,245,580 | 32,423,827 | (1) | 33,786,788 | 34,004,744 | (1) |
| Total equity | | 32,245,580 | 32,423,827 | (1) | 33,786,788 | 34,004,744 | (1) |
| Total equity and liabilities | | 911,703,842 | 848,079,011 | 8 | 921,603,453 | 856,484,208 | 8 |
| Contingent liabilities and commitments | 39 | 24,970,060 | 35,037,809 | (29) | 24,970,060 | 35,037,809 | (29) |

The Notes to the Financial Statements disclosed on pages 205 to 310 are integral parts of these Financial Statements.

*Statement of Financial Position***Certification**

I certify that the above Financial Statements give a true and fair view of the state of affairs of National Savings Bank and the Group as at 31st December 2016 and its profit for the year ended.


K.B. Wijeyaratne

Deputy General Manager (Finance and Planning)

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board,


Aswin De Silva

Chairman


D.L.P.R. Abeyaratne

Director


S.D.N. Perera

General Manager/CEO

28th March 2017

Colombo

Statement of Changes in Equity

Bank →

| | Stated capital/ Assigned capital Rs. '000 | Statutory reserve fund Rs. '000 | Revaluation reserve Rs. '000 |
|---|---|---------------------------------------|------------------------------------|
| Balance as at 1st January 2015 | 3,200,000 | 1,874,135 | 2,065,446 |
| Profit for the year 2015 | - | - | - |
| Other comprehensive income (net of tax) | - | - | 1,231,119 |
| Total comprehensive income for the year | - | - | 1,231,119 |
| Transaction with equity holders, recognised directly in equity | | | |
| Transfers to reserves during the period | - | 173,446 | - |
| Contribution to consolidated fund/dividend | - | - | - |
| Contribution to national insurance trust fund | - | - | - |
| Transfers to unclaimed deposits reserve | - | - | - |
| Total transactions with equity holders | - | 173,446 | - |
| Balance as at 31st December 2015 | 3,200,000 | 2,047,581 | 3,296,565 |
| Profit for the year 2016 | - | - | - |
| Other comprehensive income (net of tax) | - | - | - |
| Total comprehensive income for the year | - | - | - |
| Transaction with equity holders, recognised directly in equity | | | |
| Transfers to/from reserves during the period | - | 474,886 | - |
| Contribution to consolidated fund – dividend/levy | - | - | - |
| Contribution to national insurance trust fund | - | - | - |
| Transfers to unclaimed deposits reserve/issued share capital | 3,000,000 | - | - |
| Total transactions with equity holders | 3,000,000 | 474,886 | - |
| Balance as at 31st December 2016 | 6,200,000 | 2,522,467 | 3,296,565 |

Statement of Changes in Equity

| Available-for-sale reserve Rs. '000 | Cash flow hedging reserve Rs. '000 | Other reserves Rs. '000 | Retained earnings Rs. '000 | Total equity Rs. '000 |
|---|--|----------------------------|-------------------------------|--------------------------|
| 1,199,419 | (5,504) | 13,886,361 | - | 22,219,861 |
| - | - | - | 8,672,314 | 8,672,314 |
| 432,443 | 144,610 | - | (452,002) | 1,356,170 |
| 432,443 | 144,610 | - | 8,220,312 | 10,028,484 |
| - | - | 5,163,102 | (5,336,549) | - |
| - | - | - | (2,800,000) | (2,800,000) |
| - | - | - | (83,763) | (83,763) |
| - | - | 3,059,246 | - | 3,059,246 |
| - | - | 8,222,348 | (8,220,312) | 175,483 |
| 1,631,862 | 139,106 | 22,108,709 | - | 32,423,827 |
| - | - | - | 9,497,716 | 9,497,716 |
| (253,044) | (137,256) | - | 2,379,307 | 1,989,007 |
| (253,044) | (137,256) | - | 11,877,023 | 11,486,723 |
| - | - | (3,098,147) | 2,623,262 | - |
| - | - | - | (12,026,000) | (12,026,000) |
| - | - | - | (94,977) | (94,977) |
| - | - | (2,543,992) | - | 456,008 |
| - | - | (5,642,139) | (9,497,716) | (11,664,969) |
| 1,378,818 | 1,850 | 16,466,570 | 2,379,307 | 32,245,580 |

Statement of Changes in Equity

Group →

| | Stated capital/ Assigned capital Rs. '000 | Statutory reserve fund Rs. '000 | Revaluation reserve Rs. '000 |
|---|---|---------------------------------------|------------------------------------|
| Balance as at 1st January 2015 | 3,200,000 | 1,874,135 | 2,065,446 |
| Prior year adjustments * | - | - | - |
| Profit for the year 2015 | - | - | - |
| Other comprehensive income (net of tax) | - | - | 1,231,119 |
| Total comprehensive income for the year | - | - | 1,231,119 |
| Transaction with equity holders, recognised directly in equity | | | |
| Transfers to/from reserves during the period | - | 173,446 | - |
| Contribution to consolidated fund/dividend | - | - | - |
| Contribution to national insurance trust fund | - | - | - |
| Transfers to unclaimed deposits reserve | - | - | - |
| Total transactions with equity holders | - | 173,446 | - |
| Balance as at 31st December 2015 | 3,200,000 | 2,047,581 | 3,296,565 |
| Profit for the year 2016 | - | - | - |
| Other comprehensive income (net of tax) | - | - | - |
| Total comprehensive income for the year | - | - | - |
| Transaction with equity holders, recognised directly in equity | | | |
| Transfers to/from reserves during the period | - | 474,886 | - |
| Contribution to consolidated fund – dividend/levy | - | - | - |
| Contribution to national insurance trust fund | - | - | - |
| Transfers to unclaimed deposits reserve/issued share capital | 3,000,000 | - | - |
| Total transactions with equity holders | 3,000,000 | 474,886 | - |
| Balance as at 31st December 2016 | 6,200,000 | 2,522,467 | 3,296,565 |

The Notes to the Financial Statements disclosed on pages 205 to 310 are integral parts of these Financial Statements.

* Please refer Note 47.3. Prior year adjustment of Subsidiary Company

Statement of Changes in Equity

| Available-for-sale reserve Rs. '000 | Cash flow hedging reserve Rs. '000 | Other reserves Rs. '000 | Retained earnings Rs. '000 | Total equity Rs. '000 |
|---|--|----------------------------|-------------------------------|--------------------------|
| 1,199,419 | (5,504) | 15,541,616 | - | 23,875,116 |
| - | - | - | (53,931) | (53,931) |
| - | - | - | 8,832,232 | 8,832,232 |
| 253,342 | 144,610 | - | (451,624) | 1,177,447 |
| 253,342 | 144,610 | - | 8,326,676 | 9,955,747 |
| - | - | 3,981,955 | (4,155,402) | - |
| - | - | - | (2,801,600) | (2,801,600) |
| - | - | - | (83,763) | (83,763) |
| - | - | 3,059,246 | - | 3,059,246 |
| - | - | 7,041,201 | (7,040,765) | 173,883 |
| 1,452,761 | 139,106 | 22,582,817 | 1,285,911 | 34,004,744 |
| - | - | - | 9,562,282 | 9,562,282 |
| (356,003) | (137,256) | - | 2,379,640 | 1,886,381 |
| (356,003) | (137,256) | - | 11,941,922 | 11,448,663 |
| - | - | (3,078,293) | 2,603,408 | - |
| - | - | - | (12,027,650) | (12,027,650) |
| - | - | - | (94,977) | (94,977) |
| - | - | (2,543,992) | - | 456,008 |
| - | - | (5,622,285) | (9,519,219) | (11,666,619) |
| 1,096,758 | 1,850 | 16,960,532 | 3,708,614 | 33,786,788 |

Statement of Cash Flows

| For the year ended 31st December | Note | Bank | | Group | |
|---|------|--------------------|---------------------|--------------------|---------------------|
| | | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Cash Flows from Operating Activities | | | | | |
| Profit before tax | | 13,302,987 | 13,033,669 | 13,397,277 | 13,272,031 |
| Adjustment for: | | | | | |
| Non-cash items included in profit before tax | 42 | 1,153,639 | 2,823,332 | 1,271,628 | 2,823,669 |
| Change in operating assets | 43 | (54,762,416) | (64,937,239) | (56,499,933) | (63,939,206) |
| Change in operating liabilities | 44 | 61,611,498 | 43,511,318 | 64,316,597 | 42,937,915 |
| Placements with banks | | (6,387,063) | (2,980,888) | (6,387,063) | (2,980,888) |
| Contribution paid to defined benefit plans | | (1,390,261) | (649,054) | (1,390,261) | (649,054) |
| Tax paid | | (3,893,514) | (4,126,686) | (4,005,853) | (4,245,788) |
| Super gain tax paid | | - | (1,040,362) | - | (1,149,899) |
| Contribution to national insurance trust fund | | (104,375) | (89,949) | (104,375) | (89,949) |
| Dividends received from investment in subsidiaries | | (14,850) | (14,400) | - | - |
| Net cash generated in operating activities | | 9,515,645 | (14,470,259) | 10,598,017 | (14,021,169) |
| Cash Flows from Investing Activities | | | | | |
| Purchase of property, plant & equipment | | (450,150) | (480,395) | (450,732) | (482,067) |
| Proceeds from the sale of property, plant & equipment | | 1,948 | 913 | 1,948 | 913 |
| Net (increase)/decrease in investment in available-for-sale | | (2,052,611) | 111,469 | (2,029,052) | (2,087,902) |
| Net purchase of intangible assets | | (134,926) | (30,059) | (134,926) | (30,059) |
| Net increase/(decrease) in unclaimed reserve fund | | 456,008 | 3,059,246 | 456,008 | 3,059,246 |
| Dividends received from investment in subsidiaries | | 14,850 | 14,400 | - | - |
| Net cash from investing activities | | (2,164,881) | 2,675,574 | (2,156,754) | 460,131 |
| Cash Flows from Financing Activities | | | | | |
| Other borrowings | | 14,384 | 15,923,401 | (1,074,004) | 17,695,199 |
| Contribution to consolidated fund – dividend/levy | | (12,026,000) | (2,800,000) | (12,027,650) | (2,801,600) |
| Proceed from the issue of subordinated debt | | 6,000,000 | - | 6,000,000 | - |
| Net cash from financing activities | | (6,011,616) | 13,123,401 | (7,101,654) | 14,893,599 |
| Net (decrease)/increase in cash and cash equivalents | | 1,339,148 | 1,328,716 | 1,339,610 | 1,332,561 |
| Cash and cash equivalents at the beginning of the year | | 3,165,160 | 1,836,444 | 3,173,105 | 1,840,544 |
| Cash and cash equivalents at the end of the year | | 4,504,308 | 3,165,160 | 4,512,715 | 3,173,105 |
| Reconciliation of cash and cash equivalents | | | | | |
| Cash in hand | | 691,527 | 600,185 | 691,537 | 600,195 |
| Balances with banks | | 3,881,589 | 2,548,571 | 3,889,509 | 2,555,777 |
| Money at call and short notice | | 46,583 | 91,497 | 46,583 | 91,497 |
| Balances with central banks | | - | - | 477 | 729 |
| Due to Banks – Other facilities | | (115,391) | (75,093) | (115,391) | (75,093) |
| Cash and cash equivalents at the end of the year | | 4,504,308 | 3,165,160 | 4,512,715 | 3,173,105 |

The Notes to the Financial Statements disclosed on pages 205 to 310 are integral parts of these Financial Statements.

Notes to the Financial Statements

1. Reporting Entity →

1.1 Corporate Information →

National Savings Bank (NSB) is a licensed specialised bank incorporated in 1972 under the National Savings Bank Act No. 30 of 1971 and domiciled in Sri Lanka. The registered office of the Bank is located at No. 255, 'Saving House', Galle Road, Colombo 03, Sri Lanka.

The staff strength of the Bank as at 31st December 2016 was 4,384 (2015 – 3,636).

The Bank possesses 250 Branches, 2,858 School bank units and 279 ATMs of its service outlets and 651 Post Offices and 3,410 Sub-Post Offices as its agency network.

1.2 Consolidated Financial Statements →

The Consolidated Financial Statements for the year ended 31st December 2016 comprise the Bank (Parent) and its fully-owned Subsidiary, NSB Fund Management Company Ltd.

The Bank is fully-owned by the Government of Sri Lanka. The Bank is the ultimate Parent of the Group.

The Financial Statements of the Bank and its Subsidiary have a common financial year which ends on 31st December.

The Financial Statements of the 'Bank' and the 'Group' are prepared for the twelve months period ended 31st December each year to be table in the Parliament.

1.3 Principal Activities and Nature of Operations →

Bank

The principal activities of the Bank continued to be the promotion of savings among the people of Sri Lanka and profitable investment of savings so mobilised. NSB is providing a wide range of solutions such as accepting

deposits, corporate and retail credit, trade financing, loan to government project, pawning, internet banking, SMS banking etc.

Subsidiary

Bank's fully-owned Subsidiary, namely, NSB Fund Management Company Ltd., acts as a primary dealer and engaged in dealing in Government Securities.

1.4 Basis of Preparation →

1.4.1 Statement of Compliance

The Financial Statements of the Bank and the Group which comprise Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements have been prepared and presented in accordance with Sri Lanka Accounting Standards (LKASs and SLFRSs) issued by The Institute of Chartered Accountants of Sri Lanka and are in compliance with the information required by the Banking Act No. 30 of 1988 and subsequent amendments thereto. These Financial Statements, except for the information in cash flow have been prepared following the accrual basis of accounting.

The formats used in the preparation of Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka for the preparation, presentation and publication of Annual Audited Financial Statements of Licensed Specialised Banks.

1.4.2 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Group and the Bank as per the provisions of the National Savings Bank Act No. 30 of 1971 and amendments thereto and Sri Lanka Accounting Standards.

1.4.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Bank and the Group for the year ended 31st December 2016 were approved on 28th March 2017, by the Board of Directors.

1.4.4 Basis of Measurement

The Consolidated Financial Statements have been prepared on a historical cost basis, except for the following material items, which are measured at fair value:

- (i) Available-for-sale investments,
- (ii) Derivative financial instruments,
- (iii) Other financial assets and liabilities held-for-trading,
- (iv) Financial assets and liabilities designated at fair value through profit or loss,
- (v) Land and buildings,
- (vi) Liability for employee defined benefits.

1.4.5 Functional and Presentation Currency

The Consolidated Financial Statements are presented in Sri Lankan Rupees (Rs.) which is the currency of the primary economic environment in which Group operates and all values are rounded to the nearest thousand Rupees, unless indicated otherwise.

1.4.6 Presentation of Financial Statements

The assets and liabilities of the Bank and the Group presented in the Statement of Financial Position are grouped by their nature and listed in the order of their relative liquidity and maturity pattern. An analysis of maturity patterns of assets and liabilities of the Bank and the Group is presented in Note 49.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if and only if there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability

simultaneously. Income and expenses are not offset in the Income Statement unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies of the Group.

1.4.7 Materiality and Aggregation

Each material class of similar items are presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard – LKAS 01 on 'Presentation of Financial Statements'.

1.4.8 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The comparative information is reclassified where necessary for the better presentation and to conform to the current year's presentation. The details are given in Note 47 to the Financial Statements on page 290.

1.4.9 Significant Accounting Judgments, Estimates and Assumptions

The preparation of Financial Statements of the Group and the Bank in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The significant areas of estimation, critical judgments and assumptions in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Group and the Bank are as follows:

1.4.9.1 Going Concern

The Board of Directors/Management of the Bank has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements are prepared on the going concern basis.

1.4.9.2 Fair Value of Financial Instruments

Where the fair value of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using the valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

Methodologies used for valuation of financial instruments and Fair Value Hierarchy are described in more detail in Note 51 to the Financial Statements on page 305.

1.4.9.3 Impairment Losses on Loans and Receivables

The Group reviews its individually significant loans and advances at each Reporting date to assess whether an impairment loss should be recorded in the Income Statement. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on the assumptions about number of factors and the actual results may differ, resulting in future changes to the allowance made.

Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively, by categorising them into groups of assets with similar risk characteristics, to determine whether provision is required due to incurred loss events for which there is objective evidence, but whose effects are not yet evident. The collective assessment takes account of data from the

loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.) and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

Impairment of financial assets is further discussed in Note 2.3.6. in page 213.

1.4.9.4 Impairment of Financial Investments – Available-for-Sale

The Group reviews its debt securities classified as available-for-sale investments at each Reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

1.4.9.5 Revaluation of Property, Plant & Equipment

The freehold land and buildings of the Bank and the Group are reflected at revalued amounts. The Group engaged independent professional valuers to determine fair value the freehold land and buildings in terms of Sri Lanka Accounting Standard SLFRS 13 – 'Fair Value Measurement'.

The methods and key assumptions used to determine the fair value of the freehold land and buildings are further explained in Note 2.4 to the Financial Statements.

1.4.9.6 Useful Life time of Property, Plant & Equipment

The Group review the residual values, useful lives and methods of depreciation of Property, Plant & Equipment at each Reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

1.4.9.7 Deferred Tax Asset

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with the future tax-planning strategies.

1.4.9.8 Defined Benefit Obligation

The cost of the defined benefit plans and the present value of their obligations are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates and expected future salary increase rate of the Bank.

Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

1.4.9.9 Provisions, Commitments and Contingencies

The Group receives legal claims against it in the normal course of business. Management makes judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdiction.

2. Significant Accounting Policies →

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, unless otherwise indicated. The accounting policies of the Bank are also consistently applied by the Group entities where applicable and deviations if any have been disclosed accordingly.

2.1 Basis of Consolidation →

The Financial Statements of the Bank and the Group comprise the Financial Statements of the Bank and its Subsidiary in terms of the SLFRS 10 – ‘Consolidated Financial Statements’ and LKAS 27 – ‘Separate Financial Statements’.

2.1.1 Subsidiary

The Financial Statements of the Subsidiary is fully-consolidated from the date on which control is transferred to the Bank and continued to be consolidated until the date when such control ceases. The Control exists where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Financial Statements of the Bank’s Subsidiary for the purpose of consolidation are prepared for the same Reporting period as that of National Savings Bank, using consistent accounting policies.

2.1.2 Transactions Eliminated on Consolidation

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full in preparing the Consolidated Financial Statements.

2.2 Foreign Currency Transactions and Balances →

All foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates on which the transactions were affected.

Monetary assets and liabilities denominated in foreign currencies at the Reporting date are retranslated to Sri Lankan Rupees using the middle exchange rate ruling at that date. All exchange differences arising on the settlement of monetary items or on translating monetary items at rates different to those at which they are initially recorded are recognised in the Income Statement in the period in which they arise.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined.

The Statement of Financial Position of Foreign Currency Banking Unit is translated to Sri Lankan Rupees at the middle rate of exchange ruling at the Reporting date. The transactions of the Foreign Currency Banking Unit have been recorded in accordance with the above policy and the resulting gains/losses are recognised in the Income Statement.

2.3 Financial Instruments →

2.3.1 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

i. Date of Recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument.

Government Securities are recognised in the books of accounts on the settlement date which falls due after three days from the date of trade. The position is rectified at the date of reporting in preparation of the Financial Statements.

ii. Recognition and Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics.

All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instrument, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss, as per Sri Lanka Accounting Standards – LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Transaction costs in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through profit or loss.

iii. 'Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or fair value based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Interest Income and Personnel Expenses'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Statement of Comprehensive Income when the inputs become observable or when the instrument is derecognised. The 'Day 1' loss arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

2.3.2 Classification and Subsequent Measurement of Financial Assets

At inception a financial asset is classified in one of the following categories:

- Financial assets at fair value through profit or loss
 - (a) Financials assets held-for-trading
 - (b) Financials assets designated at fair value through profit or loss
- Held-to-maturity financial assets
- Loans and receivables
- Available-for-sale financial assets

The subsequent measurement of financial assets depends on their classification.

Detailed analysis of classification and subsequent measurement of financial assets is given in Note 15 on page 230.

2.3.2.1 Financial Assets at Fair Value through Profit or Loss (FVTPL)

Financial assets at fair value through profit or loss include financial assets held-for-trading and financial assets designated at fair value through profit or loss.

(a) Financials Assets Held-for-Trading

Details of financial assets held-for-trading are given in Note 20 on page 239.

Derivatives Recorded at Fair Value through Profit or Loss

Details of derivatives recorded at fair value through profit or loss are discussed in Note 19 on page 235.

Derivatives used as Hedge Instruments

Details of derivatives used as hedge instruments are given in Note 19 on page 235.

(b) Financial Assets Designated at Fair Value through Profit or Loss

The Group has not designated any financial assets upon initial recognition on designated at fair value through profit or loss.

2.3.2.2 Held-to-Maturity Financial Investments

Details of held-to-maturity financial investments are given in Note 25 on page 252.

2.3.2.3 Loans and Receivables to Banks and Other Customers

Details of loans and receivables to banks and other customers are given in Note 22 and Note 23 respectively on page 244 and 245.

(i) Securities Purchased under Resale Agreements

Securities purchased under agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'securities purchased under resale agreements', reflecting the transaction's economic substance as a loan granted by the Group. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR.

Details of securities purchased under resale agreements are given in Note 22 and Note 23, respectively on page 244 and 245.

2.3.2.4 Available-for-Sale Financial Investments (AFS)

Details of available-for-sale financial investments are given in Note 24 on page 249.

2.3.2.5 Cash and Cash Equivalents

Details of cash and cash equivalents are given in Note 16 on page 234.

2.3.3 Classification and Subsequent Measurement of Financial Liabilities

At the inception the Group determines the classification of its financial liabilities into one of the following categories:

- Financial liabilities at fair value through profit or loss (FVTPL):
 - (a) Financial liabilities held-for-trading
 - (b) Financial liabilities designated at fair value through profit or loss
- Financial liabilities at amortised cost

The subsequent measurement of financial liabilities depends on their classification. Please refer Notes 2.3.3.1 and 2.3.3.2 as detailed below:

2.3.3.1 Financial Liabilities at Fair Value through Profit or Loss (FVTPL)

Financial liabilities at FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value and changes therein recognised in profit or loss.

Financial liabilities are classified as held-for-trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. This category includes derivatives financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by the Sri Lanka Accounting Standard – LKAS 39 on Financial Instruments: Recognition and Measurement.

Gains or losses on liabilities held-for-trading are recognised in the Income Statement.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

2.3.3.2 Financial Liabilities at Amortised Cost

Financial Instruments issued by the Group that are not designated at fair value through profit or loss, are classified as liabilities under 'due to banks', 'due to other customers', 'securities sold under repurchase agreements' and 'debt issued and other borrowed funds' as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares at amortised cost using the EIR method.

After initial recognition, such financial liabilities are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Income Statement. Gains and losses are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

(i) Due to Banks

Details of Due to banks are given in Note 31 on page 263.

(ii) Due to Other Customers

Details of Due to other customers are given in Note 32 on page 263.

(iii) Securities Sold under Repurchase Agreements

Details of securities sold under repurchase agreements are given in Note 33 on page 265.

(iv) Other Borrowings – Debt Securities Issued

Details of other borrowings – debt securities issued are given in Note 33 on page 265.

(v) Subordinate Liabilities

Details of 'subordinated liabilities' are given in Note 35 on page 277.

2.3.4 Reclassification of Financial Instruments

The Group reclassifies non-derivative financial assets out of the 'held-for-trading' category and into the 'available-for-sale', 'loans and receivables' or 'held-to-maturity' categories as permitted by the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'. In certain circumstances the Group is also permitted to reclassify financial assets out of the 'available-for-sale' category and into the 'loans and receivables', 'held-for-trading' or 'held-to-maturity' category.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset with a fixed maturity reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate (EIR). Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR.

In the case of a financial asset does not have a fixed maturity, the gain or loss is recognised in the profit or loss when such financial asset is sold or disposed of. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the Income Statement.

The Group may reclassify a non-derivative trading asset out of the 'held-for-trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis.

The Group does not reclassify any financial instrument into the 'fair value through profit or loss' category after initial recognition. Also the Group does not reclassify any financial instrument out of the 'fair value through profit or loss' category if upon initial recognition it was designated as at fair value through profit or loss.

2.3.5 Derecognition of Financial Instruments (b) Financial Liabilities

(a) Financial Assets

The Group derecognises a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either the Group has transferred substantially all the risks and rewards of the asset or the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

2.3.6 Impairment of Financial Assets

The Group assesses at each Reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has a impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Objective evidence of impairment includes indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial restructuring, default or delinquency in interest or principal payments and also other observable data indicating that there is a measurable decrease in the estimated future cash flows or economic conditions that correlate with defaults.

Objective evidence that financial assets (including equity securities) are impaired can include –

- Significant financial difficulty of the borrower or issuer,
- Rescheduling of credit facilities,
- Adverse financial ratio and gearing ratios
- Downgrading of the external credit rating
- Default or delinquency by a borrower,
- Restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider,
- Indications that a borrower or issuer will enter bankruptcy,
- The disappearance of an active market for a security, or
- Other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group or economic conditions that correlate with defaults in the Group.

In general, the Group considers a decline of 20% to be 'significant' and a period of six months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

i. Impairment of Financial Assets Carried at Amortised Cost

Details of the individual and collective assessment of impairments are given in Note 10 on page 224.

ii. Impairment of Available-for-Sale Financial Investments

Detailed discussion on impairment of available-for-sale financial investments is given in Note 24 on page 249.

2.3.7 Recognition of Income and Expenses for Financial Instruments

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Details of 'income and expenses' are given in Notes 3 to 14 on pages 220 to 229.

i. Interest and Similar Income and Expense

Details of 'interest income and expenses' are given in Notes 3 and 4 on pages 220 to 222.

ii. Fee and Commission Income

Details of 'commission income and expenses' are given in Note 5 on page 222.

iii. Net Trading Income

Details of 'net gains/(losses) from trading' are given in Note 6 on page 223.

iv. Dividend Income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Details of 'dividend income' is given in Note 9 on page 224.

2.4 Property, Plant & Equipment (PPE) →

Details of Property, Plant & Equipment are given in Note 27 on page 254.

2.5 Intangible Assets →

Details of intangible assets are given in Note 28 on page 260.

2.6 Impairment of Non-Financial Assets →

The Group assess at each Reporting date whether there is an indication that an asset other than deferred tax asset, may be impaired. If any indication exists or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.7 Employee Benefits →

2.7.1 Defined Benefit Pension Plans

2.7.1.1 Staff Pension Fund I

The Bank operates a defined benefit pension plan, for the permanent staff members who have joined the Bank prior to 1st October 1995, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit pension plan – I is determined using the Projected Unit Credit actuarial valuation method. Actuarial gains and losses are recognised in the Other Comprehensive Income in the period in which they arise.

The defined benefit asset or liability is calculated as the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of planned assets out of which the obligations are to be settled directly, less actuarial losses not yet recognised. The value of the defined benefit liability is borne by the Bank and recognised in the profit or loss. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The latest actuarial valuation was carried out as of 31st December 2016, by Piyal S. Gunatilleke F.S.A. (USA), Member of the American Academy of Actuaries and Consulting Actuaries.

The principal financial assumptions used in the valuation as at 31st December 2016 are as follows:

| | |
|---------------------------------------|-------------|
| Interest/Discount Rate | 12.00% p.a. |
| Increase in Cost of Living Allowances | 4.50% p.a. |
| Increase in Average Basic Salary | 6.50% p.a. |

The assets of the fund are held separately from these of the Bank and are independently administrated by the Trustees as per the provisions of the Trust Deed and are subject to annual audit by Independent External Auditors. The Financial Statements as well as the Auditor's Report are tabled and reviewed by the Board of Trustees. They are also submitted for review of the disclosure of the Bank, as the

Bank has an obligation of ensuring that funding is made at optimum levels. Pension is payable monthly as long as the participant is alive.

Details of Staff Pension Fund I are given in Note 34. (a) 1. on pages 267 to 269.

2.7.1.2 Unfunded Pension Liability

The past service cost not funded is recognised in Other Comprehensive Income immediately upon actuarial valuation. The actuarial valuation as at 31st December 2016 indicated a past service cost deficit of Rs. 1,253 Million which has been provided in full. The details of Unfunded Pension Liability are given in Note 34. (a) 1.

2.7.1.3 Staff Pension Fund II

The Bank established and operates a defined benefit pension plan, for the permanent staff members who have joined the Bank on or after 1st October 1995, which requires the Bank to monthly contribute 12% of members' gross salary to a separately administered fund. The cost of providing benefits under the defined benefit pension plan is determined using the Projected Unit Credit actuarial valuation method. Actuarial gains and losses are recognised in the Other Comprehensive Income in the period in which they arise.

The defined benefit asset or liability is calculated as the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of planned assets out of which the obligations are to be settled directly, less actuarial losses not yet recognised. The value of the defined benefit liability is borne by the Bank and recognised in the profit or loss. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The latest actuarial valuation was carried out as of 31st December 2016, by Piyal S. Gunatilleke F.S.A. (USA), Member of the American Academy of Actuaries and Consulting Actuaries.

Notes to the Financial Statements

The principal financial assumptions used in the valuation as at 31st December 2016 are as follows:

| | |
|---------------------------------------|-------------|
| Interest/Discount Rate | 12.00% p.a. |
| Increase in Cost of Living Allowances | 4.50% p.a. |
| Increase in Average Basic Salary | 6.50% p.a. |

The assets of the fund are held separately from these of the Bank and are independently administrated by the Trustees as per the provisions of the Trust Deed and are subject to annual audit by Independent External Auditors. The Financial Statements as well as the Auditor's Report are tabled and reviewed by the Board of Trustees. They are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at optimum levels. Pension is payable monthly as long as the participant is alive.

Details of Staff Pension Fund II are given in Note 34. (a) 2. on pages 270 to 272.

2.7.1.4 Widows'/Widowers' and Orphans' Pension Fund

Effective from 2013 December, the Bank has established a 'Widows'/Widowers' and Orphans' Pension Scheme for the members of Pension Scheme II. Members of Pension Scheme II are opts for be members of the Widows'/Widowers' and Orphans' Pension Scheme. The Bank does not contribute to the Fund while Bank's employees monthly contribute 5% of their basic salary, to the Fund.

2.7.2 Gratuity

With the establishment of Staff Pension Scheme II, employees who joined the Bank on or after 1st October 1995 become members of the Pension Scheme II, thus they are not entitle to the rights and privileges under Service Gratuity Scheme. However, a minimum period of 120 months uninterrupted active service in the Bank at the time of retirement is required to be eligible for any retirement benefit under this Pension Scheme. Therefore, employees who retires before 10 years of service and whose services are terminated after five years other than by retirement are eligible to receive a terminal gratuity under the Payment of Gratuity Act No. 12 of 1983, at the rate of one-half of

the gross salary applicable to the last month of the financial year, for each year of continuous service.

Probability of occurrence of such event is rare according to management's judgment and past experiences. A gratuity provision is not maintained in the Financial Statements unless a significant liability is estimated at Reporting date. Where a gratuity is paid to an employee in such event under Payment of Gratuity Act No. 12 of 1983, it is recognised as a gratuity expense in the Income Statement in the same year.

2.7.3 Post-Employment Medical Benefits

The Bank has a contributory medical assistance scheme for the retired employees. The assets of the plan are held independently of the Bank's assets and administered by Boards of Trustees, representing the management and the employees, as provided in the trust deed of the fund.

The Bank contributes to the contributory medical scheme an amount determined by the Management of the Bank based on actuarial recommendation made from time to time. Accordingly, a sum of Rs. 71.7 Million has been provided from the profit of 2016.

Details of Post-Employment Medical Benefits are given in Note 34. (a) 3. on pages 273 to 274.

2.7.4 Defined Contribution Plans

Details of defined contribution plans are given in Note 11 on page 225.

2.8 Other Liabilities →

Details of other liabilities are given in Note 34 on page 266.

2.9 Provisions →

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expenses relating to any provision is presented in the Income Statement net of any reimbursement.

2.9.1 Provision for Fraudulent Withdrawals

The total value of fraudulent withdrawals identified as at 31st December 2016 was Rs. 95.5 Million. A provision of Rs. 89.18 Million already exists in the account.

2.10 Contingent Liabilities and Commitments →

Details of contingent liabilities and commitments are given in Note 39 on pages 282 to 283.

2.11 Taxation →**2.11.1 Current Taxation**

Details of current taxation are given in Note 13 on page 227.

2.11.2 Deferred Taxation

Details of deferred taxation are given in Note 13 and Note 29 on page 227 and page 262 respectively.

2.11.3 Value Added Tax on Financial Services (VAT)

VAT on financial services is calculated in accordance with Section 25 A of Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto.

VAT on financial services is payable at 11% and 15% on operating profit before value added tax and nation building tax on financial services adjusted for emoluments of employees and economic depreciation. VAT rate was applicable during the year as follows:

15% – 132 days
11% – 234 days

2.11.4 Nation Building Tax on Financial Services (NBT)

NBT on financial services is calculated in accordance with Nation Building Tax (Amendment) Act No. 10 of 2014. NBT on financial services is payable at 2% on same base subjected to value added tax on financial services.

2.11.5 Economic Service Charge (ESC)

Economic Service Charge (ESC) has been administered since 1st April 2006 under the Economic Service Charge (ESC) Act No. 13 of 2006, as amendments thereafter. Prior to this, it has been administered under Finance Acts 11 of 2004 and 11 of 2005 from 1st April 2004 up to 1st April 2006. The rate applicable is 0.25% on relevant turnover. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the five subsequent years. As per budget proposal 2017, the applicable rate is increased to 0.50% on relevant turnover and claimable period limited to 3 years including existing year effective from 1st January 2017.

As per the provisions of the Finance Act No. 11 of 2004 and amendments thereto, the ESC was introduced with effect from 1st April 2004. Currently, the ESC is payable at 0.25% on 'Exempt Turnover' and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the five subsequent years.

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. Cash and cash equivalents comprise short-term highly liquid investment that is readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in hand, balances with banks and money at call and short notice.

2.13 Regulatory Provisions →**2.13.1 Deposit Insurance Scheme**

The Bank calculates the insurance premium on eligible deposit base at the rate of 0.10% which is the applicable statutory rate based on capital adequacy ratio of the Bank. The Bank has remitted the applicable premium within a period of 15 days from the end of each quarter as stipulated by the Direction.

2.13.2 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1st April 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

2.14 Events after the Reporting Period →

Details of Events after Reporting date are given in Note 46 on page 289.

2.15 Accounting Standards Issued but not yet Effective as at Reporting Date →

The following SLFRSs have been issued by The Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these Financial Statements. Those SLFRs will have an effect on the accounting policies currently adopted by the Bank and the Group and may have an impact on the future Financial Statements.

2.15.1 Sri Lanka Accounting Standard (SLFRS 9) – Financial Instruments: Classification and Measurement

In July 2014, The Institute of Chartered Accountants of Sri Lanka issued SLFRS 9 – ‘Financial Instrument’ (On par with International Accounting Standards Board), the standard that will replace LKAS 39 for annual periods on or after 1st January 2018, with early adoption permitted. Bank performed the Diagnostic Phase (Impact Assessment exercise) and Identified following significant changes. Currently, the Bank is in the process of developing models/ solutions based on the diagnostic findings.

Impairment of Financial Asset

SLFRS 9 will fundamentally change the loan loss impairment methodology. The standard will replace LKAS 39’s incurred loss approach with a forward-looking expected loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at Fair Value through Profit and Loss (FVPL), together with loan commitments and financial guarantee contracts.

The impairment methodology under SLFRS 9 requires impairment to be assessed under 03 stages.

Stage 01

Under LKAS 39 the Bank has been recording an allowance for Incurred But Not Identified (IBNI) impairment losses. These are designed to reflect impairment losses that had been incurred in the performing portfolio but have not been identified. Under SLFRS 9, the impairment of financial assets that are not considered to have suffered a significant increase in their credit risk will be measured on a 12-month ECL basis.

Stage 02

SLFRS 9 requires financial assets to be classified in Stage 2 when their credit risk has increased significantly since their initial recognition. For these assets, a loss allowance needs to be recognised based on their lifetime ECLs. Since this is a new concept compared to LKAS 39, it will result in increased allowance as most such assets are not considered to be credit-impaired under LKAS 39.

Stage 03

Financial assets will be included in Stage 3 when there is objective evidence that the loan is credit impaired. Loans in Stage 03, where the Bank calculated the LKAS 39 impairment on an individual basis are not expected to be significantly different, but collateral values will be adjusted to reflect the amounts that can be expected to be realised.

Classification and Measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The LKAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI) and amortised cost.

The accounting for financial liabilities will largely be the same as the requirements of LKAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Bank is still in the process of finalising accounting gaps for Financial Assets classification.

2.15.2 Sri Lanka Accounting Standard SLFRS 15 – 'Revenue from Contracts with Customers'

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including Sri Lanka Accounting Standard LKAS 18 – 'Revenue', Sri Lanka Accounting Standard LKAS 11 – 'Construction Contracts' and IFRIC 13 – 'Customer Loyalty Programmes'. This standard is effective for the annual periods beginning on or after 1st January 2018.

The Bank and the Group will adopt these standards when they become effective. Pending the completion of detailed review, the financial impact is not reasonably estimable as at the date of publication of these Financial Statements.

2.15.3 Sri Lanka Accounting Standard SLFRS 16 – Leases

This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users

of Financial Statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. This Standard supersedes the following Standards and Interpretations:

- (a) LKAS 17 – 'Leases'
- (b) IFRIC 4 – 'Determining Whether an Arrangement Contains a Lease'
- (c) SIC 15 – 'Operating Leases – 'Incentives' and
- (d) SIC 27 – 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

An entity shall apply this Standard for annual reporting periods beginning on or after 1st January 2019. The Bank and the Group will adopt these Standards when they become effective. Pending the completion of detailed review, the financial impact is not reasonably estimable as at the date of publication of these Financial Statements.

2.15.4 Sri Lanka Accounting Standard 7 – 'Statement of Cash Flows'

The amendment requires an entity to disclose information that enables users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. These amendments are effective for annual periods beginning on or after 1st January 2017, with early application permitted.

Accordingly, an entity shall disclose the following changes in liabilities arising from financing activities:

- (a) Changes from financing cash flows;
- (b) Changes arising from obtaining or losing control of subsidiaries or other businesses;
- (c) The effect of changes in foreign exchange rates;
- (d) Changes in fair values; and
- (e) Other changes.

3. Gross Income →

Accounting Policy

Gross revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The specific recognition criteria must also be met before revenue recognition is discussed under respective income notes.

| | Bank | | Group | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| <i>For the year ended 31st December</i> | | | | |
| Interest income | 86,390,039 | 78,128,498 | 87,142,784 | 78,747,364 |
| Fee and commission income | 650,164 | 475,374 | 651,160 | 477,214 |
| Net gain/(loss) from trading | (39,270) | 297,847 | (136,897) | 301,417 |
| Net gain/(loss) from financial investments | 40,923 | 27,838 | 40,923 | 27,838 |
| Other operating income (Net) | 357,288 | 352,665 | 340,640 | 336,391 |
| Gross income | 87,399,144 | 79,282,222 | 88,038,610 | 79,890,224 |

4. Net Interest Income →

Accounting Policy

Recognition of Interest Income and Interest Expenses

For all financial instruments measured at amortised cost, interest-bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as interest income for financial assets and interest expense for financial liabilities. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase are recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Notes to the Financial Statements

4. Net Interest Income (Contd.) →

| | Bank | | Group | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| <i>For the year ended 31st December</i> | | | | |
| 4. (a) Interest Income → | | | | |
| Cash and cash equivalents | 37,992 | 24,313 | 37,992 | 24,313 |
| Placements with banks | 597,916 | 329,862 | 597,916 | 329,862 |
| Derivative financial instruments | - | - | - | - |
| Other financial assets – held-for-trading | 1,370,010 | 496,089 | 1,816,446 | 746,776 |
| Loans and receivables to banks | 2,751,558 | 1,010,459 | 2,756,295 | 1,014,608 |
| Loans and receivables to other customers | 29,937,593 | 25,135,621 | 29,916,980 | 25,137,457 |
| Financial investments – available-for-sale | 36,612 | - | 195,556 | 121,011 |
| Financial investments – held-to-maturity | 51,658,359 | 51,132,154 | 51,821,600 | 51,373,337 |
| Total interest income | 86,390,039 | 78,128,498 | 87,142,784 | 78,747,364 |
| 4. (b) Interest Expenses → | | | | |
| Due to bank | - | - | 44,951 | - |
| Due to other customers | 44,365,840 | 36,257,472 | 44,365,840 | 36,285,549 |
| Other borrowings | 16,550,970 | 14,888,522 | 17,036,696 | 15,200,998 |
| Subordinated liabilities | 6,411 | - | 6,411 | - |
| Total interest expenses | 60,923,221 | 51,145,994 | 61,453,898 | 51,486,547 |
| Net interest income | 25,466,818 | 26,982,504 | 25,688,886 | 27,260,817 |
| 4. (c) Net Interest Income from Sri Lanka Government Securities → | | | | |
| Interest income | 53,064,981 | 51,628,243 | 53,833,602 | 52,120,113 |
| (Less): Interest expenses | - | - | - | - |
| Net interest income | 53,064,981 | 51,628,243 | 53,833,602 | 52,120,113 |

4. Net Interest Income (Contd.) →**4. (d) Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions** →

In accordance with the Section 137 of the Inland Revenue Act No. 10 of 2006 and amendment thereto, the Group is entitled to a notional tax credit equivalent to 1/9th of the interest income derived from the market transaction in Government Securities.

Accordingly, the net income earned by the Group from the secondary market transactions in Government Securities, has been grossed up in the Financial Statements and the resulting notional tax credit amounted to Rs. 4,447 Million (2015: Rs. 4,409 Million) for the Bank and Rs. 4,467 Million (2015 - Rs. 4,474 Million) for the Group.

4. (e) Notional Tax Receivable →

The notional tax receivable is given in Note 30 to the Financial Statements after deducting the recoverable amounts.

5. Net Fee and Commission Income →**Accounting Policy**

The Group earns fee and commission income from a range of services it provides to customers which can be divided into the following two categories:

(a) Fee and commission income earned from services that are provided over a certain period of time

Fee and commission earned for the provision of services over a period of time are accrued over that period.

(b) Fee and commission income from providing transaction services

Fee and commission income arising from renegotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised as the related services are performed.

Fees and commission expenses relating to transaction and service fees are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| <i>For the year ended 31st December</i> | | | | |
| Fee and commission income | 650,164 | 475,374 | 651,160 | 477,214 |
| Fee and commission expenses | (137,432) | (111,135) | (140,122) | (112,109) |
| Net fee and commission income | 512,732 | 364,239 | 511,038 | 365,105 |
| Earned from – | | | | |
| Loans | 547,761 | 377,971 | 547,760 | 377,971 |
| Cards | (76,986) | (52,933) | (76,986) | (52,933) |
| Others | 41,957 | 39,201 | 40,264 | 40,067 |
| Net fee and commission income | 512,732 | 364,239 | 511,038 | 365,105 |

Notes to the Financial Statements

6. Net Gain/(Loss) from Trading →**Accounting Policy**

Net trading income includes all gains and losses from changes in fair value and related dividend for financial assets and financial liabilities 'held-for-trading' other than interest income/income from foreign exchange.

Dividend income is recognised when the Group's right to receive the payment is established.

| For the year ended 31st December | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Foreign exchange | | | | |
| From banks | - | - | - | - |
| From other customers | 296,380 | 178,826 | 296,380 | 178,826 |
| Interest rates – mark-to-market gain/(loss) and others | (72,705) | 390,544 | (170,332) | 394,114 |
| Equities – mark-to-market gain/(loss) and others | (314,945) | (279,353) | (314,945) | (279,353) |
| Others – forward swap | 52,000 | 7,830 | 52,000 | 7,830 |
| Total | (39,270) | 297,847 | (136,897) | 301,417 |

7. Net Gain/(Loss) from Financial Instruments Designated at Fair Value through Profit or Loss →

Bank/Group has not designated any financial assets at fair value through profit or loss as at the Reporting date.

8. Net Gain/(Loss) from Financial Investments →**Accounting Policy**

'Net gains/(losses) from financial investments' comprise gains less losses related to available-for-sale investments and loans and receivables, and include all realised and unrealised fair value changes.

| For the year ended 31st December | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Assets available-for-sale | | | | |
| Equities | - | 27,838 | - | 27,838 |
| Sri Lanka Government Securities – Treasury Bonds | 40,923 | - | 40,923 | - |
| Total | 40,923 | 27,838 | 40,923 | 27,838 |

9. Other Operating Income (Net) →

Accounting Policy

i. Gain/(Loss) on Disposal of Property, Plant & Equipment

The gains or losses on the disposal of property, plant & equipment is determined on the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, net of disposal costs. This is recognised in other operating income in the year in which significant risks and rewards of ownership are transferred to the buyer.

ii. Foreign Exchange Gain/(Loss)

Foreign currency positions are revalued at each Reporting date. Gains and losses arising from changes in exchange rates are included in Income Statement in the period in which they arise.

iii. Dividend Income

Dividend earned from available-for-sale financial investments is recognised when the Group's right to receive the payment is established.

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| <i>For the year ended 31st December</i> | | | | |
| Gain on sale of property, plant & equipment | 70,016 | 642 | 70,014 | 642 |
| Gain/(Loss) on revaluation of foreign exchange | 16,726 | 85,871 | 16,726 | 85,871 |
| Equities – Divided income | 152,597 | 181,059 | 137,774 | 166,659 |
| Others | 117,950 | 85,093 | 116,126 | 83,219 |
| Other operating income (Net) | 357,288 | 352,665 | 340,640 | 336,391 |

10. Impairment for Loans and Other Losses →

Accounting Policy

The Group recognises the changes in the impairment provisions for loans and receivables to banks and other customers, which are assessed as per Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'. The methodology adopted for impairment is explained in Note 23 (d) to the Financial Statements. The Bank also makes provisions/(write-backs) for impairment of financial investments – available-for-sale and financial investments – loans and receivables when there is a permanent diminution in the carrying value of these investments. Further, the Bank/Group recognises an impairment loss when the carrying amount of a non-financial asset exceeds the estimated recoverable amount from that asset.

Notes to the Financial Statements

10. Impairment for Loans and Other Losses (Contd.) →

| For the year ended 31st December | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Loans and receivables | | | | |
| To other customers [Refer Note 23. (d)] | (99,693) | 2,139,553 | (99,693) | 2,139,553 |
| Total | (99,693) | 2,139,553 | (99,693) | 2,139,553 |

11. Personnel Expenses →**Accounting Policy*****i. Defined Contribution Plans*** →

The Group operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability. The Group contributes to the following defined contribution plans:

(a) Employees' Provident Fund

The Bank and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund. The Bank's Provident Fund is an approved fund under the Employees' Provident Fund Act. The Bank guarantees 8% p.a. return to the members of the Employees' Provident Fund.

NSB Fund Management Company and its employees contribute 12% and 8% respectively to the Employees' Provident Fund (EPF) maintained by Central Bank of Sri Lanka.

(b) Employees' Trust Fund

The Group contributes 3% of the employee's monthly gross salary (excluding overtime) to the Employees' Trust Fund maintained by the Employees Trust Fund Board.

Notes to the Financial Statements

11. Personnel Expenses (Contd.) →**ii. Defined Benefit Plans** →

Contribution to defined benefit plans are recognised in the Income Statement based on an Actuarial Valuation carried out separately for each defined benefit plan in accordance with Sri Lanka Accounting Standard – LKAS 19 on ‘Employee Benefits’.

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| <i>For the year ended 31st December</i> | | | | |
| Salary and bonus | 4,701,071 | 4,390,991 | 4,728,359 | 4,415,097 |
| Contribution – staff provident fund | 354,545 | 318,948 | 355,301 | 319,651 |
| Contribution – Employees' Trust Fund | 88,637 | 79,741 | 88,826 | 79,916 |
| Contribution – staff pension fund I [Note 11. (a) and 34. (a) 1] | 577,594 | 707,259 | 577,797 | 707,705 |
| Contribution – staff pension fund II [Note 11. (b) and 34. (a) 2] | 251,758 | 185,956 | 252,043 | 186,166 |
| Gratuity on termination of service [Note 34. (a) 4] | 14,590 | 317 | 14,837 | 629 |
| Retired Staff Medical Assistance Scheme [Note 34. (a) 3] | 71,698 | 67,312 | 71,698 | 67,312 |
| Others | 175,477 | 160,028 | 177,653 | 160,593 |
| Total | 6,235,370 | 5,910,552 | 6,266,515 | 5,937,068 |

11. (a) Contribution – Staff Pension Fund – I →

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| <i>For the year ended 31st December</i> | | | | |
| Amount recognised as expense | 577,594 | 707,259 | 577,797 | 707,705 |

Actuarial valuation was carried out by Mr. Piyal S. Goonetilleke, Fellow of Society of Actuaries (USA) of Piyal S. Goonetilleke and Associates, on 31st December 2016 [Refer Note 34. (a)].

11. (b) Contribution – Staff Pension Fund – II →

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| <i>For the year ended 31st December</i> | | | | |
| Amount recognised as expense | 251,758 | 185,956 | 252,043 | 186,166 |

Pension scheme II has been established for the employees who joined the Bank on or after 1st October 1995. Actuarial valuation was carried out by Mr. Piyal S. Goonetilleke, Fellow of Society of Actuaries (USA) of Piyal S. Goonetilleke and Associates, on 31st December 2016 [Refer Note 34. (a)].

Notes to the Financial Statements

12. Other Expenses →

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| <i>For the year ended 31st December</i> | | | | |
| Directors' emoluments | 1,879 | 1,133 | 2,755 | 1,476 |
| Auditors' remunerations | 3,141 | 3,552 | 3,606 | 3,857 |
| Professional and legal expenses | 38,359 | 19,712 | 38,359 | 19,712 |
| Depreciation of property, plant & equipment | 289,683 | 265,169 | 290,314 | 265,499 |
| Amortisation of leasehold property | 7,198 | 6,752 | 7,198 | 6,752 |
| Amortisation of intangible assets | 35,512 | 36,854 | 35,512 | 36,861 |
| Special fees paid to Treasury [Note 30. (a)] | 533,333 | 1,333,333 | 533,333 | 1,333,333 |
| Office administration and establishment expenses | 2,707,353 | 2,370,196 | 2,711,216 | 2,371,723 |
| Others | 492,080 | 467,419 | 446,624 | 430,723 |
| Total | 4,108,538 | 4,504,120 | 4,068,918 | 4,469,936 |

13. Income Tax Expenses →► **Accounting Policy**

As per Sri Lanka Accounting Standard – LKAS 12 on 'Income Taxes', tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognised in Income Statement, except to the extent it relates to items recognised directly in Equity or Other Comprehensive Income (OCI).

Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted at the Reporting date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified below.

Deferred Taxation

Deferred tax is provided using the liability method on temporary differences at the Reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

Deferred tax assets are recognised for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

Notes to the Financial Statements

13. Income Tax Expenses (Contd.) →

The carrying amount of a deferred tax asset is reviewed at each Reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each Reporting date and are recognised to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the Reporting date.

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| <i>For the year ended 31st December</i> | | | | |
| Current tax expenses | | | | |
| Current year tax expenses | 3,896,240 | 4,036,322 | 3,930,455 | 4,116,188 |
| Prior years' (over)/under provision | (2,726) | 90,364 | (6,856) | 88,502 |
| Deferred tax expenses | | | | |
| Temporary differences [Refer Note 13. (b)] | (88,243) | 234,669 | (88,604) | 235,109 |
| Total | 3,805,271 | 4,361,355 | 3,834,995 | 4,439,799 |
| Effective tax rate (%) | 28.60 | 33.46 | 28.63 | 33.45 |
| Effective tax rate (excluding deferred tax) (%) | 29.27 | 31.66 | 29.29 | 31.68 |

13. (a) Reconciliation of Tax Expenses →

| | | | | |
|--|------------------|------------------|------------------|------------------|
| Profit before tax | 13,302,987 | 13,033,669 | 13,397,277 | 13,272,031 |
| Income tax for the period (Accounting profit @ 28%) | 3,724,836 | 3,649,427 | 3,751,238 | 3,716,169 |
| Add: Tax effect of expenses that are not deductible for tax purposes | 2,089,332 | 2,166,632 | 2,100,179 | 2,177,242 |
| (Less): Tax effect of expenses that are deductible for tax purposes | 1,917,928 | 1,779,737 | 1,920,962 | 1,777,223 |
| Tax expense for the period | 3,896,240 | 4,036,322 | 3,930,455 | 4,116,188 |

13. Income Tax Expenses (Contd.) →**13. (b) The Deferred Tax Charge in the Income Statement Comprise the Following:** →

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| <i>For the year ended 31st December</i> | | | | |
| Deferred tax assets | - | (81,947) | 361 | (82,086) |
| Deferred tax liabilities | (88,243) | 152,722 | (88,243) | 153,023 |
| Deferred tax (credit)/charge to Income Statement | (88,243) | 234,669 | (88,604) | 235,109 |

14. Earnings Per Share (EPS) →**Accounting Policy**

The Group presents basic and diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| <i>For the year ended 31st December</i> | | | | |
| Net profit attributable to ordinary equity holders | 9,497,716 | 8,672,314 | 9,562,282 | 8,832,232 |
| Adjustment for the effect of dilution | - | - | - | - |
| Net profit attributable to ordinary equity holders adjusted for the effect of dilution | 9,497,716 | 8,672,314 | 9,562,282 | 8,832,232 |
| Weighted average number of ordinary shares for basic earnings per share | 320,000 | 320,000 | 320,000 | 320,000 |
| Effect of dilution | - | - | - | - |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 320,000 | 320,000 | 320,000 | 320,000 |
| Basic earnings per ordinary share (Rs.) | 29.68 | 27.10 | 29.88 | 27.60 |
| Diluted earnings per ordinary share (Rs.) | 29.68 | 27.10 | 29.88 | 27.60 |

14. Earnings Per Share (EPS) (Contd.) →**14. (a) Weighted Average Number of Ordinary Shares for Basic and Diluted Earnings Per Share**

| | Outstanding No. of Shares | | Weight average No. of Shares | |
|---|---------------------------|------------------|------------------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Number of shares in issue as at January 01, | 320,000 | 320,000 | 320,000 | 320,000 |
| Add: Number of shares issued during the year (Refer Note 36) | 300,000 | - | - | - |
| Weighted average number of ordinary shares basic and diluted earning per shares | 620,000 | 320,000 | 320,000 | 320,000 |

15. Analysis of Financial Instruments by Measurement Basis →**Accounting Policy**

The carrying amounts of financial instruments by category as defined in Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement' under headings of the Statement of Financial Position are summarised below:

15. (a) Bank – 2016 →

| | HFT Rs. '000 | HTM Rs. '000 | Amortised cost Rs. '000 | AFS Rs. '000 | FVTPL Rs. '000 | Hedging Rs. '000 | Total Rs. '000 |
|---|-----------------|-----------------|----------------------------|-----------------|-------------------|---------------------|-------------------|
| Assets | | | | | | | |
| Cash and cash equivalents | - | - | 4,619,699 | - | - | - | 4,619,699 |
| Balances with central banks | - | - | - | - | - | - | - |
| Placements with banks | - | - | 19,013,572 | - | - | - | 19,013,572 |
| Derivative financial instruments | - | - | - | - | - | 2,728,445 | 2,728,445 |
| Other financial assets held-for-trading | 20,290,588 | - | - | - | - | - | 20,290,588 |
| Other financial assets at fair value through profit or loss | - | - | - | - | - | - | - |
| Loans and receivables to banks | - | - | 31,834,072 | - | - | - | 31,834,072 |
| Loans and receivables to other customers | - | - | 291,976,942 | - | - | - | 291,976,942 |
| Financial investments | - | 505,824,398 | - | 6,227,764 | - | - | 512,052,162 |
| Total financial assets | 20,290,588 | 505,824,398 | 347,444,284 | 6,227,764 | - | 2,728,445 | 882,515,480 |

15. Analysis of Financial Instruments by Measurement Basis (Contd.) →**15. (a) Bank – 2016 (Contd.)** →

| | HFT Rs. '000 | Designated at fair value Rs. '000 | Amortised cost Rs. '000 | FVTPL Rs. '000 | Hedging Rs. '000 | Total Rs. '000 |
|--|-----------------|---|----------------------------|-------------------|---------------------|-------------------|
| Liabilities | | | | | | |
| Due to banks | - | - | 115,391 | - | - | 115,391 |
| Derivative financial instruments | - | - | - | - | - | - |
| Other financial liabilities at fair value through profit or loss | - | - | - | - | - | - |
| Due to other customers | - | - | 657,280,315 | - | - | 657,280,315 |
| Other borrowings | - | - | 207,039,909 | - | - | 207,039,909 |
| Subordinated liabilities | - | - | 6,006,411 | - | - | 6,006,411 |
| Total financial liabilities | - | - | 870,442,026 | - | - | 870,442,026 |

Held-for-trading – HFT

Designated at fair value through profit or loss – Designated at fair value – FVTPL

Loans and receivables/deposits at amortised cost – Amortised cost

Held-to-maturity – HTM

Available-for-sale – AFS

Instruments of fair value and cash flow hedging – Hedging

15. (b) Bank – 2015 →

| | HFT Rs. '000 | HTM Rs. '000 | Amortised cost Rs. '000 | AFS Rs. '000 | FVTPL Rs. '000 | Hedging Rs. '000 | Total Rs. '000 |
|--|-----------------|-----------------|----------------------------|-----------------|-------------------|---------------------|-------------------|
| Assets | | | | | | | |
| Cash and cash equivalents | - | - | 3,240,253 | - | - | - | 3,240,253 |
| Balances with central banks | - | - | - | - | - | - | - |
| Placements with banks | - | - | 12,626,509 | - | - | - | 12,626,509 |
| Derivative financial instruments | - | - | - | - | - | 3,735,284 | 3,735,284 |
| Other financial assets held-for-trading | 13,542,721 | - | - | - | - | - | 13,542,721 |
| Other financial assets at fair value through profit or loss | - | - | - | - | - | - | - |
| Loans and receivables to banks | - | - | 23,717,823 | - | - | - | 23,717,823 |
| Loans and receivables to other customers | - | - | 248,032,842 | - | - | - | 248,032,842 |
| Financial investments | - | 515,302,705 | - | 4,385,767 | - | - | 519,688,472 |
| Total financial assets | 13,542,721 | 515,302,705 | 287,617,427 | 4,385,767 | - | 3,735,284 | 824,583,904 |

Notes to the Financial Statements

15. Analysis of Financial Instruments by Measurement Basis (Contd.) →**15. (b) Bank – 2015 (Contd.)** →

| | HFT Rs. '000 | Designated at fair value Rs. '000 | Amortised cost Rs. '000 | FVTPL Rs. '000 | Hedging Rs. '000 | Total Rs. '000 |
|--|-----------------|---|----------------------------|-------------------|---------------------|-------------------|
| Liabilities | | | | | | |
| Due to banks | - | - | 75,093 | - | - | 75,093 |
| Derivative financial instruments | - | - | - | - | - | - |
| Other financial liabilities at fair value through profit or loss | - | - | - | - | - | - |
| Due to other customers | - | - | 595,775,709 | - | - | 595,775,709 |
| Other borrowings | - | - | 207,025,525 | - | - | 207,025,525 |
| Subordinated liabilities | - | - | - | - | - | - |
| Total financial liabilities | - | - | 802,876,327 | - | - | 802,876,327 |

15. (c) Group – 2016 →

| | HFT Rs. '000 | HTM Rs. '000 | Amortised cost Rs. '000 | AFS Rs. '000 | FVTPL Rs. '000 | Hedging Rs. '000 | Total Rs. '000 |
|--|-----------------|-----------------|----------------------------|-----------------|-------------------|---------------------|-------------------|
| Assets | | | | | | | |
| Cash and cash equivalents | - | - | 4,627,629 | - | - | - | 4,627,629 |
| Balances with central banks | - | - | 477 | - | - | - | 477 |
| Placements with banks | - | - | 19,013,572 | - | - | - | 19,013,572 |
| Derivative financial instruments | - | - | - | - | 2,728,445 | - | 2,728,445 |
| Other financial assets held-for-trading | 27,303,207 | - | - | - | - | - | 27,303,207 |
| Other financial assets at fair value through profit or loss | - | - | - | - | - | - | - |
| Loans and receivables to banks | - | - | 31,834,072 | - | - | - | 31,834,072 |
| Loans and receivables to other customers | - | - | 291,178,121 | - | - | - | 291,178,121 |
| Financial investments | - | 507,624,954 | - | 8,122,516 | - | - | 515,747,470 |
| Total financial assets | 27,303,207 | 507,624,954 | 346,653,871 | 8,122,516 | - | 2,728,445 | 892,432,992 |

| | HFT Rs. '000 | Designated at fair value Rs. '000 | Amortised cost Rs. '000 | FVTPL Rs. '000 | Hedging Rs. '000 | Total Rs. '000 |
|--|-----------------|---|----------------------------|-------------------|---------------------|-------------------|
| Liabilities | | | | | | |
| Due to banks | - | - | 2,858,673 | - | - | 2,858,673 |
| Derivative financial instruments | - | - | - | - | - | - |
| Other financial liabilities at fair value through profit or loss | - | - | - | - | - | - |
| Due to other customers | - | - | 657,280,315 | - | - | 657,280,315 |
| Other borrowings | - | - | 212,629,427 | - | - | 212,629,427 |
| Subordinated liabilities | - | - | 6,006,411 | - | - | 6,006,411 |
| Total financial liabilities | - | - | 878,774,826 | - | - | 878,774,826 |

Notes to the Financial Statements

15. Analysis of Financial Instruments by Measurement Basis (Contd.) →**15. (d) Group – 2015** →

| | HFT Rs. '000 | HTM Rs. '000 | Amortised cost Rs. '000 | AFS Rs. '000 | FVTPL Rs. '000 | Hedging Rs. '000 | Total Rs. '000 |
|---|-------------------|--------------------|----------------------------|------------------|-------------------|---------------------|--------------------|
| Assets | | | | | | | |
| Cash and cash equivalents | - | - | 3,247,469 | - | - | - | 3,247,469 |
| Balances with central banks | - | - | 729 | - | - | - | 729 |
| Placements with banks | - | - | 12,626,509 | - | - | - | 12,626,509 |
| Derivative financial instruments | - | - | - | - | - | 3,735,284 | 3,735,284 |
| Other financial assets held-for-trading | 17,804,872 | - | - | - | - | - | 17,804,872 |
| Other financial assets at fair value through profit or loss | - | - | - | - | - | - | - |
| Loans and receivables to banks | - | - | 23,735,825 | - | - | - | 23,735,825 |
| Loans and receivables to other customers | - | - | 248,037,737 | - | - | - | 248,037,737 |
| Financial investments | - | 517,514,189 | - | 6,407,037 | - | - | 523,921,226 |
| Total financial assets | 17,804,872 | 517,514,189 | 287,648,269 | 6,407,037 | - | 3,735,284 | 833,109,651 |

| | HFT Rs. '000 | Designated at fair value Rs. '000 | Amortised cost Rs. '000 | FVTPL Rs. '000 | Hedging Rs. '000 | Total Rs. '000 |
|--|-----------------|---|----------------------------|-------------------|---------------------|--------------------|
| Liabilities | | | | | | |
| Due to banks | - | - | 110,196 | - | - | 110,196 |
| Derivative financial instruments | - | - | - | - | - | - |
| Other financial liabilities at fair value through profit or loss | - | - | - | - | - | - |
| Due to other customers | - | - | 595,775,709 | - | - | 595,775,709 |
| Other borrowings | - | - | 213,703,431 | - | - | 213,703,431 |
| Subordinated liabilities | - | - | - | - | - | - |
| Total financial liabilities | - | - | 809,589,336 | - | - | 809,589,336 |

Notes to the Financial Statements

16. Cash and Cash Equivalents →**Accounting Policy**

Cash and cash equivalents include cash in hand, balances with banks, money at call and short notice that are subject to an insignificant risk of change in their value. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

| As at 31st December | Bank | | Group | |
|--------------------------------|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Cash in hand | 691,527 | 600,185 | 691,537 | 600,195 |
| Balances with banks | 3,881,589 | 2,548,571 | 3,889,509 | 2,555,777 |
| Money at call and short notice | 46,583 | 91,497 | 46,583 | 91,497 |
| Total | 4,619,699 | 3,240,253 | 4,627,629 | 3,247,469 |

17. Balances with Central Banks →

| As at 31st December | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Balances with Central Bank of Sri Lanka | - | - | 477 | 729 |
| Total | - | - | 477 | 729 |

18. Placements with Banks →**Accounting Policy**

Placement with banks include short-term deposits placed in banks that are subjected to insignificant risk of changes in fair value, and are used by the Bank and the Group in the management of its short-term commitments. They are recorded in the Financial Statements at their face values or the gross values, where appropriate.

| As at 31st December | Bank | | Group | |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Placements with banks – Sri Lanka | 19,013,572 | 12,626,509 | 19,013,572 | 12,626,509 |
| Total | 19,013,572 | 12,626,509 | 19,013,572 | 12,626,509 |

19. Derivative Financial Instruments →

► **Accounting Policy**

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as 'trading' unless they are designated as hedging instruments. The Group uses derivatives such as interest rate swaps and forward foreign exchange contracts.

Derivatives Recorded at Fair Value through Profit or Loss

Derivatives except for derivatives used as hedging instrument are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading income'.

Derivatives used as Hedge Instruments

The Group entered into derivative contacts to hedge against the foreign exchange rate or interest rate. These derivatives are measured at fair value. The Group adopts hedge accounting mismatch to eliminate the accounting resulting from volatility in the Financial Statements between derivatives measured at fair value and the financial asset or liability (hedge exposure) measured at cost/amortised cost, if hedge is efficient.

Cash Flow Hedge

Cash flow hedge is measured at fair value at the end of each Reporting period.

If a hedge of the exposure to variability in cash flow, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Other Comprehensive Income within 'cash flow hedge' – fair value gains/(losses)'. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the Income Statements.

The accumulated gains and losses recognised in Other Comprehensive Income are reclassified to the Income Statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged result in the recognised of a non-financial asset or a non-financial liability, the gains and losses previously recognised in Other Comprehensive Income are removed from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meet the criteria for hedge accounting, any cumulative gain or loss recognised in Other Comprehensive Income at that time remains in equity until the forecast transaction is eventually recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in Other Comprehensive Income is immediately reclassified to the Income Statement.

19. Derivative Financial Instruments (Contd.) →**Bank and Group**

| <i>As at 31st December</i> | Assets 2016 | Notional amount - 2016 | Assets 2015 | Notional amount - 2015 |
|---|--------------------|-----------------------------------|--------------------|-----------------------------------|
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Forward foreign exchange contract | | | | |
| Forward exchange purchases (Note 19.1) | 27,750 | 3,743,750 | 7,830 | 140,900 |
| Foreign currency derivative/Cash flow hedges | | | | |
| Foreign currency swaps – (Note 19.2) | 2,700,695 | 73,474,097 | 3,727,454 | 71,196,422 |
| Total | 2,728,445 | 77,217,847 | 3,735,284 | 71,337,322 |

19.1 Forward Exchange Purchases →

Bank has entered into a forward exchange contract with Central Bank of Sri Lanka on 23rd December 2016 to purchase 25,000,000 US Dollars.

19.2 Foreign Currency Swaps →

The Bank has raised USD 750 Million on 18th September 2013 through foreign borrowings for a period of five years against which two Swaps agreements have been entered into with the Central Bank of Sri Lanka for USD 183.425 Million and USD 187.5 Million with annual and monthly renewal basis respectively.

The Bank has also raised USD 250 Million on 10th September 2014 through foreign borrowings for a period of five years against which a Swaps agreements has been entered into with the Central Bank of Sri Lanka for USD 249.31 Million with monthly renewal basis.

The objective of the Swaps is to hedge the risk of the foreign currency denominated above mentioned borrowings (only the capital portion) attributable to changes in LKR/USD exchange rate.

19. Derivative Financial Instruments (Contd.) →

A brief description of the Swaps is given below:

19.2 (a) Swap Agreement 1 and 2 →

| Details | Description of the hedge | |
|---|---|--|
| Hedge instrument | <p>Swap Contract – 1 Counterparty – Central Bank of Sri Lanka Notional amount – USD 183.425 Million 24.5% of the total foreign borrowings.</p> <p>Swap Contract – 2 Counterparty – Central Bank of Sri Lanka Notional amount – USD 187.5 Million 25% of the total foreign borrowings.</p> <p>The Bank has renewed the above agreement with Central Bank of Sri Lanka on 7th December 2016 for a notional amount of USD 57.9 Million at a premium.</p> | |
| Hedge Item | 5 years USD denominated Senior note – USD 750 Million with interest payable semi-annually. Capital is repayable in 18th September 2018 in full. | |
| The period when the cash flows are expected to occur | Swap Contract – 1 | Annually |
| | Swap Contract – 2 | Monthly |
| The amount recognised in Other Comprehensive Income during the year | Swap Contract – 1 | Rs. 1.85 Million credit to the cash flow hedge reserve |
| | Swap Contract – 2 | Rs. 72,597 Million credit to the cash flow hedge reserve |
| Fair value of hedged item as at 31st December 2016 | LKR 112,312.5 Million | |
| Fair value of hedged instrument as at 31st December 2016 | Swap Contract – 1 | Rs. 2,450 Million |
| | Swap Contract – 2 | None |
| Any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur | None | |
| The amount that was reclassified from equity to profit or loss during the period | None | |

19. Derivative Financial Instruments (Contd.) →**19.2 Foreign Currency Swaps (Contd.)** →**19.2 (b) Swap Agreement 3** →

| Details | Description of the Hedge |
|---|--|
| Hedge instrument | Swap Contract Counterparty – Central Bank of Sri Lanka Notional amount – USD 249.31 Million 99.72% of the total foreign borrowings. The Bank has renewed the above agreement with Central Bank on 9th December 2016 for a Notional amount of USD 249.31 Million at a premium. |
| Hedge item | 5 years USD denominated Senior note – USD 250 Million with interest payable semi annually. Capital is repayable in 10th September 2019 in full. |
| The period when the cash flows are expected to occur | Monthly |
| The amount recognised in Other Comprehensive Income during the year | Rs. 211.7 Million debit to the cash flow hedge reserve |
| Fair value of hedged item as at 31st December 2016 | Rs. 37,437.5 Million |
| Fair value of hedged instrument as at 31st December 2016 | None |
| Any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur | None |
| The amount that was reclassified from equity to profit or loss during the period | None |

19.2 (c) Amount Recognised in Other Comprehensive Income Relating to the Currency Swaps →

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| <i>For the year ended 31st December</i> | | | | |
| Swap Agreement – 01 | 1,850 | – | 1,850 | – |
| Swap Agreement – 02 | 72,597 | (85,519) | 72,597 | (85,519) |
| Swap Agreement – 03 | (211,703) | 230,129 | (211,703) | 230,129 |
| Total | (137,256) | 144,610 | (137,256) | 144,610 |

20. Other Financial Assets Held-for-Trading →

Accounting Policy

Financial assets are classified as held-for-trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking as per Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships.

Financial assets held-for-trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in 'Net trading income'. Dividend income is also recorded in 'Net trading income' while interest income and expenses are recorded in 'Net interest income' according to the terms of the contract, or when the right to the payment has been established.

The Group evaluates its financial assets held-for-trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets, in rare circumstances.

Financial assets held-for-trading includes Government Securities held-for-trading and dealing securities.

| As at 31st December | Bank | | Group | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Held-for-trading | | | | |
| Sri Lanka Government Securities | | | | |
| Treasury Bills | – | – | 1,438,757 | 1,184,757 |
| Treasury Bonds | 17,194,677 | 9,870,590 | 22,768,539 | 12,947,984 |
| Equity securities – [Refer Note 20. (a)] | 3,095,911 | 3,672,131 | 3,095,911 | 3,672,131 |
| Total | 20,290,588 | 13,542,721 | 27,303,207 | 17,804,872 |

20. Other Financial Assets Held-for-Trading (Contd.) →**20. (a) Equity Securities (Quoted) – Bank and Group** →

| As at 31st December | 2016 | | | 2015 | | |
|--|---------------|------------------|--------------------------|---------------|------------------|--------------------------|
| | No. of shares | Cost Rs. '000 | Market value Rs. '000 | No. of shares | Cost Rs. '000 | Market value Rs. '000 |
| 1. Banks, Finance and Insurance | | | | | | |
| Commercial Bank of Ceylon PLC | 435,587 | 71,292 | 62,453 | 395,236 | 67,008 | 54,909 |
| Commercial Bank of Ceylon PLC (NV) | 240,504 | 31,644 | 27,467 | 236,667 | 31,644 | 28,807 |
| DFCC Bank | 430,000 | 85,787 | 52,085 | 430,000 | 85,787 | 71,814 |
| Hatton National Bank PLC (NV) | 240,468 | 41,864 | 45,177 | 236,355 | 41,864 | 41,577 |
| Lanka ORIX Leasing Company PLC | 606,900 | 68,594 | 43,507 | 606,900 | 68,594 | 54,909 |
| Lanka ORIX Finance PLC | 4,550,000 | 50,340 | 11,698 | 4,550,000 | 50,340 | 16,197 |
| Sampath Bank PLC (NV) | 1,230,988 | 310,433 | 318,298 | 1,153,517 | 300,125 | 285,149 |
| Union Bank PLC | 245,000 | 6,009 | 3,803 | 245,000 | 6,009 | 4,942 |
| | | 665,963 | 564,488 | | 651,371 | 558,304 |
| 2. Beverage, Food and Tobacco | | | | | | |
| Cargills (Ceylon) PLC | 598,040 | 109,872 | 115,312 | 598,040 | 109,872 | 111,764 |
| | | 109,872 | 115,312 | | 109,872 | 111,764 |
| 3. Chemical and Pharmaceuticals | | | | | | |
| CIC Holdings PLC | 135,839 | 15,558 | 12,089 | 135,839 | 15,558 | 13,472 |
| CIC Holdings PLC (NV) | 13,700 | 1,183 | 921 | 13,700 | 1,183 | 1,100 |
| Haycarb PLC | 447,211 | 83,786 | 66,330 | 447,211 | 83,786 | 72,875 |
| | | 100,527 | 79,340 | | 100,527 | 87,447 |
| 4. Construction and Engineering | | | | | | |
| Access Engineering PLC | 3,470,023 | 132,692 | 85,093 | 3,470,023 | 132,692 | 79,603 |
| Colombo Dockyard PLC | 1,234,706 | 275,603 | 92,787 | 1,234,706 | 275,603 | 186,794 |
| | | 408,295 | 177,880 | | 408,295 | 266,397 |

20. Other Financial Assets Held-For-Trading (Contd.) →**20. (a) Equity Securities (Quoted) – Bank and Group (Contd.) →**

| As at 31st December | 2016 | | | 2015 | | |
|----------------------------------|---------------|------------------|--------------------------|---------------|------------------|--------------------------|
| | No. of shares | Cost Rs. '000 | Market value Rs. '000 | No. of shares | Cost Rs. '000 | Market value Rs. '000 |
| 5. Diversified Holdings | | | | | | |
| Aitken Spence PLC | 2,593,516 | 306,499 | 166,690 | 2,593,516 | 306,499 | 251,318 |
| Browns Capital PLC | 2,900,000 | 13,279 | 3,441 | 2,900,000 | 13,279 | 3,728 |
| Browns Investments PLC | 33,606,200 | 168,031 | 43,199 | 93,606,200 | 468,031 | 138,837 |
| C T Holdings PLC | 750,265 | 131,498 | 92,881 | 750,265 | 131,498 | 104,603 |
| Hayleys PLC | 114,294 | 39,199 | 30,514 | 111,748 | 38,540 | 34,088 |
| John Keells Holdings PLC | 2,660,190 | 465,818 | 381,407 | 2,327,667 | 465,818 | 410,835 |
| Richard Pieris & Company PLC | 12,001,659 | 113,095 | 96,125 | 12,001,659 | 113,095 | 100,872 |
| Vallibel One PLC | 3,143,693 | 72,975 | 57,507 | 3,143,693 | 72,975 | 67,143 |
| | | 1,310,394 | 871,764 | | 1,609,735 | 1,111,423 |
| 6. Health Care | | | | | | |
| Nawaloka Hospitals PLC | - | - | - | 17,789,400 | 79,421 | 58,048 |
| | | | | | 79,421 | 58,048 |
| 7. Hotels and Travels | | | | | | |
| Asian Hotels & Properties PLC | 1,366,132 | 106,609 | 76,997 | 1,366,132 | 106,609 | 79,699 |
| Aitken Spence Hotel Holdings PLC | 2,102,133 | 188,903 | 90,003 | 2,102,133 | 188,903 | 141,344 |
| Ceylon Hotels Corporation PLC | 3,793,842 | 128,776 | 78,403 | 3,793,842 | 128,776 | 94,909 |
| Eden Hotels Lanka PLC | - | - | - | 576,566 | 28,590 | 9,977 |
| John Keells Hotels PLC | 5,541,205 | 103,475 | 58,627 | 5,541,205 | 103,475 | 84,379 |
| Lighthouse Hotels PLC | 1,175,667 | 71,492 | 61,729 | 1,575,667 | 95,816 | 85,691 |
| Mahaweli Reach Hotels PLC | 133,300 | 4,884 | 2,742 | 133,300 | 4,884 | 3,282 |
| Marawila Resorts PLC | 1,899,556 | 16,063 | 4,508 | 1,899,556 | 16,063 | 5,259 |
| The Kingsbury PLC | 4,669,876 | 105,765 | 71,572 | 4,669,876 | 105,764 | 80,808 |
| | | 725,967 | 444,581 | | 778,880 | 585,348 |
| 8. Investment Trusts | | | | | | |
| Renuka Holdings PLC | 5,356,146 | 235,077 | 111,749 | 5,356,146 | 235,077 | 145,644 |
| Renuka Holdings PLC (NV) | 466,438 | 11,307 | 8,210 | 466,438 | 11,307 | 10,516 |
| | | 246,384 | 119,959 | | 246,384 | 156,160 |

20. Other Financial Assets Held-For-Trading (Contd.) →**20. (a) Equity Securities (Quoted) – Bank and Group (Contd.)** →

| As at 31st December | 2016 | | | 2015 | | |
|---------------------------------------|---------------|------------------|--------------------------|---------------|------------------|--------------------------|
| | No. of shares | Cost Rs. '000 | Market value Rs. '000 | No. of shares | Cost Rs. '000 | Market value Rs. '000 |
| 9. Land and Property | | | | | | |
| Overseas Reality (Ceylon) PLC | 943,473 | 23,777 | 18,658 | 943,473 | 23,777 | 21,737 |
| | | 23,777 | 18,658 | | 23,777 | 21,737 |
| 10. Manufacturing | | | | | | |
| Lanka Ceramic PLC | 445,955 | 60,344 | 54,062 | 445,955 | 60,344 | 52,474 |
| Royal Ceramics Lanka PLC | 1,834,159 | 232,734 | 210,380 | 1,834,159 | 232,734 | 201,311 |
| Tokyo Cement Company (Lanka) PLC | 574,160 | 29,030 | 33,780 | 574,160 | 29,030 | 27,819 |
| Tokyo Cement Company (Lanka) PLC (NV) | 509,217 | 22,602 | 25,931 | 559,217 | 24,821 | 21,842 |
| Alumex PLC | 46,150 | 791 | 913 | - | - | - |
| | | 345,501 | 325,066 | | 346,929 | 303,446 |
| 11. Plantation | | | | | | |
| Namunukula Plantations PLC | 150,000 | 12,432 | 10,931 | 150,000 | 12,432 | 8,899 |
| | | 12,432 | 10,931 | | 12,432 | 8,899 |
| 12. Power and Energy | | | | | | |
| Resus Energy PLC | 203,341 | 4,653 | 4,323 | 203,341 | 4,653 | 5,027 |
| | | 4,653 | 4,323 | | 4,653 | 5,027 |

20. Other Financial Assets Held-For-Trading (Contd.) →**20. (a) Equity Securities (Quoted) – Bank and Group (Contd.)** →

| As at 31st December | 2016 | | | 2015 | | |
|------------------------------|---------------|------------------|--------------------------|---------------|------------------|--------------------------|
| | No. of shares | Cost Rs. '000 | Market value Rs. '000 | No. of shares | Cost Rs. '000 | Market value Rs. '000 |
| 13. Telecommunication | | | | | | |
| Dialog Axiata PLC | 6,790,960 | 168,982 | 70,506 | 6,790,960 | 168,982 | 71,849 |
| | | 168,982 | 70,506 | | 168,982 | 71,849 |
| 14. Trading | | | | | | |
| Brown & Company PLC | 985,000 | 315,149 | 81,229 | 985,000 | 315,149 | 98,566 |
| | | 315,149 | 81,229 | | 315,149 | 98,566 |
| 15. Unit Trust | | | | | | |
| Comtrust Equity Fund | 556,793 | 10,000 | 11,147 | 556,793 | 10,000 | 11,476 |
| Ceybank Unit Trust | 7,604,797 | 85,110 | 200,729 | 7,604,797 | 85,110 | 216,242 |
| | | 95,110 | 211,876 | | 95,110 | 227,718 |
| Total | | 4,533,006 | 3,095,911 | | 4,951,517 | 3,672,131 |

21. Financial Assets Designated at Fair Value through Profit or Loss →► **Accounting Policy**

The Group designates financial assets as fair value through profit or loss when –

- The designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring the assets on a different basis.
- The assets are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The asset contains one or more embedded derivatives which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets designated at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively using the effective interest rate (EIR), while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

The Group has not designated any financial assets upon initial recognition as designated at fair value through profit or loss.

22. Loans and Receivables to Banks →**Accounting Policy**

Loans and receivables to banks include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than –

- Those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss.
- Those that the Group, upon initial recognition, designates as available-for-sale.
- Those for which the Group may not recover substantially all of its initial investment, other than due to credit deterioration.

'Loans and receivables to banks' include amounts due from banks. After initial measurement, loans and receivables are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the Income Statement. The losses arising from impairment are recognised in 'Impairment charge for loans and other losses' in the Income Statement.

| As at 31st December | Bank | | Group | |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Gross loans and receivables | 31,834,072 | 23,717,823 | 31,834,072 | 23,735,825 |
| (Less): Individual impairment | - | - | - | - |
| Net loans and receivables | 31,834,072 | 23,717,823 | 31,834,072 | 23,735,825 |

22. (a) Analysis by Product →

| As at 31st December | Bank | | Group | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Loans and receivables | | | | |
| Short-term loans | 6,297,207 | - | 6,297,207 | - |
| Long-term loans | 18,503,946 | 18,082,182 | 18,503,946 | 18,082,182 |
| Securities purchased under resale agreements | 2,406,732 | 1,278,968 | 2,406,732 | 1,296,970 |
| Debentures | 4,126,976 | 4,356,673 | 4,126,976 | 4,356,673 |
| Securitisation/Trust certificates | 499,210 | - | 499,210 | - |
| Gross total | 31,834,072 | 23,717,823 | 31,834,072 | 23,735,825 |

22. Loans and Receivables to Banks (Contd.) →**22. (b) Analysis by Currency**

All loans and receivables to banks are in Sri Lankan Rupees.

23. Loans and Receivables to Other Customers →**Accounting Policy**

Loans and receivables to other customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than –

- Those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss.
- Those that the Group, upon initial recognition, designates as available-for-sale.
- Those for which the Group may not recover substantially all of its initial investment, other than due to credit deterioration.

After initial measurement, loans and receivables are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the Income Statement. The losses arising from impairment are recognised in 'impairment charge for loans and other losses' in the Income Statement.

| As at 31st December | Bank | | Group | |
|--|--------------------|------------------|--------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Gross loans and receivables | 293,708,714 | 251,125,051 | 292,909,893 | 251,129,946 |
| (Less): Individual impairment | - | - | - | - |
| Collective impairment [Refer – Note 23. (d)] | 1,731,772 | 3,092,209 | 1,731,772 | 3,092,209 |
| Net loans and receivables | 291,976,942 | 248,032,842 | 291,178,121 | 248,037,737 |

23. Loans and Receivables to Other Customers (Contd.) →**23. (a) Analysis by Product** →

| As at 31st December | Bank | | Group | |
|--|--------------------|--------------------|--------------------|--------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Loans and receivables | | | | |
| Pawning | 20,852,188 | 29,869,149 | 20,852,188 | 29,869,149 |
| Staff loans | 4,090,448 | 3,389,283 | 4,090,448 | 3,389,283 |
| Term loans | | | | |
| Short-term | - | 1,145,000 | - | 1,145,000 |
| Long-term | 257,549,045 | 209,789,004 | 257,549,045 | 209,789,004 |
| Securities purchased under resale agreements | 2,496,838 | - | 1,698,017 | 4,895 |
| Others | | | | |
| Securitisation/Trust Certificates | 2,695,185 | 2,413,639 | 2,695,185 | 2,413,639 |
| Loan to Government | 2,075,000 | 2,075,000 | 2,075,000 | 2,075,000 |
| Others | 3,950,010 | 2,443,976 | 3,950,010 | 2,443,976 |
| Gross total | 293,708,714 | 251,125,051 | 292,909,893 | 251,129,946 |

23. (b) Analysis by Industry →

| As at 31st December | Bank | | Group | |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Agriculture and fishing | 10,869,217 | 13,742,026 | 10,869,217 | 13,742,026 |
| Manufacturing | 505,113 | 75,726 | 505,113 | 75,726 |
| Tourism | 81,090 | 98,828 | 81,090 | 98,828 |
| Transport | 983,022 | 971,097 | 983,022 | 971,097 |
| Construction/Housing | 65,006,143 | 61,277,060 | 65,006,143 | 61,277,060 |
| Traders | 1,237,814 | - | 1,237,814 | - |
| Others | | | | |
| Financial & business services | 6,899,422 | 5,981,910 | 6,899,422 | 5,981,910 |
| Infrastructure | 60,412,604 | 59,942,018 | 60,412,604 | 59,942,018 |
| Power & energy | 10,254,573 | 11,864,587 | 10,254,573 | 11,864,587 |
| Education | 23,701,503 | 19,100,178 | 23,701,503 | 19,100,178 |
| Government | 2,075,000 | 2,075,000 | 2,075,000 | 2,075,000 |
| Personal/Pawning/Others | 111,683,213 | 75,996,621 | 110,884,392 | 76,001,517 |
| Gross total | 293,708,714 | 251,125,051 | 292,909,893 | 251,129,946 |

23. Loans and Receivables to Other Customers (Contd.) →**23. (c) Analysis by Currency** →

| As at 31st December | Bank | | Group | |
|-----------------------|--------------------|--------------------|--------------------|--------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Sri Lankan Rupees | 273,730,701 | 235,610,549 | 272,931,880 | 235,615,444 |
| United States Dollars | 19,978,013 | 15,514,502 | 19,978,013 | 15,514,502 |
| Gross total | 293,708,714 | 251,125,051 | 292,909,893 | 251,129,946 |

23. (d) Movements in Collective Impairment Charges during the Year →**Accounting Policy****Individual Assessment of Impairment**

For financial assets carried at amortised cost (such as amounts due from banks, loans and receivable to customers as well as held-to-maturity investments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the Income Statement. Interest income continues to be accrued on the reduced carrying amount at the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Group has reclassified trading assets to loans and receivables, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increased or decreased because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

23. Loans and Receivables to Other Customers (Contd.) →**23. (d) Movements in Collective Impairment Charges during the Year (Contd.)** →**Collective Assessment of Impairment**

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effect of current conditions on which the historical loss experience is based and to remove the effect of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of 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.

Collateral Valuation

The Group uses collateral where possible to mitigate the risk on financial assets. The collateral comes in various forms such as cash, gold, Government Securities. To the extent possible, the Bank uses active market data for valuing financial assets held as collaterals.

| | Bank | | Group | |
|--------------------------------------|--------------------|------------------|--------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| <i>As at 31st December</i> | | | | |
| Collective impairment | | | | |
| Opening balance | 3,092,209 | 3,925,172 | 3,092,209 | 3,925,172 |
| Charge to Income Statement (Note 10) | (99,693) | 2,139,553 | (99,693) | 2,139,553 |
| Net write-off during the year | (1,260,744) | (2,972,516) | (1,260,744) | (2,972,516) |
| Closing balance | 1,731,772 | 3,092,209 | 1,731,772 | 3,092,209 |

24. Financial Investments – Available-for-Sale →

► **Accounting Policy**

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Equity investments under AFS that do not have quoted market price and whose fair value cannot be reliably measured shall be measured at cost.

Unrealised gains and losses are recognised directly in equity (Other Comprehensive Income) in the 'available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Income Statement in 'Net gain/(loss) from financial investment'. Where the Group holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is recorded as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the Income Statement as 'Other Operating Income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the Income Statement in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

Impairment of Available-for-Sale Financial Investments

For available-for-sale financial investments including debt securities, the Group assesses at each Reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial asset carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Income Statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increased and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the Income Statement, the impairment loss is reversed through the Income Statement.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Group treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Other Comprehensive Income is removed from equity and recognised in the Income Statement. Impairment losses on equity investments are not reversed through the Income Statement; increases in the fair value after impairment are recognised in Other Comprehensive Income.

Notes to the Financial Statements

24. Financial Investments – Available-for-Sale (Contd.) →

| As at 31st December | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Quoted Investments | | | | |
| Equity Securities [Note 24. (a)] | 3,332,148 | 3,526,070 | 3,332,148 | 3,526,070 |
| Debt Securities [Note 24. (b)] | – | – | 199,839 | 186,061 |
| Other Investments | | | | |
| Sri Lanka Government Securities – Treasury Bonds [Note 24. (c)] | 2,104,031 | – | 3,797,944 | 1,834,209 |
| Unquoted Investments | | | | |
| Equity Securities [Note 24. (d)] | 791,585 | 859,697 | 792,585 | 860,697 |
| Net Available-for-sale investments | 6,227,764 | 4,385,767 | 8,122,516 | 6,407,037 |

24. (a) Quoted Investments – Equity Securities – Bank and Group →

| | 2016 | | | 2015 | | |
|------------------------------|---------------|------------------|------------------------|---------------|------------------|------------------------|
| | No. of shares | Cost Rs. '000 | Fair value Rs. '000 | No. of shares | Cost Rs. '000 | Fair value Rs. '000 |
| Hatton National Bank PLC | 9,523,878 | 1,301,845 | 2,118,873 | 9,371,940 | 1,301,845 | 1,964,598 |
| Sri Lanka Telecom PLC | 13,158,700 | 445,643 | 474,913 | 13,158,700 | 445,643 | 611,532 |
| People's Leasing Company PLC | 43,668,157 | 784,405 | 738,362 | 43,668,157 | 784,405 | 949,940 |
| | | 2,531,893 | 3,332,148 | | 2,531,893 | 3,526,070 |

24. (b) Quoted Investments – Debt Securities – Group →

| | 2016 | | | 2015 | | |
|-------------------------------|-------------------|------------------|------------------------|-------------------|------------------|------------------------|
| | No. of debentures | Cost Rs. '000 | Fair value Rs. '000 | No. of debentures | Cost Rs. '000 | Fair value Rs. '000 |
| Pan Asia Bank Corporation PLC | 500,000 | 50,000 | 51,234 | 500,000 | 50,000 | 51,221 |
| People's Leasing Company PLC | 945,000 | 94,500 | 95,735 | 945,000 | 94,500 | 95,703 |
| HDFC Bank of Sri Lanka | 386,800 | 38,680 | 39,154 | 386,800 | 38,680 | 39,137 |
| Seylan Bank PLC | 129,400 | 12,940 | 13,717 | – | – | – |
| | | 196,120 | 199,839 | | 183,180 | 186,061 |

Notes to the Financial Statements

24. Financial Investments – Available-for-Sale (Contd.) →**24. (c) Other Investments** →

| | 2016 – Bank | | | 2015 – Bank | | |
|--|--------------|--------------------|------------|--------------|--------------------|------------|
| | Face value | Cost of investment | Fair value | Face value | Cost of investment | Fair value |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Sri Lanka Government Securities – Treasury Bonds | 2,175,000 | 2,012,176 | 2,104,031 | – | – | – |
| | | 2,012,176 | 2,104,031 | | – | – |
| | 2016 – Group | | | 2015 – Group | | |
| | Face value | Cost of investment | Fair value | Face value | Cost of investment | Fair value |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Sri Lanka Government Securities – Treasury Bonds | 3,850,000 | 3,975,296 | 3,797,944 | 1,675,000 | 1,963,120 | 1,834,209 |
| | | 3,975,296 | 3,797,944 | | 1,963,120 | 1,834,209 |

24. (d) Unquoted Investments – Equity Securities →

| | 2016 – Bank | | | 2015 – Bank | | |
|--|---------------|----------|-----------------|---------------|----------|-----------------|
| | No. of shares | Cost | Cost/Fair value | No. of shares | Cost | Cost/Fair value |
| | | Rs. '000 | Rs. '000 | | Rs. '000 | Rs. '000 |
| Investment – Credit Information Bureau | 30,450 | 57,364 | 57,364 | 30,450 | 57,364 | 57,364 |
| Investment – Associated Newspapers Ceylon Ltd. | 20,000 | 127 | 127 | 20,000 | 127 | 127 |
| Investment – Regional Development Bank (RDB) | 16,452,126 | 164,521 | 734,094 | 16,452,126 | 164,521 | 802,206 |
| (Less): Impairment | | – | – | | – | – |
| | | 222,012 | 791,585 | | 222,012 | 859,697 |

24. Financial Investments – Available-for-Sale (Contd.) →

| | 2016 – Group | | | 2015 – Group | | |
|--|---------------|------------------|-----------------------------|---------------|------------------|-----------------------------|
| | No. of shares | Cost Rs. '000 | Cost/Fair value Rs. '000 | No. of shares | Cost Rs. '000 | Cost/Fair value Rs. '000 |
| Investment – Credit Information Bureau | 30,450 | 57,364 | 57,364 | 30,450 | 57,364 | 57,364 |
| Investment – Associated Newspapers Ceylon Ltd. | 20,000 | 127 | 127 | 20,000 | 127 | 127 |
| Investment – Regional Development Bank (RDB) | 16,452,126 | 164,521 | 734,094 | 16,452,126 | 164,521 | 802,206 |
| Investment – Sri Lankan Financial Services Bureau | 100,000 | 1,000 | 1,000 | 100,000 | 1,000 | 1,000 |
| (Less): Impairment | | - | - | | - | - |
| | | 223,012 | 792,585 | | 223,012 | 860,697 |

All unquoted available-for-sale equities (except RDB) are recorded at cost, since its fair value cannot be reliably estimated. There is no active market for these investments and Bank intends to hold it for the long-term. The investment in RDB shares have been fair valued using a valuation model based on observable data.

25. Financial Investments – Held-to-Maturity →**Accounting Policy**

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the Income Statement. The losses arising from impairment of such investments are recognised in the Income Statement line 'Impairment charge for loans and other losses'.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

Notes to the Financial Statements

25. Financial Investments – Held-to-Maturity (Contd.) →

| As at 31st December | Bank | | Group | |
|---|--------------------|--------------------|--------------------|--------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Sri Lanka Government Securities | | | | |
| Treasury Bills | 17,279,328 | 65,977,455 | 17,279,328 | 65,977,455 |
| Treasury Bonds | 430,456,075 | 393,799,923 | 432,256,631 | 396,011,407 |
| Sri Lanka Development Bond – USD | 58,088,995 | 55,525,327 | 58,088,995 | 55,525,327 |
| (Less): Impairment | - | - | - | - |
| Net held-to-maturity investments | 505,824,398 | 515,302,705 | 507,624,954 | 517,514,189 |

The Bank has pledged Treasury Bills and Treasury Bonds held-to-maturity of Rs. 63,413 Million as collateral as at 31st December 2016 (2015: Rs. 43,940 Million) and Rs. 73,809 Million for the Group (2015: Rs. 51,656 Million).

26. Investments in Subsidiaries →**Accounting Policy**

Investments in subsidiary companies are accounted at cost less allowance for impairment in Financial Statements of the Bank. The net assets of subsidiary company are reviewed at each Reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of investment is estimated and the impairment loss is recognised to the extent of its loss in net assets.

| As at 31st December | 2016 | | 2015 | | 2016 | | 2015 | |
|---|--------------|--------------|------------------|--------------------------------------|------------------|-------------------------------------|------------------|-------------------------------------|
| | Holding % | Holding % | Cost Rs. '000 | Directors' valuation* Rs. '000 | Cost Rs. '000 | Directors' valuation Rs. '000 | Cost Rs. '000 | Directors' valuation Rs. '000 |
| Unquoted Equity Share | | | | | | | | |
| NSB Fund Management Co. Ltd. (15,000,000 Ordinary Shares of Rs. 10/- each) | 100 | 100 | 150,000 | 1,691,209 | 150,000 | 1,730,917 | 150,000 | 1,730,917 |
| (Less): Impairment | | | - | - | - | - | - | - |
| Net total | | | 150,000 | 1,691,209 | 150,000 | 1,730,917 | 150,000 | 1,730,917 |

* The Director's valuation of investments in subsidiary has been carried out on net asset basis as at 31st December 2016 based on Audited Financial Statements.

27. Property, Plant & Equipment →

► **Accounting Policy**

Basis of Recognition

Property, Plant & Equipment are recognised if it is probable that future benefits associated with the asset will flow to the Group and cost of the asset can be reliably measured. Property, Plant & Equipment are initially measured at cost including costs directly attributable to the acquisition of the asset.

Basis of Measurement

An item of Property, Plant & Equipment that qualifies for recognition as an asset is initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs. The self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bring the asset to a working condition for its intended use and the cost of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of computer equipment.

When parts of an item of Property, Plant & Equipment have different useful lives, they are accounted for as separate items (major components) of Property, Plant & Equipment.

Cost Model

The Group applies cost model to Property, Plant & Equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

Revaluation Model

The Group applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and buildings of the Group are revalued every three years or more frequently, if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ materially from the fair values at the Reporting date.

On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to Income Statement. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Income Statement or debited in the Other Comprehensive Income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the Revaluation Reserve in respect of an asset is transferred directly to Retained Earnings on retirement or disposal of the asset.

27. Property, Plant & Equipment (Contd.) →**Derecognition**

Property, plant & equipment are derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the Income Statement in the year the asset is derecognised.

Capital Work-in-Progress

These are expenses of capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost less any accumulated impairment losses. Capital work-in-progress is transferred to the relevant asset when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation

Depreciation is recognised in profit or loss on the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. Depreciation rates for the identified classes of assets are as follows:

| Category of Asset | Depreciation rate per annum (%) |
|--------------------------------|---------------------------------|
| Leasehold property | over the period of lease |
| Freehold buildings | 2.5% p.a. |
| Office and sundry equipment | 10% p.a. |
| Motor vehicles | 20% p.a. |
| Computer hardware and software | 25% p.a. |
| Furniture and fittings | 10% p.a. |

The Group provides for depreciation of an assets commence from the date when they are available for use to the date of disposal of the asset.

27. Property, Plant & Equipment (Contd.) →**27. (a) Property, Plant & Equipment – Bank – 2016** →

| | Land and buildings | Leasehold properties | Computer hardware | Office equipment, furniture and fittings | Others | Building work-in- progress | Total |
|--|-----------------------|-------------------------|----------------------|---|----------------|----------------------------------|------------------|
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Cost/Valuation | | | | | | | |
| Opening balance as at 1st January 2016 | 5,498,292 | 474,060 | 1,877,980 | 1,512,787 | 290,826 | 134,375 | 9,788,320 |
| Adjustments | (35,475) | - | (16,661) | - | - | (46,268) | (98,404) |
| Additions | 102,403 | 14,257 | 208,230 | 180,577 | 53,914 | 56,101 | 615,482 |
| Revaluation | - | - | - | - | - | - | - |
| Disposals | - | - | (7,732) | (42,396) | (5) | (66,928) | (117,061) |
| Closing balance as at 31st December 2016 | 5,565,220 | 488,317 | 2,061,817 | 1,650,968 | 344,735 | 77,280 | 10,188,337 |
| (Less): Accumulated depreciation | | | | | | | |
| Opening balance as at 1st January 2016 | - | 58,683 | 1,639,704 | 915,173 | 207,690 | - | 2,821,250 |
| Adjustments | - | - | (3,371) | - | - | - | (3,371) |
| Charge for the year | 41,214 | 7,198 | 103,790 | 115,289 | 32,762 | - | 300,253 |
| Disposals | - | - | (7,732) | (41,709) | (5) | - | (49,446) |
| Closing balance as at 31st December 2016 | 41,214 | 65,881 | 1,732,391 | 988,753 | 240,447 | - | 3,068,686 |
| (Less): Impairment | - | - | - | - | - | - | - |
| Net book value as at 31st December 2016 | 5,524,006 | 422,436 | 329,426 | 662,215 | 104,288 | 77,280 | 7,119,651 |

27. Property, Plant & Equipment (Contd.) →**27. (a) Property, Plant & Equipment – Bank – 2015** →

| | Land and buildings | Leasehold properties | Computer hardware | Office equipment, furniture and fittings | Others | Building work-in- progress | Total |
|--|-----------------------|-------------------------|----------------------|---|---------------|----------------------------------|------------------|
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Cost/Valuation | | | | | | | |
| Opening balance as at 1st January 2015 | 4,350,222 | 475,549 | 1,700,164 | 1,361,893 | 263,383 | 44,991 | 8,196,202 |
| Adjustments | - | - | (1,994) | - | - | - | (1,994) |
| Additions | - | - | 192,000 | 168,609 | 28,979 | 90,806 | 480,394 |
| Revaluation | 1,231,119 | - | - | - | - | - | 1,231,119 |
| Depreciation adjustment for revalued assets | (85,960) | - | - | - | - | - | (85,960) |
| Disposals | - | - | (12,190) | (17,715) | (1,536) | - | (31,441) |
| Transfers | 2,911 | (1,489) | - | - | - | (1,422) | - |
| Closing balance as at 31st December 2015 | 5,498,292 | 474,060 | 1,877,980 | 1,512,787 | 290,826 | 134,375 | 9,788,320 |
| (Less): Accumulated depreciation | | | | | | | |
| Opening balance as at 1st January 2015 | 42,433 | 51,932 | 1,574,137 | 824,156 | 173,800 | - | 2,666,458 |
| Adjustments | - | (447) | (330) | - | - | - | (777) |
| Charge for the year | 43,527 | 7,198 | 78,086 | 108,461 | 35,426 | - | 272,698 |
| Depreciation adjustment for revalued assets | (85,960) | - | - | - | - | - | (85,960) |
| Disposals | - | - | (12,189) | (17,444) | (1,536) | - | (31,169) |
| Closing balance as at 31st December 2015 | - | 58,683 | 1,639,704 | 915,173 | 207,690 | - | 2,821,250 |
| (Less): Impairment | - | - | - | - | - | - | - |
| Net book value as at 31st December 2015 | 5,498,292 | 415,377 | 238,276 | 597,614 | 83,136 | 134,375 | 6,967,070 |

27. Property, Plant & Equipment (Contd.) →**27. (b) Property, Plant & Equipment – Group – 2016** →

| | Land and buildings | Leasehold properties | Computer hardware | Office equipment, furniture and fittings | Others | Building work-in- progress | Total |
|--|-----------------------|-------------------------|----------------------|---|----------------|----------------------------------|------------------|
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Cost/Valuation | | | | | | | |
| Opening balance as at 1st January 2016 | 5,498,292 | 474,060 | 1,883,308 | 1,514,177 | 290,825 | 134,375 | 9,795,038 |
| Adjustments | (35,475) | - | (16,661) | - | - | (46,268) | (98,404) |
| Additions | 102,403 | 14,257 | 208,230 | 180,995 | 53,914 | 56,265 | 616,064 |
| Revaluation | - | - | - | - | - | - | - |
| Disposals | - | - | (9,034) | (42,414) | (5) | (66,928) | (118,381) |
| Closing balance as at 31st December 2016 | 5,565,220 | 488,317 | 2,065,843 | 1,652,758 | 344,734 | 77,444 | 10,194,317 |
| (Less): Accumulated depreciation | | | | | | | |
| Opening balance as at 1st January 2016 | - | 58,683 | 1,643,238 | 916,135 | 207,690 | - | 2,825,746 |
| Adjustments | - | - | (3,371) | - | - | - | (3,371) |
| Charge for the year | 41,214 | 7,198 | 104,309 | 115,400 | 32,762 | - | 300,883 |
| Disposals | - | - | (9,034) | (41,725) | (5) | - | (50,764) |
| Closing balance as at 31st December 2016 | 41,214 | 65,881 | 1,735,142 | 989,810 | 240,447 | - | 3,072,494 |
| (Less): Impairment | - | - | - | - | - | - | - |
| Net book value as at 31st December 2016 | 5,524,006 | 422,436 | 330,701 | 662,948 | 104,287 | 77,444 | 7,121,823 |

27. Property, Plant & Equipment (Contd.) →**27. (b) Property, Plant & Equipment – Group – 2015** →

| | Land and buildings | Leasehold properties | Computer hardware | Office equipment, furniture and fittings | Others | Building work-in- progress | Total |
|--|-----------------------|-------------------------|----------------------|---|----------|----------------------------------|-----------|
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Cost/Valuation | | | | | | | |
| Opening balance as at 1st January 2015 | 4,350,222 | 475,549 | 1,703,819 | 1,363,283 | 263,382 | 44,991 | 8,201,246 |
| Adjustments | - | - | (1,994) | - | - | - | (1,994) |
| Additions | - | - | 193,673 | 168,609 | 28,979 | 90,806 | 482,067 |
| Revaluation | 1,231,119 | - | - | - | - | - | 1,231,119 |
| Depreciation adjustment for revalued assets | (85,960) | - | - | - | - | - | (85,960) |
| Disposals | - | - | (12,190) | (17,715) | (1,536) | - | (31,441) |
| Transfers | 2,911 | (1,489) | - | - | - | (1,422) | - |
| Closing balance as at 31st December 2015 | 5,498,292 | 474,060 | 1,883,308 | 1,514,177 | 290,825 | 134,375 | 9,795,038 |
| (Less): Accumulated depreciation | | | | | | | |
| Opening balance as at 1st January 2015 | 42,433 | 51,932 | 1,577,447 | 825,012 | 173,800 | - | 2,670,624 |
| Adjustments | - | (447) | (330) | - | - | - | (777) |
| Charge for the year | 43,527 | 7,198 | 78,310 | 108,567 | 35,426 | - | 273,028 |
| Depreciation adjustment for revalued assets | (85,960) | - | - | - | - | - | (85,960) |
| Disposals | - | - | (12,189) | (17,444) | (1,536) | - | (31,169) |
| Closing balance as at 31st December 2015 | - | 58,683 | 1,643,238 | 916,135 | 207,690 | - | 2,825,746 |
| (Less): Impairment | - | - | - | - | - | - | - |
| Net book value as at 31st December 2015 | 5,498,292 | 415,377 | 240,070 | 598,042 | 83,135 | 134,375 | 6,969,292 |

27. (c) Revaluation →

The Bank has revalued its land and buildings, by professionally qualified independent valuers. The revaluation was carried out by taking into account the observable prices in active market or recent market transactions on arm's length basis. Accordingly a revaluation surplus, amounting to Rs. 1,231 Million had been credited to the Revaluation Reserve Account in 2015.

27. Property, Plant & Equipment (Contd.) →**27. (d) Land and Buildings of the Bank** →

Land and building balance include freehold land value of Rs. 3,883,904,000/-.

27. (e) Property, Plant & Equipment Pledged as Security for Liabilities →

There were no items of Property, Plant & Equipment pledged as securities for liabilities.

27. (f) Fully Depreciated Property, Plant & Equipment →

The initial cost of fully-depreciated Property, Plant & Equipment, which are still in use as at Reporting date is as follows:

| As at 31st December | Group | |
|--|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 |
| Computer hardware | 1,525,529 | 1,501,480 |
| Office equipment, furniture and fittings | 270,382 | 257,972 |
| Intangible assets | 564,906 | 399,678 |
| Others – Sundry equipments | 160,881 | 148,267 |

28. Intangible Assets →**Accounting Policy**

The Group's intangible assets consist of the value of purchased computer software.

Basis of Recognition

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Basis of Measurement

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

28. Intangible Assets (Contd.) →**Useful Economic Life and Amortisation**

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function of the intangible asset.

Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the Income Statement in the year the asset is derecognised.

The Group does not possess intangible assets with indefinite useful economic life. The estimated economic life of the Group's computer software is four years (25% per annum).

| As at 31st December | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Cost | | | | |
| Opening balance | 504,410 | 474,351 | 506,380 | 476,321 |
| Additions | 134,926 | 30,059 | 134,926 | 30,059 |
| Disposals | - | - | - | - |
| Closing balance | 639,336 | 504,410 | 641,306 | 506,380 |
| (Less): Accumulated Amortisation | | | | |
| Opening balance | 446,553 | 409,699 | 448,523 | 411,662 |
| Charge for the year | 35,512 | 36,854 | 35,512 | 36,861 |
| Disposals | - | - | - | - |
| Closing balance | 482,065 | 446,553 | 484,035 | 448,523 |
| Net book value | 157,271 | 57,857 | 157,271 | 57,857 |

29. Deferred Tax Assets/Liabilities →**Accounting Policy**

Detailed discussion on deferred tax is given in Note 13 on Page 227.

| As at 31st December | Bank | | Group | |
|--------------------------------------|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| 29. (a) Deferred Tax Assets → | | | | |
| Deferred tax assets | - | - | 228 | 668 |
| Income Statement | - | - | 360 | (440) |
| Deferred tax assets | - | - | 588 | 228 |

29. (b) Deferred Tax Liabilities →

| | | | | |
|-------------------------------------|----------|---------|----------|---------|
| Deferred tax liabilities | 504,423 | 269,754 | 504,423 | 269,754 |
| Income Statement | (88,243) | 234,669 | (88,243) | 234,669 |
| Net deferred tax liabilities | 416,180 | 504,423 | 416,180 | 504,423 |

30. Other Assets →

| As at 31st December | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Notional Tax/WHT receivable (Refer Note 4 e) | 5,813,616 | 4,787,341 | 5,833,897 | 4,814,802 |
| Receivables | 3,601,388 | 2,043,055 | 3,710,443 | 2,042,593 |
| Receivable from Treasury on Interest (Senior citizen) | 4,332,737 | 1,894,847 | 4,332,737 | 1,894,847 |
| Deposits and prepayments | 199,139 | 250,638 | 199,139 | 250,638 |
| Advance payment to Treasury (Note a) | 4,800,000 | 5,333,333 | 4,800,000 | 5,333,333 |
| Advance payment made to pension II (Refer Note 34 (a) 2) | 80,656 | - | 80,656 | - |
| Sundry debtors | 35,022 | 2,369 | 35,022 | 2,369 |
| Other assets | 2,898,882 | 2,008,598 | 2,898,882 | 2,008,598 |
| Total | 21,761,440 | 16,320,181 | 21,890,777 | 16,347,180 |

Note (a)

At the request of Treasury, the Bank paid an advance of Rs. 6,000 Million in 2012 and Rs. 2,000 Million in 2013 as confirmed by the Treasury to be set-off against the profit within a period of six years starting from 2014. Effective from 1st January 2016, Treasury has agreed to set off the balance amount of Rs. 5,333 Million against the profit within a period of 10 years.

Notes to the Financial Statements

31. Due to Banks →► **Accounting Policy**

Due to banks represents overdrafts, call money borrowings and Repos by the subsidiary. Subsequent to initial recognition deposits are measured at their amortised cost using EIR method. Interest paid/payable on these dues are recognised in the Income Statement under Interest Expense.

| As at 31st December | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Securities sold under repurchase (Repo) agreements | - | - | 2,743,282 | 35,103 |
| Other facilities | 115,391 | 75,093 | 115,391 | 75,093 |
| Total | 115,391 | 75,093 | 2,858,673 | 110,196 |

32. Due to Other Customers →► **Accounting Policy**

Due to other customers include savings deposits and term deposits. Subsequent to initial recognition deposits are measured at their amortised cost using EIR method. Interest paid/payable on deposits are recognised in the Income Statement under Interest Expense.

| As at 31st December | Bank | | Group | |
|-------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Amount due to other customers | 657,280,315 | 595,775,709 | 657,280,315 | 595,775,709 |
| Total | 657,280,315 | 595,775,709 | 657,280,315 | 595,775,709 |

Notes to the Financial Statements

32. Due to Other Customers (Contd.) →**32. (a) Analysis by Product** →

| As at 31st December | Bank | | Group | |
|---------------------|--------------------|--------------------|--------------------|--------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Savings deposits | 176,347,004 | 163,381,708 | 176,347,004 | 163,381,708 |
| Fixed deposits | 480,933,311 | 432,394,001 | 480,933,311 | 432,394,001 |
| Total | 657,280,315 | 595,775,709 | 657,280,315 | 595,775,709 |

32. (b) Analysis by Currency →

| As at 31st December | Bank | | Group | |
|----------------------|--------------------|--------------------|--------------------|--------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Sri Lankan Rupee | 648,802,789 | 588,402,326 | 648,802,789 | 588,402,326 |
| United States Dollar | 5,330,985 | 4,253,868 | 5,330,985 | 4,253,868 |
| Euro | 1,245,906 | 1,294,986 | 1,245,906 | 1,294,986 |
| Great Britain Pound | 1,076,387 | 1,077,841 | 1,076,387 | 1,077,841 |
| Australian Dollar | 824,248 | 746,688 | 824,248 | 746,688 |
| Total | 657,280,315 | 595,775,709 | 657,280,315 | 595,775,709 |

33. Other Borrowings →

► **Accounting Policy**

33.1 Securities Sold under Repurchase Agreements →

Securities sold under agreements to repurchase at a specified future date are not derecognised from the Statement of Financial Position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the Consolidated Statement of Financial Position as financial liability reflecting as a loan received by the Group, including accrued interest as a liability within 'Securities sold under repurchase agreements', reflecting the transaction's economic substance. The difference between the sale and repurchase prices is treated as interest expenses and is accrued over the life of agreement using the EIR.

33.2 Senior Notes Issued →

These represent the funds borrowed by the Bank for long-term funding requirement. It consists of borrowings through international bonds (USD denominated). Subsequent to initial recognition debt securities issued are measured at their amortised cost using EIR method. Interest paid/payable is recognised in profit or loss.

Foreign currency denominated debt securities as at the Reporting date are translated to the functional currency at the middle exchange rate of the functional currency at that date. Foreign currency differences arising on retranslation at the Reporting date are recognised in profit or loss.

| | Bank | | Group | |
|---|--------------------|------------------|--------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| <i>As at 31st December</i> | | | | |
| Securities sold under repurchase (Repo) agreements | 54,111,728 | 60,127,470 | 59,701,246 | 66,805,376 |
| Senior notes issued [Note 33. (a)] | 152,928,181 | 146,898,055 | 152,928,181 | 146,898,055 |
| Total | 207,039,909 | 207,025,525 | 212,629,427 | 213,703,431 |

33. (a) Senior Notes Issued →

| Senior notes issued | Interest payable frequency | Issued date | Maturity date | Coupon rate % | 2016 Rs. '000 | 2015 Rs. '000 |
|--|-------------------------------|-------------|---------------|------------------|--------------------|------------------|
| 750 Million US Dollar senior note | Semi-Annually | 18.09.2013 | 18.09.2018 | 8.875 | 114,980,416 | 110,434,196 |
| 250 Million US Dollar senior note | Semi-Annually | 10.09.2014 | 10.09.2019 | 5.150 | 37,947,765 | 36,463,859 |
| | | | | | 152,928,181 | 146,898,055 |

34. Other Liabilities →**Accounting Policy**

Other liabilities include provisions made in account of interests, fees and expenses, pensions, leave encashment and other expenses. These liabilities are recorded at amounts expected to be payable at Reporting date.

| As at 31st December | Bank | | Group | |
|--|------------------|-------------------|------------------|-------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Sundry creditors | 91,375 | 89,467 | 92,487 | 89,467 |
| Interest payable | 88,054 | 88,058 | 88,054 | 88,058 |
| Provision for pension scheme I [Note 34. (a) 1] | 1,252,553 | 4,258,336 | 1,252,553 | 4,258,336 |
| Provision for pension scheme II [Note 34. (a) 2] | - | 984,906 | - | 984,906 |
| Provision for medical assistance scheme [Note 34. (a) 3] | 644,377 | 549,827 | 644,377 | 549,827 |
| Provision for gratuity [Note 34. (a) 4] | - | - | 1,260 | 1,346 |
| Unamortised day one difference currency Swaps (Refer Note 19.2) | 2,448,670 | 3,189,262 | 2,448,670 | 3,189,262 |
| Other payables | 4,075,027 | 3,114,578 | 4,081,104 | 3,125,094 |
| Total | 8,600,056 | 12,274,434 | 8,608,506 | 12,286,296 |

34. (a) Defined Benefit Plans →

The Bank has two separate pension schemes established, Pension Scheme I for permanent employees joined before 1st October 1995 and Pension Scheme II for permanent employees joined on or after 1st October 1995 and a Medical Assistance Scheme for retired employees.

The assets of these schemes are held independently of the Bank's assets and administered by Boards of Trustees/Managers, representing the management and the employees, as provided in the trust deed/rules of the respective funds.

All the funds are subject to annual audits independent to the audit of the Bank, by a firm of Chartered Accountants appointed by the members and actuarial valuations are carried out at least once in every two years, as per the rules governing these funds.

34. Other Liabilities (Contd.) →**34. (a) Defined Benefit Plans (Contd.)****34. (a) 1. National Savings Bank Employees' Pension Scheme I****Pension Scheme I**

An actuarial valuation was carried out by Mr. Piyal S. Goonetilleke, Fellow of Society of Actuaries (USA) of Piyal S. Goonetilleke and Associates, on 31st December 2016.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31st December 2016.

| | 2016 | |
|--|--------------------|--------------------|
| | Bank Rs. '000 | Group Rs. '000 |
| (a) Net Asset/(Liability) Recognised in Statement of Financial Position | | |
| Fair value of plan assets | 13,198,392 | 13,198,392 |
| Defined benefit obligation | (14,450,945) | (14,450,945) |
| Total | (1,252,553) | (1,252,553) |
| (b) Amount Recognised in Income Statement | | |
| Current service cost | 155,778 | 155,981 |
| Interest cost on benefit obligation | 421,816 | 421,816 |
| Net benefit expense | 577,594 | 577,797 |
| (c) Amount Recognised in Other Comprehensive Income (OCI) | | |
| Provision adjustment | (796,913) | (796,913) |
| Experience (gain)/loss | 1,017,720 | 1,017,720 |
| (Gain)/loss due to changes in assumptions | (2,400,266) | (2,400,266) |
| Actuarial gain/(loss) on plan assets | 84,779 | 84,779 |
| Difference in interest income on plan assets | 153,482 | 153,482 |
| Total | (1,941,199) | (1,941,199) |

34. Other Liabilities (Contd.) →**34. (a) Defined Benefit Plans (Contd.)** →**34. (a) 1 National Savings Bank Employees' Pension Scheme I (Contd.)**

| | 2016 | |
|---|-------------------|-------------------|
| | Bank Rs. '000 | Group Rs. '000 |
| (d) Changes in Fair Value of Plan Assets are as follows: | | |
| Opening fair value of plan assets | 12,189,981 | 12,189,981 |
| Expected return on plan assets | 966,365 | 966,365 |
| Actual employer contribution | 1,642,381 | 1,642,381 |
| Benefits paid | (1,515,555) | (1,515,555) |
| Actuarial gain/(loss) on plan assets | (84,779) | (84,779) |
| Closing fair value of plan assets | 13,198,392 | 13,198,392 |
| (e) Changes in Present Value of Defined Benefit Obligation are as follows: | | |
| Opening defined benefit obligation | 15,651,403 | 15,651,403 |
| Interest cost | 1,541,663 | 1,541,663 |
| Current service cost | 155,980 | 155,980 |
| Benefits paid | (1,515,555) | (1,515,555) |
| (Gain)/loss due to changes in assumptions | (2,400,266) | (2,400,266) |
| Actuarial (gain)/loss on obligation | 1,017,720 | 1,017,720 |
| Closing defined benefit obligation | 14,450,945 | 14,450,945 |
| (f) Plan Assets Consists of followings: | | |
| Treasury Bonds | 7,114,705 | 7,114,705 |
| Treasury Bills | 2,577,678 | 2,577,678 |
| Fixed deposits | 673,231 | 673,231 |
| Securities purchased under resale agreements | 262,843 | 262,843 |
| Debentures | 2,230,133 | 2,230,133 |
| Cash at Bank of Ceylon | 11,194 | 11,194 |
| Other assets | 328,609 | 328,609 |
| Total | 13,198,392 | 13,198,392 |

Notes to the Financial Statements

34. Other Liabilities (Contd.) →**34. (a) Defined Benefit Plans (Contd.)** →**34. (a) 1 National Savings Bank Employees' Pension Scheme I (Contd.)**

| | Pension Scheme I |
|--|-------------------------|
| | 2016 |
| (g) Actuarial Assumption | |
| Future salary increment rate (%) | 6.50 |
| Discount rate (%) | 12.00 |
| Increase in future Cost of Living Allowance (COLA) (%) | 4.50 |
| Mortality | GA 1983 Mortality table |
| Retirement age | 57 years |
| Normal form of payment | Monthly |
| Turnover rate | |
| Age | % |
| 20 | 2 |
| 25 | 1.5 |
| 30 | 1 |
| 35 | 1 |
| 40 | 1 |
| 45 | 1 |
| 50 | 1 |
| 55 | - |

(h) Increase/decrease in the following assumptions will have an impact on the Present Value of Defined Benefit Obligation as illustrated below:

| | Bank and Group | |
|------------------------------|------------------|-------------|
| | Pension Scheme I | |
| | 1% increase | 1% decrease |
| Future salary increment rate | 14,497,686 | 14,406,862 |
| Discount rate | 13,543,373 | 15,481,918 |

34. Other Liabilities (Contd.) →**34. (a) Defined Benefit Plans (Contd.)** →**34. (a) 2 National Savings Bank Employee's Pension Scheme II**

An actuarial valuation was carried out by Mr. Piyal S. Goonetilleke, Fellow of Society of Actuaries (USA) of Piyal S. Goonetilleke and Associates, on 31st December 2016.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31st December 2016.

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| (a) Net Asset/(Liability) Recognised in Statement of Financial Position | | | | |
| Fair value of plan assets | 1,086,586 | 218,065 | 1,086,586 | 218,065 |
| Defined benefit obligation | (1,005,930) | (1,220,714) | (1,005,930) | (1,220,714) |
| Advanced payment made to pension fund II | - | 17,743 | - | 17,743 |
| Total | 80,656 | (984,906) | 80,656 | (984,906) |
| (b) Amount Recognised in Income Statement | | | | |
| Current service cost | 152,794 | 100,237 | 153,075 | 100,447 |
| Interest cost on benefit obligation | 98,964 | 85,719 | 98,964 | 85,719 |
| Net benefit expense | 251,758 | 185,956 | 252,039 | 186,166 |
| (c) Amount Recognised in Other Comprehensive Income (OCI) | | | | |
| Provision adjustment | - | 879,166 | - | 879,166 |
| Experience (gain)/loss | 23,289 | 20,880 | 23,289 | 20,880 |
| (Gain)/loss due to changes in assumptions | (507,585) | 135,894 | (507,585) | 135,894 |
| Actuarial gain/(loss) on plan assets | (51,278) | (7,097) | (51,278) | (7,097) |
| Difference in interest income on plan assets | 2,916 | - | 2,916 | - |
| | (532,658) | 1,028,843 | (532,658) | 1,028,843 |

34. Other Liabilities (Contd.) →**34. (a) Defined Benefit Plans (Contd.)** →**34. (a) 2 National Savings Bank Employee's Pension Scheme II (Contd.)**

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| (d) Changes in Fair Value of Plan Assets are as follows: | | | | |
| Opening fair value of plan assets | 218,065 | - | 218,065 | - |
| Expected return on plan assets | 18,360 | - | 18,360 | - |
| Actual employer contribution | 802,686 | 212,359 | 802,686 | 212,359 |
| Benefits paid | (3,804) | (1,391) | (3,804) | (1,391) |
| Actuarial gain/(loss) on plan assets | 51,278 | 7,097 | 51,278 | 7,097 |
| Closing fair value of plan assets | 1,086,586 | 218,065 | 1,086,586 | 218,065 |
| (e) Changes in Present Value of Defined Benefit Obligation are as follows: | | | | |
| Opening defined benefit obligation | 1,220,714 | 879,166 | 1,220,714 | 879,166 |
| Interest cost | 120,240 | 85,719 | 120,240 | 85,719 |
| Current service cost | 153,075 | 100,447 | 153,075 | 100,447 |
| Benefits paid | (3,804) | (1,392) | (3,804) | (1,392) |
| (Gain)/loss due to changes in assumptions | (507,585) | 135,894 | (507,585) | 135,894 |
| Actuarial (gain)/loss on obligation | 23,289 | 20,880 | 23,289 | 20,880 |
| Closing defined benefit obligation | 1,005,930 | 1,220,714 | 1,005,930 | 1,220,714 |
| (f) Plan Assets Consists of followings: | | | | |
| Treasury Bonds | 937,115 | 159,761 | 937,115 | 159,761 |
| Treasury Bills | 65,000 | - | 65,000 | - |
| Fixed Deposits | 63,487 | 41,270 | 63,487 | 41,270 |
| Securities purchased under resale agreements | - | 17,034 | - | 17,034 |
| Savings | 186 | - | 186 | - |
| Other assets | 20,798 | - | 20,798 | - |
| Total | 1,086,586 | 218,065 | 1,086,586 | 218,065 |

Notes to the Financial Statements

34. Other Liabilities (Contd.) →**34. (a) Defined Benefit Plans (Contd.)** →**34. (a) 2. National Savings Bank Employee's Pension Scheme II (Contd.)**

| | Bank and Group | |
|---|-------------------------|-------------------------|
| | 2016 % | 2015 % |
| (g) Actuarial Assumption | | |
| Future salary increment rate | 6.50 | 6.50 |
| Discount rate | 12.00 | 9.85 |
| Increase in future Cost of Living Allowances (COLA) | 4.50 | 4.50 |
| Mortality | GA 1983 Mortality table | GA 1983 Mortality table |
| Retirement age | 57 years | 57 years |
| Normal form of payment | Monthly | Monthly |
| Turnover rate | | |
| Age | % | % |
| 20 | 2 | 2 |
| 25 | 1.5 | 1.5 |
| 30 | 1 | 1 |
| 35 | 1 | 1 |
| 40 | 1 | 1 |
| 45 | 1 | 1 |
| 50 | 1 | 1 |
| 55 | - | - |

(h) Increase/decrease in the following assumptions will have an impact on the Present Value of Defined Benefit Obligation as illustrated below:

| | Bank and Group | | | |
|------------------------------|----------------|-------------|-------------|-------------|
| | 2016 | | 2015 | |
| | 1% increase | 1% decrease | 1% increase | 1% decrease |
| Future salary increment rate | 1,145,953 | 887,635 | 1,406,723 | 1,064,681 |
| Discount rate | 846,718 | 1,208,269 | 1,012,490 | 1,490,174 |

34. Other Liabilities (Contd.) →**34. (a) Defined Benefit Plans (Contd.)** →**34. (a) 3 Medical Assistance Scheme for the Retired Employees of NSB**

An actuarial valuation was carried out by Mr. Piyal S. Goonetilleke, Fellow of Society of Actuaries (USA) of Piyal S. Goonetilleke and Associates, on 31st December 2016.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31st December 2016.

| | 2016 Rs. '000 |
|--|------------------|
| (a) Net Asset/(Liability) Recognised in Statement of Financial Position | |
| Fair value of plan assets | 300,986 |
| Defined benefit obligation | (937,788) |
| Less: | |
| Contribution from employees | (7,575) |
| Total | (644,377) |
| (b) Amount Recognised in Income Statement | |
| Current service cost | 4,746 |
| Interest cost on benefit obligation | 66,952 |
| Net benefit expense | 71,698 |
| (c) Amount Recognised in Other Comprehensive Income (OCI) | |
| Provision adjustment | 47,471 |
| Experience (gain)/loss | 232,764 |
| (Gain)/loss due to changes in assumptions | (177,376) |
| Actuarial gain/(loss) on plan assets | (11,788) |
| Difference in interest income on plan assets | 3,480 |
| Total | 94,550 |

34. Other Liabilities (Contd.) →**34. (a) Defined Benefit Plans (Contd.)** →**34. (a) 3 Medical Assistance Scheme for the Retired Employees of NSB (Contd.)****(d) Changes in Fair Value of Plan Assets are as follows:**

| | 2016 Rs. '000 |
|--|------------------|
| Opening fair value of plan assets | 340,170 |
| Expected return on plan assets | 21,909 |
| Actual employer contribution | 71,698 |
| Actual participants' contribution | 7,575 |
| Benefits paid | (152,154) |
| Actuarial gain/(loss) on plan assets | 11,788 |
| Closing fair value of plan assets | 300,986 |

(e) Changes in Present Value of Defined Benefit Obligation are as follows:

| | |
|---|----------------|
| Opening defined benefit obligation | 937,468 |
| Interest cost | 92,341 |
| Current service cost | 4,746 |
| Benefits paid | (152,154) |
| (Gain)/loss due to changes in assumptions | (177,376) |
| Actuarial (gain)/loss on obligation | 232,764 |
| Closing defined benefit obligation | 937,788 |

(f) Plan Assets Consists of Followings:

| | |
|--|----------------|
| Treasury Bonds | 121,764 |
| Treasury Bills | 234,960 |
| Fixed deposits | 6,005 |
| Securities purchased under resale agreements | 18,450 |
| Savings | 265 |
| NSB contribution receivable/(payable) | (80,458) |
| Total | 300,986 |

(g) Actuarial Assumption

| | 2016 % |
|-----------------------------|-----------|
| Medical cost inflation rate | 5.00 |
| Discount rate | 12.00 |

34. Other Liabilities (Contd.) →**34. (a) Defined Benefit Plans (Contd.)** →**34. (a) 4 Gratuity Plan – Bank and Group** →**Bank**

With the establishment of Pension Scheme II, employees who joined the Bank on or after 1st October 1995 have become members of the Pension Scheme II, thus are not entitled to the rights and privileges under Service Gratuity Scheme. However, if there are payment of termination gratuity before the entitlement of pension, Bank recognises the expense on cash basis.

Group

The staff members of the subsidiary company are not entitled for pension scheme, and they are entitled to the Gratuity as per the provision of Gratuity Act No. 12 of 1983.

| | 2016 | | 2015 | |
|---|------------------|-------------------|------------------|-------------------|
| | Bank Rs. '000 | Group Rs. '000 | Bank Rs. '000 | Group Rs. '000 |
| (a) Net Benefit Expense (Recognised Under Personal Expenses) | | | | |
| Current service cost | - | 115 | - | 191 |
| Interest cost on benefit obligation | - | 132 | - | 120 |
| Net benefit expense | - | 247 | - | 311 |
| (b) Provision for Gratuity | | | | |
| Defined benefit obligation as at 1st January | - | 1,346 | - | 2,352 |
| Interest cost | - | 132 | - | 120 |
| Current service cost | - | 115 | - | 191 |
| Benefits paid | - | - | - | (939) |
| Actuarial (gain)/loss on obligation (recognised in OCI) | - | (333) | - | (378) |
| Defined benefit obligation at 31st December | - | 1,260 | - | 1,346 |

Notes to the Financial Statements

34. Other Liabilities (Contd.) →**34. (a) Defined Benefit Plans (Contd.)** →**34. (a) 4 Gratuity Plan – Bank and Group (Contd.)** →**(c) Actuarial Assumption**

| | Group | |
|----------------------------------|-----------|-----------|
| | 2016 % | 2015 % |
| Future salary increment rate (%) | 6.50 | 7.00 |
| Discount rate (%) | 10.00 | 10.00 |
| Mortality | 0 | 0 |

Staff turnover rate and average future working lifetime

| Age group | 30-34 | 35-39 | 40< |
|---|-------|-------|------|
| Staff turnover rate | 0% | 0% | 0% |
| Average future working lifetime – Years | 29 | 24 | 13.5 |

(d) Increase/decrease in the following assumptions will have an impact on the Present Value of Defined Benefit Obligation as illustrated below:

| | Group | | | |
|------------------------------|-------------|-------------|-------------|-------------|
| | 2016 | | 2015 | |
| | 1% increase | 1% decrease | 1% increase | 1% decrease |
| Future salary increment rate | 226 | 190 | 184 | 174 |
| Discount rate | 183 | 220 | 167 | 181 |

Assumptions

Financial Assumptions – Rate of discount, salary increment rate

Demographic Assumptions – Mortality, staff turn over, disability, retirement age

35. Subordinated Liabilities →

Accounting Policy

These represent the funds borrowed by the Group for long-term funding requirements. Subsequent to initial recognition these are measured at their amortised cost using the EIR method, except where the Group designates them at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

Primary objective of issuing debenture is to increase the capital of the Bank in order to enhance the Capital Adequacy Ratio and reduce the maturity mismatch between the asset and liability portfolio of the Bank.

The Bank intends to utilise the entire proceeds of the issue to expand its asset base in the ordinary course of business.

| As at 31st December | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Balance as at 1st January | - | - | - | - |
| Amount borrowed during the year | 6,000,000 | - | 6,000,000 | - |
| Repayments/redemptions during the year | - | - | - | - |
| Balance as at 31st December, (before adjusting for amortised interest) [Refer Note 35.1] | 6,000,000 | - | 6,000,000 | - |
| Net effect of amortised interest payable | 6,411 | - | 6,411 | - |
| Adjusted balance as at 31st December | 6,006,411 | - | 6,006,411 | - |

Outstanding subordinated liabilities of the Bank as at 31st December 2016 consisted of Rs. 6,000,000,000/- Rated, Unsecured Subordinated and Redeemable Debentures of Rs. 100/- issued on 29th December 2016 as Private Placement under the provision of the NSB Act No. 30 of 1971. NSB Fund Management Company Ltd. is acting as Trustee for this debenture issue. The debenture carry AA+(lka) rating from the Fitch Ratings Lanka Ltd.

35.1 Categories of Subordinated Liabilities →

| Category | Face value | Interest rate | Repayment terms | Issue date | Maturity date | Effective annual yield | | Bank | | Group | |
|--------------------|------------|---------------|-----------------|-----------------------|------------------|------------------------|-----------|------------------|------------------|------------------|------------------|
| | | | | | | 2016 % | 2015 % | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Issued by the Bank | | | | | | | | | | | |
| | | | | 29th Semi December | 29th December | | | | | | |
| Fixed rate 13% | 6,000,000 | 13% p.a. | Annually | 2016 | 2021 | 13.42 | - | 6,000,000 | - | 6,000,000 | - |
| Total | | | | | | | | 6,000,000 | - | 6,000,000 | - |
| Due within 1 year | | | | | | | | - | - | - | - |
| Due after 1 year | | | | | | | | 6,000,000 | - | 6,000,000 | - |

In the event of the winding-up of the issuer, the above liabilities would be subordinated to the claims of depositors and all other creditors of the issuer.

Notes to the Financial Statements

36. Stated Capital/Assigned Capital →

| As at 31st December | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Authorised | | | | |
| One Billion Ordinary Share of Rs. 10/- each | 10,000,000 | 10,000,000 | 10,000,000 | 10,000,000 |
| Balance as at 1st January (Issued and fully paid) | | | | |
| 320 Million Ordinary shares of Rs.10/- each | 3,200,000 | 3,200,000 | 3,200,000 | 3,200,000 |
| Issue of ordinary shares during the year | | | | |
| 300 Million Ordinary shares of Rs.10/- each | 3,000,000 | - | 3,000,000 | - |
| Total | 6,200,000 | 3,200,000 | 6,200,000 | 3,200,000 |

As per Section 47 of National Savings Bank Act sub-section 3, Bank has issued 300 Million ordinary shares of Rs. 10/- each using unclaimed deposit reserve to the Secretary to the Treasury on 31st December 2016. (Refer Note 38.1 Unclaimed Deposit Reserve page 280)

37. Statutory Reserve Fund →

The statutory reserve fund is maintained as per the requirements under Section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profit that are transferred to elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter sum equivalent to 2% of such profit until the amount of said reserve fund is equal to the stated capital of the Bank.

The balance in the statutory reserve fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

| As at 31st December | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Opening balance | 2,047,581 | 1,874,135 | 2,047,581 | 1,874,135 |
| Transfer during the period – 5% of profit after tax (2015-2%) | 474,886 | 173,446 | 474,886 | 173,446 |
| Closing Balance | 2,522,467 | 2,047,581 | 2,522,467 | 2,047,581 |

Notes to the Financial Statements

38. Other Reserves →**Bank – 2016** →

| | Opening balance at 1st January 2016 Rs. '000 | Movement/ transfers Rs. '000 | Closing balance at 31st December 2016 Rs. '000 |
|--|--|------------------------------------|--|
| General reserve | 18,839,027 | (3,098,147) | 15,740,879 |
| Revaluation reserve | 3,296,565 | – | 3,296,565 |
| Available-for-sale reserve | 1,631,862 | (253,044) | 1,378,818 |
| Cash flow hedging reserve | 139,106 | (137,256) | 1,850 |
| Other reserves (Refer Notes 38.1 and 38.2) | 3,269,686 | (2,543,992) | 725,695 |
| Total | 27,176,246 | (6,032,439) | 21,143,806 |

Bank – 2015 →

| | Opening balance at 1st January 2015 Rs. '000 | Movement/ Transfers Rs. '000 | Closing balance at 31st December 2015 Rs. '000 |
|--|--|------------------------------------|--|
| General reserve | 14,716,287 | 4,122,740 | 18,839,027 |
| Revaluation reserve | 2,065,446 | 1,231,119 | 3,296,565 |
| Available-for-sale reserve | 1,199,419 | 432,443 | 1,631,862 |
| Cash flow hedging reserve | (5,504) | 144,610 | 139,106 |
| Other reserves (Refer Notes 38.1 and 38.2) | 210,440 | 3,059,246 | 3,269,686 |
| Total | 18,186,088 | 8,990,158 | 27,176,246 |

Group – 2016 →

| | Opening balance at 1st January 2016 Rs. '000 | Movement/ Transfers Rs. '000 | Closing balance at 31st December 2016 Rs. '000 |
|--|--|------------------------------------|--|
| General reserve | 18,839,027 | (3,098,147) | 15,740,879 |
| Revaluation reserve | 3,296,565 | – | 3,296,565 |
| Available-for-sale reserve | 1,452,761 | (356,003) | 1,096,758 |
| Cash flow hedging reserve | 139,106 | (137,256) | 1,850 |
| Other reserves (Refer Notes 38.1, 38.2 and 38.3) | 3,743,793 | (2,524,138) | 1,219,656 |
| Total | 27,471,252 | (6,115,544) | 21,355,707 |

Notes to the Financial Statements

38. Other Reserves (Contd.) →**Group – 2015** →

| | Opening balance at 1st January 2015 Rs. '000 | Movement/ Transfers Rs. '000 | Closing balance at 31st December 2015 Rs. '000 |
|--|--|------------------------------------|--|
| General reserve | 16,050,550 | 2,788,477 | 18,839,027 |
| Revaluation reserve | 2,065,446 | 1,231,119 | 3,296,565 |
| Available-for-sale reserve | 1,199,419 | 253,342 | 1,452,761 |
| Cash flow hedging reserve | (5,504) | 144,610 | 139,106 |
| Other reserves (Refer Notes 38.1, 38.2 and 38.3) | 640,967 | 3,102,826 | 3,743,793 |
| Total | 19,950,880 | 7,520,374 | 27,471,252 |

38.1 Unclaimed Deposit Reserve →

| | Bank | | Group | |
|------------------------------|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Opening Balance | 3,267,505 | 208,259 | 3,267,505 | 208,259 |
| Transferred to share capital | (3,000,000) | - | (3,000,000) | - |
| Transferred during the year | 456,004 | 3,059,246 | 456,004 | 3,059,246 |
| Closing balance | 723,509 | 3,267,505 | 723,509 | 3,267,505 |

In terms of the Section 47 of the National Savings Bank Act No. 30 of 1971 as amended by the Section 30 of the National Savings Bank (Amendment) Act No. 28 of 1995, where an amount lain dormant in a savings or deposit account for a period of ten years, it should be transferred to, Unclaimed Deposit Reserve. Accordingly, amount transferred (net) to the Reserve during the year 2016, was Rs. 456.004 Million.

38.2 Special Reserve →

| | Bank | | Group | |
|-----------------------------|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Opening balance | 2,182 | 2,181 | 2,182 | 2,181 |
| Transferred during the year | 4 | 1 | 4 | 1 |
| Closing balance | 2,186 | 2,182 | 2,186 | 2,182 |

38. Other Reserves (Contd.) →

The Special Reserve represents the amount transferred from the dormant accounts of customers where the aggregate of the amount dormant is less than Rs. 10/- (Ten Rupees).

The whole or such part of the monies lying to the credit of 'Special Reserve' and 'Unclaimed Deposit Reserve' may be capitalised and shares to the value of money capitalised may be issued in the name of Secretary to the Treasury. The entirety of the issue and fully paid share capital of Rs. 6,200 Million reflected in the Statement of Financial Position was issued by capitalising the Unclaimed Deposit Reserve from time to time.

38.3 Special Risk Reserve – (NSB Fund Management Company Ltd.) →

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Opening balance | - | - | 474,107 | 430,527 |
| Transferred during the year – 25% of profit after tax | - | - | 19,854 | 43,580 |
| Closing balance | - | - | 493,961 | 474,107 |

In order to promote the safety, soundness and the stability of the Primary Dealer (PD) system and to build up PD capital base, Primary Dealers (PDs) are required to annually transfer a percentage of their profit after tax to a Special Risk Reserve as follows, with effect from 1st July 2004.

- I. 50% of the profit after tax annually by the PDs who maintain capital funds less than Rs. 400 Million.
- II. 25% of the profit after tax annually by the PDs who maintain capital funds in excess of Rs. 400 Million.

Other Reserves

| As at 31st December | Bank | | Group | |
|-----------------------------|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Total other reserves | 725,695 | 3,269,686 | 1,219,656 | 3,743,793 |

39. Contingent Liabilities and Commitments →

Accounting Policy

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future event or present obligation where the transfer of economic benefit is not probable or cannot be reliably measured as defined in the Sri Lanka Accounting Standard - LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'.

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of finance guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

| As at 31st December | Bank | | Group | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Commitments | | | | |
| Commitment for unutilised credit facilities | 22,727,130 | 33,505,088 | 22,727,130 | 33,505,088 |
| Other commitments – Indirect credit facilities | 74,149 | 1,372 | 74,149 | 1,372 |
| Capital commitments (Note 39.1) | 468,580 | 126,498 | 468,580 | 126,498 |
| | 23,269,859 | 33,632,958 | 23,269,859 | 33,632,958 |
| Contingent Liabilities | | | | |
| Documentary credit | 109,948 | – | 109,948 | – |
| Guarantees | 1,590,253 | 1,404,851 | 1,590,253 | 1,404,851 |
| | 1,700,201 | 1,404,851 | 1,700,201 | 1,404,851 |
| Total commitment and contingencies | 24,970,060 | 35,037,809 | 24,970,060 | 35,037,809 |

39. Contingent Liabilities and Commitments (Contd.) →**39.1 Capital Commitments**

Capital expenditure approved by the Board of Directors, for which provisions have not been made in the Financial Statements are detailed below.

| As at 31st December | Bank | | Group | |
|---------------------------------|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Approved and contracted for | 408,380 | 121,618 | 408,380 | 121,618 |
| Approved but not contracted for | 60,200 | 4,880 | 60,200 | 4,880 |
| | 468,580 | 126,498 | 468,580 | 126,498 |

40. Related Party Disclosures →**Accounting Policy**

The financial dealings carried out with the State (Government of Sri Lanka) and State controlled entities for the year and as of the date of the Statement of Financial Position are disclosed below on a collective basis:

40. (a) Transactions with State and State Controlled Entities →

| As at 31st December | Bank | | Group | |
|--|--------------------|------------------|--------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Assets | | | | |
| Loans to Government | 2,075,000 | 2,075,000 | 2,075,000 | 2,075,000 |
| Investments made on Government Securities | 525,123,106 | 525,173,295 | 535,630,193 | 533,481,139 |
| Investments on State and State-controlled entities | 127,543,373 | 116,600,696 | 127,543,373 | 116,600,696 |
| Securities purchased under resale agreements | 2,220,500 | 1,278,968 | 2,232,062 | 1,301,865 |
| Tax receivable (Notional tax) | 5,813,616 | 4,787,341 | 5,833,897 | 4,814,802 |
| Postmaster-General's current account | 314,534 | 428,721 | 314,534 | 428,721 |
| Advance payment to Government | 4,800,000 | 5,333,333 | 4,800,000 | 5,333,333 |
| Other receivables from Government | 5,919,297 | 2,614,000 | 5,919,297 | 1,898,009 |
| | 673,809,427 | 658,291,354 | 684,348,357 | 665,933,565 |

Notes to the Financial Statements

40. Related Party Disclosures (Contd.) →**40. (a) Transactions with State and State Controlled Entities (Contd.)** →

| As at 31st December | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Liabilities | | | | |
| Securities sold under repurchase agreements | 21,708,120 | 60,127,470 | 27,297,637 | 66,805,376 |
| Taxes Paid | | | | |
| Income tax | 3,805,271 | 4,361,355 | 3,834,995 | 4,439,799 |
| Value added tax | 2,405,618 | 2,062,246 | 2,423,091 | 2,092,524 |
| Nation building tax | 385,670 | 374,954 | 388,482 | 380,456 |
| Contribution to consolidated fund – dividend/levy | 12,026,000 | 2,800,000 | 12,027,650 | 2,801,600 |
| Super gain tax | - | 1,040,362 | - | 1,149,899 |
| | 18,622,560 | 10,638,917 | 18,674,217 | 10,864,278 |

40. (b) Transactions with Subsidiary Company (NSB Fund Management Company Ltd.) →

The Bank has contributed Rs. 150 Million towards the share capital of the Company. The Company invested its funds in Treasury Bills, Treasury Bonds and Repos during the year on a regular basis. All investment in Treasury Bills and Treasury Bonds of the Bank are being made through the NSB Fund Management Company Ltd., on which a service charge of Rs. 52.6 Million has been made (Rs. 41.3 Million in 2015).

The Bank holds following balances with NSB Fund Management Company Ltd., as at the Reporting date.

| As at 31st December | 2016 Rs. '000 | 2015 Rs. '000 |
|--|------------------|------------------|
| Assets | | |
| Inter company current account | 300 | 88 |
| Other assets | - | 388 |
| Securities purchased under resale agreement | 810,000 | - |
| Interest receivable on Securities purchased under resale agreement | 383 | - |
| Other receivable | 1,764 | 1,656 |
| Liabilities | | |
| Securities sold under repurchase agreement | - | 214,037 |

40. Related Party Disclosures (Contd.) →**40. (c) Transactions with Post-Employment Benefit Plans of the Bank** →

Transactions which were taken place between the Bank and Post-Employment Benefit Plans of the Bank as at the year end are summarised below:

| As at 31st December | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| National Savings Bank Employees' Pension Scheme I | | | | |
| Liabilities | | | | |
| Fixed deposits | 844,854 | 3,114,553 | 844,854 | 3,114,553 |
| Securities purchased under resale agreements | 14,800 | 670,791 | 14,800 | 670,791 |
| Debentures | 1,700,000 | - | 1,700,000 | - |
| Assets | | | | |
| Securities purchased under resale agreements | 1,525,000 | - | 1,525,000 | - |
| Loan against deposit | 170,490 | - | 170,490 | - |
| Liabilities | | | | |
| National Savings Bank Employees' Pension Scheme II | | | | |
| Fixed deposits | 66,300 | 41,400 | 66,300 | 41,400 |
| Securities purchased under resale agreements | - | 17,300 | - | 17,300 |
| Medical Assistance Scheme for the Retired Employees of NSB | | | | |
| Fixed deposits | 6,967 | 102,596 | 6,967 | 102,596 |
| Securities purchased under resale agreements | 17,516 | 152,331 | 17,516 | 152,331 |
| National Savings Bank Employees' Provident Fund | | | | |
| Fixed deposits | 241,000 | 1,177,799 | 241,000 | 1,177,799 |
| Securities purchased under resale agreements | 20,000 | 951,358 | 20,000 | 951,358 |
| Debentures | 125,000 | - | 125,000 | - |
| Widows'/Widowers' and Orphans' Pension Fund | | | | |
| Fixed deposits | 20,800 | 6,500 | 20,800 | 6,500 |
| Securities purchased under resale agreements | - | 6,700 | - | 6,700 |

40. Related Party Disclosures (Contd.) →**40. (d) Transactions with Key Managerial Persons** →

- (i) Key managerial persons include members of the Board of Directors of the Bank and key employees of the Bank holding directorships in subsidiary, NSB Fund Management Company Ltd.
- (ii) Loans and advances in the names of key managerial persons are given below:

| As at 31st December | Bank and Group | |
|---------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 |
| Loans and advances | 52,660 | 27,964 |

- (iii) Chairman's, Directors', GM/CEO's and DGM's emoluments and fees amounted to Rs. 70.52 Million in 2016 (Rs. 44.51 Million in 2015).

40. (e) Net Accommodation Granted to Related Parties →

[Disclosure under Rule 3 (8) (ii) (e) of the Governance Direction of No. 12 of 2007 issued by the Central Bank of Sri Lanka.]

| As at 31st December | Bank and Group | |
|--|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 |
| Key Managerial Persons | | |
| Loan and advances | 52,660 | 27,964 |
| Total net accommodation | 52,660 | 27,964 |
| Regulatory Capital | 29,667,577 | 19,469,456 |
| Net accommodation as a percentage of the Bank's Regulatory Capital (%) | 0.2 | 0.1 |

40. (f) Due from Other Related Parties →

| As at 31st December | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Securities purchased under resale agreements-Entrust | | | | |
| Securities PLC | 157,400 | – | 157,400 | – |
| Receivable from Entrust Securities PLC | 38,540 | – | 38,540 | – |
| | 195,940 | – | 195,940 | – |

Notes to the Financial Statements

40. Related Party Disclosures (Contd.) →**40. (g) Due to Other Related Parties** →

| As at 31st December | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Repo Borrowings – Entrust Securities PLC | 2,637,795 | – | 2,637,795 | – |
| Other Payable – Entrust Securities PLC | 607,985 | – | 607,985 | – |
| | 3,245,780 | – | 3,245,780 | – |

41. Net Assets Value per Ordinary Share →

| As at 31st December | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Amount used as the numerator | | | | |
| Shareholders' funds | 32,245,580 | 32,423,827 | 33,786,788 | 34,004,744 |
| Number of ordinary share used as the denominator | | | | |
| Total number of shares | 620,000 | 320,000 | 620,000 | 320,000 |
| Net assets value per ordinary share (Rs.) | 52.01 | 101.32 | 54.49 | 106.26 |

42. Non-Cash Items Included in Profit Before Tax →

| For the year ended 31st December | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Depreciation of property, plant & equipment | 289,683 | 265,169 | 290,314 | 265,499 |
| Amortisation of leasehold property | 7,198 | 6,752 | 7,198 | 6,752 |
| Amortisation of intangible assets | 35,512 | 36,854 | 35,512 | 36,861 |
| Impairment losses on loans and receivables | (99,693) | 2,139,553 | (99,693) | 2,139,553 |
| Profit on disposal of property, plant & equipment | (70,016) | (642) | (70,014) | (642) |
| Accretion of discounts and amortisation of premiums of investment securities | 1,048,604 | 403,484 | 1,165,960 | 403,484 |
| Foreign currency revaluation | (16,726) | – | (16,726) | – |
| Others | (40,923) | (27,838) | (40,923) | (27,838) |
| Total | 1,153,639 | 2,823,332 | 1,271,628 | 2,823,669 |

Notes to the Financial Statements

43. Change in Operating Assets →

| | Bank | | Group | |
|---|---------------------|------------------|---------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| <i>For the year ended 31st December</i> | | | | |
| Change in derivative financial instruments | 869,583 | (710,743) | 869,583 | (710,743) |
| Net (increase)/decrease in debt securities, Treasury Bills & Bonds and equity shares held at fair value through profit or loss | 1,680,328 | (11,561,986) | (776,569) | (10,544,066) |
| Net (increase)/decrease in loans and receivables to banks | (8,116,249) | (17,183,721) | (8,098,247) | (17,201,723) |
| Net (increase)/decrease in loans and receivables to customers | (43,844,407) | (34,010,243) | (43,040,691) | (34,013,052) |
| Change in other assets | (5,351,671) | (1,470,546) | (5,454,009) | (1,469,622) |
| Total | (54,762,416) | (64,937,239) | (56,499,933) | (63,939,206) |

44. Change in Operating Liabilities →

| | Bank | | Group | |
|--|-------------------|------------------|-------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| <i>For the year ended 31st December</i> | | | | |
| Change in deposits from banks, customers and debt securities issued | 61,504,606 | 41,715,397 | 64,212,785 | 41,145,781 |
| Change in other liabilities | 106,892 | 1,795,921 | 103,812 | 1,792,134 |
| Total | 61,611,498 | 43,511,318 | 64,316,597 | 42,937,915 |

45. Litigation Against the Bank and the Group →

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. The unresolved court cases against the Bank as at the year end for which adjustments to the Financial Statements have not been made due to the uncertainty of its outcome are as follows:

| <i>As at 31st December</i> | 2016 | 2015 |
|---|------|------|
| Tribunal/Court | | |
| Labour Tribunal | 6 | 9 |
| Labour Commission | 1 | 0 |
| Industrial Court | 2 | 0 |
| Magistrate's Court | 8 | 6 |
| District Court | 32 | 26 |
| High Court/Civil Appellate High Court/Provincial High Court | 5 | 8 |
| Court of Appeal | 8 | 4 |
| Supreme Court | 3 | 1 |

46. Events Occurring after the Reporting Date →

► **Accounting Policy**

Events occurring after the Reporting date are those events, both favourable and unfavourable, that occur between the Reporting date and the date when the Financial Statements are authorised for issue.

Where necessary all material events after the Reporting date have been considered and appropriate adjustments/disclosures have been made in the Financial Statements as per the LKAS 10 – 'Events after the Reporting Period'.

No circumstances have arisen since the Reporting date which would require adjustments to or disclosure in the Financial Statements other than the following:

Merger with Sri Lanka Savings Bank →

In 2016 Budget proposals, Hon. Minister of Finance has proposed that National Savings Bank to be merged with Sri Lanka Savings Bank and the Bank is in the process of evaluating the proposal as at the Reporting date.

47. Comparative Figures →

The comparative information is reclassified wherever necessary, to comply with the current year's classification in order to provide a better presentation.

47.1 Statement of Profit and Loss →

There were no reclassifications during the year.

47.2 Statement of Financial Position →

| | Bank | | | Group | | |
|--|--------------|-----------------------------|------------|--------------|-----------------------------|-------------|
| | Reclassified | As disclose in year 2015 | Adjustment | Reclassified | As disclose in year 2015 | Adjustment |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Equity | | | | | | |
| Retained earnings (Refer Note 47.2.1) | - | - | - | 1,285,911 | - | 1,285,911 |
| Other reserves (Refer Note 47.2.1) | - | 27,176,246 | - | 27,471,252 | 28,811,095 | (1,339,843) |
| General reserve (Refer Note 38) | - | - | - | 18,839,027 | 20,178,870 | (1,339,843) |
| Liabilities | | | | | | |
| Current tax liabilities (Refer Note 47.3) | - | - | - | 99,409 | 45,478 | 53,931 |
| Contingent and Commitments | | | | | | |
| Other commitments – Indirect credit facilities (Refer Note 47.2.2) | 1,372 | - | 1,372 | 1,372 | - | 1,372 |
| Capital commitments (Refer Note 47.2.3) | 126,498 | 20,150 | 106,348 | 126,498 | 20,150 | 106,348 |

47.2.1 Retained earning has been separately disclosed for the year 2016 for better presentation.

47.2.2 Recognised indirect credit facilities as commitment for the better presentation.

47.2.3 Separate capital commitment as approved and contracted for and approved but not contracted for and recognised relevant commitments for the better presentation. (Refer Note 39)

47. Comparative Figures (Contd.) →

47.3 Prior Year Adjustment of Subsidiary Company →

Consequent to the convergence of the Sri Lanka Accounting Standards with the International Reporting Standards, the (Department of Inland Revenue) DIR issued a Gazette Notification No. 1857/8 dated 09/04/2017 on the assessment of profit for tax purposes in respect of the changes in the accounting treatment.

The Company had not calculated its taxable profit according to the above Gazette Notification for the Years of Assessment 2012/13 and 2013/14. Therefore, the DIR has issued the assessment for the underpaid income tax of Rs. 53,931,487/- on the unrealised fair value gain of the Company's trading portfolio for the respective years.

Accordingly, the income tax charged in the Audited Financial Statements for the year 2012 and 2013 were understated and the net profit after tax were overstated by Rs. 53,931,487/-. Therefore, the income tax underpaid has been adjusted retrospectively.

| | Group 2015 Rs. '000 |
|---|---------------------------|
| Current tax liabilities | |
| Balances as at 31.12.2015 | 45,478 |
| Prior year adjustment | 53,931 |
| Restated balances as at 31.12.2015 | 99,409 |

48. Financial Risk Management →

48.1 Risk Management Framework →

Integrated Risk Management Framework of NSB encompasses policies and procedures covering various risks, mechanism to identify such risks, and effective measures to manage and mitigate risks.

Risk Management Framework of the Bank begins with the oversight of the Board of Directors. It has set up Board Integrated Risk Management Committee (BIRMC) to assist the Board of Directors in discharging its risk management responsibility. The Risk Management Division (RMD) independently reports to the Board through BIRMC. These Management Committees review regular reports from respective Business Divisions and RMD, to ensure adequacy and effectiveness of Bank's risk management with meticulous focus.

The following Executive Management Sub-Committees, are responsible for the co-ordination of risk matters for each of the areas of risk management with meticulous focus:

- Executive Risk Management Committee
- Asset and Liability Management Committee
- Credit Committee
- Investment Committee
- IT steering Committee
- Human Resource Committee

48. Financial Risk Management (Contd.) →

48.1 Risk Management Framework (Contd.) →

- Operational Performance Review Committee
- Marketing Committee
- Management Committee

Internal Audit Division engages both regular and ad hoc reviews of risk management controls and procedures and the results are reported to the Board Audit Committee (BAC).

48.2 Broad Risk Categories in Focus →

The Bank is exposed to the following key risks from financial instruments:

- a. Credit risk
- b. Liquidity risk
- c. Market risk –
 - (i) Foreign Exchange risk
 - (ii) Equity risk
 - (iii) Interest Rate risk
- d. Operational risk

(a) Credit Risk

Credit Risk is the risk of losses resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations to the Bank which could materialise from the banking book and both On or Off-Balance Sheet. The On-Balance Sheet credit risk arises mainly from notional value of financial products such as retail loans, corporate loans, loans to banks and financial institutions, loans to State-Owned Enterprises (SOEs) and loans to the Government. The Off-Balance Sheet credit risk arises from undrawn loan commitments.

i. Credit Risk Exposures of the Bank

The total credit exposure which is 35.51% of the Bank's total assets is the second major line of business (The investment in risk free securities is 57.83% of total assets). Hence the magnitude of credit risk is comparatively moderate to the Bank, albeit the fact that the Bank considers credit risk as a major type of risk.

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

Net Exposure to Credit Risk

The following tables show the maximum exposure and net exposure (fair value of any collateral held, value of risk free investments, Government guarantees and impairment provision made were deducted in arriving the net exposure) to credit risk by class of financial assets.

Notes to the Financial Statements

48. Financial Risk Management (Contd.) →**48.2 Broad Risk Categories in Focus (Contd.)** →

| As at 31st December | 2016 | | 2015 | |
|--|---|--------------------------|---|--------------------------|
| | Maximum exposure to credit risk Rs. '000 | Net exposure Rs. '000 | Maximum exposure to credit risk Rs. '000 | Net exposure Rs. '000 |
| Bank | | | | |
| Cash and cash equivalents | 4,619,699 | 3,938,171 | 3,240,253 | 2,640,068 |
| Balances with central banks | - | - | - | - |
| Placements with banks | 19,013,572 | 19,013,572 | 12,626,509 | 12,626,509 |
| Derivative financial instruments | 2,728,445 | 2,728,445 | 3,735,284 | 3,735,284 |
| Other financial assets – held-for-trading | 20,290,588 | 3,095,911 | 13,542,721 | 3,672,131 |
| Financial assets designated at fair value through profit or loss | - | - | - | - |
| Loans and receivables to banks | 31,834,072 | 29,429,326 | 23,717,823 | 22,438,855 |
| Loans and receivables to other customers | 291,976,942 | 86,307,208 | 248,032,842 | 55,995,525 |
| Financial assets – available-for-sale | 6,227,764 | 4,123,732 | 4,385,767 | 4,385,767 |
| Financial assets – held-to-maturity | 505,824,398 | - | 515,302,705 | - |
| Gross total | 882,515,480 | 148,636,365 | 824,583,904 | 105,494,139 |

| As at 31st December | 2016 | | 2015 | |
|--|---|--------------------------|---|--------------------------|
| | Maximum exposure to credit risk Rs. '000 | Net exposure Rs. '000 | Maximum exposure to credit risk Rs. '000 | Net exposure Rs. '000 |
| Group | | | | |
| Cash and cash equivalents | 4,627,629 | 3,936,092 | 3,247,469 | 2,647,274 |
| Balances with central banks | 477 | 477 | 729 | 729 |
| Placements with banks | 19,013,572 | 19,013,572 | 12,626,509 | 12,626,509 |
| Derivative financial instruments | 2,728,445 | 2,728,445 | 3,735,284 | 3,735,284 |
| Other financial assets – held-for-trading | 27,303,207 | 3,095,911 | 17,804,872 | 3,672,131 |
| Financial assets designated at fair value through profit or loss | - | - | - | - |
| Loans and receivables to banks | 31,834,072 | 29,429,326 | 23,735,825 | 22,438,855 |
| Loans and receivables to other customers | 291,178,121 | 86,307,208 | 248,037,737 | 55,995,525 |
| Financial assets – available-for-sale | 8,122,516 | 4,324,572 | 6,407,037 | 4,572,828 |
| Financial assets – held-to-maturity | 507,624,954 | - | 517,514,189 | - |
| Gross total | 892,432,992 | 148,835,603 | 833,109,651 | 105,689,135 |

48. Financial Risk Management (Contd.) →**48.2 Broad Risk Categories in Focus (Contd.)** →**ii. Management of the Credit Portfolio****Collateral and Other Credit Enhancement**

The amount and type of collateral required depends as an assessment of the credit risk of the counterparty. Guidelines are in place covering the accessibility and valuation of each type of collateral.

The main type of collateral obtained are as follows:

- a. for corporate lending – Government guarantees, mortgages over immovable and movable fixed assets, inventory, corporate and personal guarantees
- b. for retail lending – mortgage over residential property, gold, personal guarantees, vehicles.

Concentration of Credit Risk by Product and Sector

The Bank monitors the concentration of credit risk by product and sectors. An analysis of concentration risk of the Bank portfolio (Loan and receivable to other customers) is given below:

Concentration by Product

| | Bank | | Group | |
|---|--------------------|--------------------|--------------------|--------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| <i>As at 31st December</i> | | | | |
| Loans and receivables to other customers | | | | |
| Pawning | 20,852,188 | 29,869,149 | 20,852,188 | 29,869,149 |
| Staff loans | 4,090,448 | 3,389,283 | 4,090,448 | 3,389,283 |
| Term loans – | | | | |
| Short-term | – | 1,145,000 | – | 1,145,000 |
| Long-term | 257,549,045 | 209,789,004 | 257,549,045 | 209,789,004 |
| Securities purchased under resale agreements | 2,496,838 | – | 1,698,017 | 4,895 |
| Others – | | | | |
| Securitisation/Trust certificates | 2,695,185 | 2,413,639 | 2,695,185 | 2,413,639 |
| Loan to Government | 2,075,000 | 2,075,000 | 2,075,000 | 2,075,000 |
| Others | 3,950,010 | 2,443,976 | 3,950,010 | 2,443,976 |
| Gross total | 293,708,714 | 251,125,051 | 292,909,893 | 251,129,946 |

Notes to the Financial Statements

48. Financial Risk Management (Contd.) →
48.2 Broad Risk Categories in Focus (Contd.) →

Concentration by Sector

| As at 31st December | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Loans and receivables to other customers | | | | |
| Agriculture and Fishing | 10,869,217 | 13,742,026 | 10,869,217 | 13,742,026 |
| Manufacturing | 505,113 | 75,726 | 505,113 | 75,726 |
| Tourism | 81,090 | 98,828 | 81,090 | 98,828 |
| Transport | 983,022 | 971,097 | 983,022 | 971,097 |
| Construction/Housing | 65,006,143 | 61,277,060 | 65,006,143 | 61,277,060 |
| Traders | 1,237,814 | – | 1,237,814 | – |
| Financial and business services | 6,899,422 | 5,981,910 | 6,899,422 | 5,981,910 |
| Infrastructure – | | | | |
| Road development and Others | 60,412,604 | 59,942,018 | 60,412,604 | 59,942,018 |
| Power and energy | 10,254,573 | 11,864,587 | 10,254,573 | 11,864,587 |
| Other services | | | | |
| Education | 23,701,503 | 19,100,178 | 23,701,503 | 19,100,178 |
| Other customers – | | | | |
| Government | 2,075,000 | 2,075,000 | 2,075,000 | 2,075,000 |
| Personal/Pawning/Others | 111,683,213 | 75,996,621 | 110,884,392 | 76,001,517 |
| Gross total | 293,708,714 | 251,125,051 | 292,909,893 | 251,129,946 |

Credit Quality by Classes of Financial Assets

| As at 31st December 2016 | Neither past due nor impaired Rs. '000 | Past due but not impaired Rs. '000 | Individually impaired Rs. '000 | Total Rs. '000 |
|---|--|--|--------------------------------------|-------------------|
| Assets | | | | |
| Cash and cash equivalents | 4,619,699 | – | – | 4,619,699 |
| Placements with banks | 19,013,572 | – | – | 19,013,572 |
| Derivative financial instruments | 2,728,445 | – | – | 2,728,445 |
| Other financial assets – held-for-trading | 20,290,588 | – | – | 20,290,588 |
| Loans and receivables to banks | 31,834,072 | – | – | 31,834,072 |
| Loans and receivables to other customers (Gross)* | 268,252,090 | 25,456,624 | – | 293,708,714 |
| Financial investments – available-for-sale | 6,227,764 | – | – | 6,227,764 |
| Financial investments – held-to-maturity | 505,824,398 | – | – | 505,824,398 |
| | 858,790,628 | 25,456,624 | – | 884,247,252 |

* Collectively assessed for the impairment.

Notes to the Financial Statements

48. Financial Risk Management (Contd.) →**48.2 Broad Risk Categories in Focus (Contd.)** →

Aging analysis of past due (i.e., facilities in arrears of 1 day and above) but not impaired loans, by class of financial assets

| As at 31st December 2016 | Past due but not impaired | | | | Total Rs. '000 |
|---|---------------------------|---------------------------|---------------------------|-------------------------------|-------------------|
| | 1 to 30 days Rs. '000 | 31 to 60 days Rs. '000 | 61 to 89 days Rs. '000 | More than 90 days Rs. '000 | |
| Loans and receivables to other customers (Gross) | 15,572,198 | 4,029,783 | 466,969 | 5,387,675 | 25,456,624 |
| | 61% | 16% | 2% | 21% | 100% |

Credit Quality by Class of Financial Assets

| As at 31st December 2015 | Neither past due nor impaired Rs. '000 | Past due but not impaired Rs. '000 | Individually impaired Rs. '000 | Total Rs. '000 |
|---|--|--|--------------------------------------|-------------------|
| Assets | | | | |
| Cash and cash equivalents | 3,240,253 | – | – | 3,240,253 |
| Placements with banks | 12,626,509 | – | – | 12,626,509 |
| Derivative financial instruments | 3,735,284 | – | – | 3,735,284 |
| Other financial assets – held-for-trading | 13,542,721 | – | – | 13,542,721 |
| Loans and receivables to banks | 23,717,823 | – | – | 23,717,823 |
| Loans and receivables to other customers (Gross)* | 219,393,882 | 31,731,169 | – | 251,125,051 |
| Financial investments – available-for-sale | 4,385,767 | – | – | 4,385,767 |
| Financial investments – held-to-maturity | 515,302,705 | – | – | 515,302,705 |
| | 795,944,944 | 31,731,169 | – | 827,676,113 |

* Collectively assessed for the impairment.

Aging analysis of past due (i.e., facilities in arrears of 1 day and above) but not impaired loans, by class of financial assets

| As at 31st December 2015 | Past due but not impaired | | | | Total Rs. '000 |
|---|---------------------------|---------------------------|---------------------------|-------------------------------|-------------------|
| | 1 to 30 days Rs. '000 | 31 to 60 days Rs. '000 | 61 to 89 days Rs. '000 | More than 90 days Rs. '000 | |
| Loans and receivables to other customers (Gross) | 15,055,183 | 4,941,625 | 568,196 | 11,166,165 | 31,731,169 |
| | 47% | 16% | 2% | 35% | 100% |

48. Financial Risk Management (Contd.) →**48.2 Broad Risk Categories in Focus (Contd.)** →**(b) Liquidity Risk**

Liquidity risk is the Bank's inability to meet 'on' or 'off' balance sheet contractual and contingent financial obligations as they fall due, without incurring material losses.

Concentration of Liquid Assets

The Bank's regulatory requirement to invest 60% of its deposits in Government Securities forces the Bank to maintain a high Statutory Liquid Assets Ratio. Currently, the Bank maintains a liquidity ratio at 72.6% which is well above the statutory requirement of 20%. The investment in Government Securities represents 93% from the total liquid assets of the Bank.

| As at 31st December | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Liquidly assets ratio – | | | | |
| Year end | 72.6 | 81.1 | 72.6 | 81.1 |
| 30th June | 75.2 | 84.8 | 75.2 | 84.8 |
| Year beginning | 81.1 | 91.5 | 81.1 | 91.5 |
| Gross loans and receivables to deposit | 49.5 | 46.1 | 49.4 | 46.1 |
| Net loans and receivables to total assets | 35.5 | 32.1 | 35.0 | 31.8 |

(c) Market Risk

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

Sources of Market Risk to NSB

The exposure to market risk arises to National Savings Bank from the following sources:

- Treasury Securities portfolio (Government Securities and other permitted fixed income securities)
- Repo and reverse repo transaction
- Bank's operations in foreign currency
- Equity investments
- Derivatives
- Rate sensitive assets-liabilities mismatch

(i) Foreign Exchange Risk

Foreign exchange risk (also known as exchange rate risk or currency risk) is a financial risk posed by an exposure to unanticipated changes in the exchange rate between two currencies.

48. Financial Risk Management (Contd.) →**48.2 Broad Risk Categories in Focus (Contd.)** →

(ii) Equity Risk

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

The investment in equity represent 0.8% of the total assets while investments in quoted and unquoted equity are 0.79% and 0.01% respectively. Hence, the Bank does not have a major exposure to equity risk. However, the adverse movements in the stock market affected the return on equity investments. The investment in non-quoted companies are made due to policy decisions on market and economic development and strategic reasons.

(iii) Interest Rate Risk

Interest rate risk is the risk that an investment's value will change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationships. The Bank's major source of funding is deposits which represent 72% of total On-Balance Sheet liabilities. of this, 27% represent savings deposits where 73% represent term deposits.

Bank's Interest Rate Sensitivity Report as at 31st December 2016 is presented below:

| Bank | 0-1 month Rs. '000 | 0-3 months Rs. '000 | 0-6 months Rs. '000 | 0-12 months Rs. '000 |
|--|-----------------------|------------------------|------------------------|-------------------------|
| Interest-bearing assets | 39,406,492 | 67,316,653 | 150,571,506 | 209,818,308 |
| Bank balances and placements | 6,078,068 | 7,918,434 | 11,247,714 | 21,224,972 |
| Other financial assets – held-for-trading | 139,446 | 799,686 | 1,246,754 | 2,332,650 |
| Loan and receivable to bank | 2,839,753 | 3,122,269 | 4,344,333 | 12,389,001 |
| Loan and receivable to other customers | 11,439,739 | 17,663,032 | 26,793,434 | 54,413,298 |
| Financial investments – available-for-Sale | 22,800 | 70,422 | 82,383 | 82,383 |
| Financial investments – held-to-maturity | 18,886,686 | 37,742,810 | 106,856,888 | 119,376,004 |
| Interest-bearing liabilities | 153,559,463 | 401,743,980 | 524,858,634 | 689,298,959 |
| Due to banks | 115,391 | 115,391 | 115,391 | 115,391 |
| Due to other customers | 121,412,238 | 359,588,812 | 469,593,750 | 631,721,042 |
| Other borrowings | 32,031,834 | 42,039,777 | 55,143,082 | 57,456,115 |
| Subordinated liabilities | - | - | 6,411 | 6,411 |
| Net rate sensitive assets (liabilities) | (114,152,971) | (334,427,327) | (374,287,128) | (479,480,651) |
| Interest rate sensitivity ratio (%) | 26 | 17 | 29 | 30 |

48. Financial Risk Management (Contd.) →**48.2 Broad Risk Categories in Focus (Contd.)** →**Group's Interest Rate Sensitivity Report as at 31st December 2016 is presented below:**

| Group | 0-1 month Rs. '000 | 0-3 months Rs. '000 | 0-6 months Rs. '000 | 0-12 months Rs. '000 |
|--|-----------------------|------------------------|------------------------|-------------------------|
| Interest-bearing assets | 39,723,960 | 68,269,053 | 152,100,000 | 211,712,532 |
| Bank balances and placements | 6,078,068 | 7,918,434 | 11,247,714 | 21,224,972 |
| Other financial assets – held-for-trading | 368,617 | 1,487,197 | 2,397,580 | 4,410,106 |
| Loan and receivable to bank | 2,839,753 | 3,122,269 | 4,344,333 | 12,389,001 |
| Loan and receivable to other customers | 11,441,800 | 17,669,214 | 26,801,409 | 53,614,477 |
| Financial investments – available-for-sale | 50,194 | 152,604 | 156,591 | 164,565 |
| Financial investments – held-to-maturity | 18,945,528 | 37,919,335 | 107,152,373 | 119,909,411 |
| Interest-bearing liabilities | 155,713,763 | 407,396,496 | 531,404,579 | 697,631,758 |
| Due to banks | 1,299,946 | 2,858,673 | 2,858,673 | 2,858,673 |
| Due to other customers | 121,412,238 | 359,588,812 | 469,593,750 | 631,721,042 |
| Other borrowings | 33,001,579 | 44,949,011 | 58,945,745 | 63,045,632 |
| Subordinated liabilities | - | - | 6,411 | 6,411 |
| Net rate sensitive assets (liabilities) | (115,989,803) | (339,127,443) | (379,304,579) | (485,919,226) |
| Interest rate sensitivity ratio (%) | 26 | 17 | 29 | 30 |

Bank's Interest Rate Sensitivity Report as at 31st December 2015 is presented below:

| Bank | 0-1 month Rs. '000 | 0-3 months Rs. '000 | 0-6 months Rs. '000 | 0-12 months Rs. '000 |
|---|-----------------------|------------------------|------------------------|-------------------------|
| Interest-bearing assets | 21,430,930 | 54,777,903 | 122,976,548 | 206,497,189 |
| Bank balances and placements | 1,453,118 | 7,088,892 | 9,586,797 | 13,494,086 |
| Other financial assets – held-for-trading | 126,442 | 210,540 | 361,043 | 492,918 |
| Loan and receivable to bank | 1,340,425 | 4,528,503 | 5,230,800 | 6,743,873 |
| Loan and receivable to other customer | 5,851,927 | 11,435,093 | 21,825,612 | 52,187,542 |
| Financial investment – held-to-maturity | 12,659,018 | 31,514,875 | 85,972,296 | 133,578,770 |
| Interest-bearing liabilities | 140,077,193 | 371,951,502 | 494,050,390 | 644,767,201 |
| Due to banks | 75,093 | 75,093 | 75,093 | 75,093 |
| Due to other customer | 115,670,695 | 329,215,221 | 431,108,304 | 581,630,752 |
| Other borrowings | 24,331,405 | 42,661,188 | 62,866,993 | 63,061,356 |
| Net rate sensitive assets (liabilities) | (118,646,263) | (317,173,599) | (371,073,842) | (438,270,012) |
| Interest rate sensitivity ratio (%) | 15 | 15 | 25 | 32 |

48. Financial Risk Management (Contd.) →**48.2 Broad Risk Categories in Focus (Contd.)** →

Group's Interest Rate Sensitivity Report as at 31st December 2015 is presented below:

| Group | 0-1 month Rs. '000 | 0-3 months Rs. '000 | 0-6 months Rs. '000 | 0-12 months Rs. '000 |
|--|-----------------------|------------------------|------------------------|-------------------------|
| Interest-bearing assets | 21,564,527 | 55,178,694 | 124,467,638 | 210,168,880 |
| Bank balances and placements | 1,453,118 | 7,088,893 | 9,586,797 | 13,494,086 |
| Other financial assets – held-for-trading | 225,576 | 507,944 | 1,268,312 | 2,619,917 |
| Loan and receivable to bank | 1,346,426 | 4,546,505 | 5,248,802 | 6,761,875 |
| Loan and receivable to customer | 5,853,282 | 11,439,157 | 21,829,953 | 52,192,437 |
| Financial investments – available-for-sale | 27,107 | 81,320 | 81,320 | 81,320 |
| Financial investments held-to-maturity | 12,659,018 | 31,514,875 | 86,452,454 | 135,019,245 |
| Interest-bearing liabilities | 141,092,213 | 374,996,562 | 498,318,046 | 651,480,046 |
| Due to banks | 86,794 | 110,196 | 110,196 | 110,196 |
| Due to other customer | 115,670,695 | 329,215,221 | 431,108,304 | 581,630,752 |
| Other borrowings | 25,334,724 | 45,671,145 | 67,099,546 | 69,739,098 |
| Net rate sensitive assets (liabilities) | (119,527,686) | (319,817,868) | (373,850,408) | (441,311,166) |
| Interest rate sensitivity ratio (%) | 15 | 15 | 25 | 32 |

(d) Operational Risk

The BASEL Committee on Banking Supervision defines operational risk as “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events”. Basel II defines legal risk as a part of operational risk.

Operational Risk Management Framework

Bank has a conducive Operational Risk Management (ORM) framework to achieve more efficient, transparent, profitable and sustainable business operations. It comprises with well-structured Governance, Policy framework and Risk management processes. The operational risk of the Bank is reported to the ERM, BIRMC and the Board by Operational Risk Management Unit of the Risk Management Division.

Notes to the Financial Statements

49. Maturity Analysis →

| Bank | Up to 3 months | 3 - 12 months | 1 - 3 years | 3 - 5 years | More than 5 years | Total as at 31.12.2016 | Total as at 31.12.2015 |
|---|--------------------|--------------------|--------------------|--------------------|----------------------|---------------------------|---------------------------|
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Assets with Contractual Maturity (Interest-Bearing Asset) | | | | | | | |
| Cash and cash equivalents | 2,211,401 | - | - | - | - | 2,211,401 | 867,577 |
| Placements with banks | 5,707,034 | 13,306,538 | - | - | - | 19,013,572 | 12,626,509 |
| Other financial assets – held-for-trading | 799,686 | 1,532,964 | 6,779,496 | 5,560,934 | 2,521,597 | 17,194,677 | 9,870,590 |
| Loans and receivables to banks | 3,122,270 | 9,266,732 | 14,024,825 | 5,420,245 | - | 31,834,072 | 23,717,823 |
| Loans and receivables to other customers | 17,663,032 | 36,750,266 | 94,349,615 | 48,286,917 | 94,927,111 | 291,976,942 | 248,032,842 |
| Financial investments – available-for-sale | 70,422 | 11,961 | - | 429,288 | 1,592,361 | 2,104,032 | - |
| Financial investments – held-to-maturity | 37,742,810 | 81,633,194 | 186,192,378 | 55,220,114 | 145,035,902 | 505,824,398 | 515,302,705 |
| | 67,316,655 | 142,501,655 | 301,346,314 | 114,917,498 | 244,076,971 | 870,159,094 | 810,418,046 |
| Other Asset (Non-Interest-Bearing Asset) | | | | | | | |
| Cash and cash equivalents | 2,408,298 | - | - | - | - | 2,408,298 | 2,372,676 |
| Balances with central banks | - | - | - | - | - | - | - |
| Derivative financial instruments | 628,000 | 1,050,223 | 1,050,222 | - | - | 2,728,445 | 3,735,284 |
| Other financial assets – held-for-trading | 773,978 | 2,321,933 | - | - | - | 3,095,911 | 3,672,131 |
| Financial investments – available-for-sale | - | - | - | - | 4,123,732 | 4,123,732 | 4,385,767 |
| Investments in subsidiaries | - | - | - | - | 150,000 | 150,000 | 150,000 |
| Property, plant & equipment | - | - | - | - | 7,119,651 | 7,119,651 | 6,967,070 |
| Intangible assets | - | - | - | - | 157,271 | 157,271 | 57,857 |
| Deferred tax assets | - | - | - | - | - | - | - |
| Other assets | 2,406,804 | 7,484,821 | 5,622,895 | 2,374,865 | 3,872,055 | 21,761,440 | 16,320,181 |
| | 6,217,080 | 10,856,977 | 6,673,117 | 2,374,865 | 15,422,709 | 41,544,748 | 37,660,965 |
| Total Asset | 73,533,735 | 153,358,632 | 308,019,431 | 117,292,363 | 259,499,680 | 911,703,842 | 848,079,011 |
| Liabilities with Contractual Maturity (Interest-Bearing Liability) | | | | | | | |
| Due to banks | 115,391 | - | - | - | - | 115,391 | 75,093 |
| Due to other customers | 359,588,812 | 272,132,231 | 22,073,039 | 3,486,233 | - | 657,280,315 | 595,775,709 |
| Other borrowings | 42,039,777 | 15,416,338 | 149,583,794 | - | - | 207,039,909 | 207,025,525 |
| Subordinated liabilities | - | 6,411 | - | 6,000,000 | - | 6,006,411 | - |
| | 401,743,980 | 287,554,980 | 171,656,833 | 9,486,233 | - | 870,442,026 | 802,876,327 |
| Other Liabilities (Non-Interest-Bearing Liability) | | | | | | | |
| Current tax liabilities | - | - | - | - | - | - | - |
| Deferred tax liabilities | - | - | - | - | 416,180 | 416,180 | 504,423 |
| Other liabilities | 1,254,101 | 2,093,979 | 1,336,922 | 1,330,546 | 2,584,509 | 8,600,056 | 12,274,434 |
| State capital/Assigned capital | - | - | - | - | 6,200,000 | 6,200,000 | 3,200,000 |
| Statutory reserve fund | - | - | - | - | 2,522,467 | 2,522,467 | 2,047,581 |
| Other reserves | - | - | - | - | 21,143,806 | 21,143,806 | 27,176,246 |
| Retained earnings | - | - | - | - | 2,379,307 | 2,379,307 | - |
| | 1,254,101 | 2,093,979 | 1,336,922 | 1,330,546 | 35,246,269 | 41,261,816 | 45,202,684 |
| Total liabilities | 402,998,081 | 289,648,959 | 172,993,755 | 10,816,779 | 35,246,269 | 911,703,842 | 848,079,011 |

Notes to the Financial Statements

49. Maturity Analysis (Contd.) →

| Group | Up to 3 months | 3 - 12 months | 1 - 3 years | 3 - 5 years | More than 5 years | Total as at 31.12.2016 | Total as at 31.12.2015 |
|---|----------------|---------------|-------------|-------------|----------------------|---------------------------|---------------------------|
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Assets with Contractual Maturity (Interest-Bearing Asset) | | | | | | | |
| Cash and cash equivalents | 2,211,401 | - | - | - | - | 2,211,401 | 867,577 |
| Placements with banks | 5,707,034 | 13,306,538 | - | - | - | 19,013,572 | 12,626,509 |
| Other financial assets – held-for-trading | 1,487,197 | 2,922,909 | 8,570,899 | 6,620,051 | 4,606,240 | 24,207,296 | 14,132,741 |
| Loans and receivables to banks | 3,122,270 | 9,266,732 | 14,024,825 | 5,420,245 | - | 31,834,072 | 23,735,825 |
| Loans and receivables to other customers | 17,669,214 | 35,945,263 | 94,349,615 | 48,286,917 | 94,927,112 | 291,178,121 | 248,037,737 |
| Financial investments – available-for-sale | 152,604 | 11,961 | 889,913 | 480,908 | 2,462,398 | 3,997,784 | 2,020,270 |
| Financial investments – held-to-maturity | 37,919,335 | 81,990,076 | 186,652,337 | 55,492,052 | 145,571,154 | 507,624,954 | 517,514,189 |
| | 68,269,055 | 143,443,479 | 304,487,589 | 116,300,173 | 247,566,904 | 880,067,200 | 818,934,848 |
| Other Asset (Non-Interest-Bearing Asset) | | | | | | | |
| Cash and cash equivalents | 2,416,228 | - | - | - | - | 2,416,228 | 2,379,892 |
| Balances with central banks | - | 477 | - | - | - | 477 | 729 |
| Derivative financial instruments | 628,000 | 1,050,223 | 1,050,222 | - | - | 2,728,445 | 3,735,284 |
| Other financial assets – held-for-trading | 773,978 | 2,321,933 | - | - | - | 3,095,911 | 3,672,131 |
| Financial investments – available-for-sale | - | - | - | - | 4,124,732 | 4,124,732 | 4,386,767 |
| Investments in subsidiaries | - | - | - | - | - | - | - |
| Property, plant & equipment | - | - | - | - | 7,121,823 | 7,121,823 | 6,969,292 |
| Intangible assets | - | - | - | - | 157,271 | 157,271 | 57,857 |
| Deferred tax assets | - | - | - | - | 588 | 588 | 228 |
| Other assets | 2,404,740 | 7,505,102 | 5,734,014 | 2,374,865 | 3,872,056 | 21,890,777 | 16,347,180 |
| | 6,222,946 | 10,877,735 | 6,784,236 | 2,374,865 | 15,276,470 | 41,536,253 | 37,549,360 |
| Total Asset | 74,492,001 | 154,321,214 | 311,271,825 | 118,675,038 | 262,843,374 | 921,603,453 | 856,484,208 |
| Liabilities with Contractual Maturity (Interest-Bearing Liability) | | | | | | | |
| Due to banks | 2,858,673 | - | - | - | - | 2,858,673 | 110,196 |
| Due to other customers | 359,588,812 | 272,132,231 | 22,073,039 | 3,486,233 | - | 657,280,315 | 595,775,709 |
| Other borrowings | 44,949,011 | 18,096,621 | 149,583,795 | - | - | 212,629,427 | 213,703,431 |
| Subordinated liabilities | - | 6,411 | - | 6,000,000 | - | 6,006,411 | - |
| | 407,396,496 | 290,235,263 | 171,656,834 | 9,486,233 | - | 878,774,826 | 809,589,336 |
| Other Liabilities (Non-Interest-Bearing Liability) | | | | | | | |
| Current tax liabilities | - | 17,153 | - | - | - | 17,153 | 99,409 |
| Deferred tax liabilities | - | - | - | - | 416,180 | 416,180 | 504,423 |
| Other liabilities | 1,245,662 | 2,109,607 | 1,336,922 | 1,330,546 | 2,585,769 | 8,608,506 | 12,286,296 |
| State capital/Assigned capital | - | - | - | - | 6,200,000 | 6,200,000 | 3,200,000 |
| Statutory reserve fund | - | - | - | - | 2,522,467 | 2,522,467 | 2,047,581 |
| Other reserves | - | - | - | - | 21,355,707 | 21,355,707 | 27,471,252 |
| Retained earnings | - | - | - | - | 3,708,614 | 3,708,614 | 1,285,911 |
| | 1,245,662 | 2,126,760 | 1,336,922 | 1,330,546 | 36,788,737 | 42,828,627 | 46,894,872 |
| Total liabilities | 408,642,158 | 292,362,023 | 172,993,756 | 10,816,779 | 36,788,737 | 921,603,453 | 856,484,208 |

50. Capital Adequacy and Management (As per Regulatory Reporting) →

Capital adequacy measures the adequacy of Bank's aggregate capital in relation to the risks, which may arise from its assets and Off-Balance Sheet transaction, its dealing operations and its human activities, technology and natural incident. Central Bank of Sri Lanka has prescribed the minimum risk sensitive capital and effective from January 2008 required the Bank to compute the regulatory capital requirements in accordance with the 'International Convergence of Capital Measurement and Capital Standards – a Revised Framework' (BASEL – II). The Bank's capital adequacy position has been computed under the following approaches of BASEL II, which are currently effective to the local banking industry.

- Standardised approach for credit risk
- Standardised measurement method for market risk
- Basic indicator approach for operational risk

Capital and Risk-Weighted Assets →

| As at 31st December | Minimum requirement | Bank | | Group | |
|--|---------------------|--------------|--------|--------------|--------|
| | | 2016 | 2015 | 2016 | 2015 |
| Capital to Risk-Weighted Assets Ratio | | | | | |
| Tier I (%) | | 14.23 | 20.31 | 14.72 | 21.04 |
| Deduction – Tier I (%) | | (1.70) | (2.41) | (1.64) | (2.32) |
| Core capital ratio (%) | 5 | 12.53 | 17.90 | 13.08 | 18.72 |
| Tier II (%) | | 16.29 | 18.81 | 16.78 | 19.62 |
| Deduction – Tier II (%) | | (1.63) | (2.41) | (1.56) | (2.32) |
| Total capital ratio (%) | 10 | 14.68 | 16.40 | 15.22 | 17.30 |

50. Capital Adequacy and Management (As per Regulatory Reporting) (Contd.) →**Details of Computation →**

Capital Base

| As at 31st December | Bank | | Group | |
|---|-------------------|--------------------|-------------------|--------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Tier I: Core Capital | | | | |
| Stated capital | 6,200,000 | 3,200,000 | 6,200,000 | 3,200,000 |
| Statutory reserve fund | 2,082,225 | 2,082,225 | 2,082,225 | 2,082,225 |
| General and other reserves | 20,484,124 | 25,759,434 | 22,025,332 | 27,459,267 |
| | 28,766,349 | 31,041,659 | 30,307,557 | 32,741,492 |
| Less: Deductions | | | | |
| 50% investment in the capital of other banks and financial institutions/subsidiary and others | 3,444,273 | 3,687,562 | 3,376,331 | 3,612,562 |
| Total Tier I Capital | 25,322,076 | 27,354,097 | 26,931,226 | 29,128,930 |
| Tier II: Supplementary Capital | | | | |
| General provisions and revaluation reserve | 1,632,503 | 1,405,267 | 1,632,503 | 1,405,267 |
| Approved subordinated term debt | 6,000,000 | – | 6,000,000 | – |
| | 7,632,503 | 1,405,267 | 7,632,503 | 1,405,267 |
| Less: Deductions | | | | |
| 50% investment in the capital of other banks and financial institutions/subsidiary | 3,287,002 | 3,687,562 | 3,218,472 | 3,612,562 |
| Eligible Tier II Capital | 4,345,501 | (2,282,295) | 4,414,031 | (2,207,295) |
| Capital Base | 29,667,577 | 25,071,802 | 31,345,257 | 26,921,635 |

Composition of Total Risk-Weighted Assets →

| | | | | |
|---|--------------------|--------------------|--------------------|--------------------|
| Total risk-weighted assets and off-balance sheet exposure for credit risk | 133,682,511 | 106,554,182 | 133,689,793 | 106,562,098 |
| Total risk-weighted assets equivalent for market risk | 27,624,110 | 14,895,300 | 31,052,530 | 17,086,500 |
| Total risk-weighted assets equivalent for operational risk | 40,853,290 | 31,405,130 | 41,210,080 | 31,956,120 |
| Total Risk-Weighted Assets | 202,159,911 | 152,854,612 | 205,952,403 | 155,604,718 |

51. Fair Value of Financial Instruments →

51.1 Financial Instruments Recorded at Fair Value →

Accounting Policy

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

i. Forward Exchange Purchases

Bank value the forward exchange purchase contracts using the quoted prices available for similar contract for the market.

ii. Foreign Currency Swaps

Derivative products (Foreign Currency swaps/Cash Flow Hedges) valued using valuation techniques incorporating various inputs such as foreign exchange spot rates and foreign exchange forward rates.

Financial Assets Held-for-Trading

i. Government Treasury Bills and Bonds

Financial assets held-for-trading are valued using a valuation technique consists of Government Treasury Bills and Treasury Bonds. The Bank values the securities using discounted cash flow valuation models which incorporate observable data. Observable inputs include assumptions regarding current rates of interest, broker statements and market data publishing by Central Bank of Sri Lanka.

ii. Equity Securities

The Bank values the equity securities using the quoted prices available for the identical securities in active market.

Financial Assets Available-for-Sales

The Bank values the quoted equity securities using the quoted prices available for the identical securities in active market.

The unquoted equity securities have been fair valued using a valuation model based on observable data.

51.2 Determination of Fair Value and Fair Value Hierarchy →

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) price in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

51. Fair Value of Financial Instruments (Contd.) →**51.2 Determination of Fair Value and Fair Value Hierarchy (Contd.)** →

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

| Bank As at 31st December 2016 | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 |
|--|---------------------|---------------------|---------------------|-------------------|
| Derivative financial instruments | | | | |
| Forward exchange purchases | 27,750 | - | - | 27,750 |
| Foreign currency swaps | - | - | 2,700,695 | 2,700,695 |
| Financial assets – held-for-trading | | | | |
| Government Treasury Bills and Bonds | 17,194,677 | - | - | 17,194,677 |
| Equity securities | 3,095,911 | - | - | 3,095,911 |
| Available-for-sale | | | | |
| Equity securities – Quoted | 3,332,148 | - | - | 3,332,148 |
| Other investments – Government Securities | 2,104,031 | - | - | 2,104,031 |
| Equity securities – Unquoted | - | 734,094 | - | 734,094 |
| Total financial assets | 25,754,517 | 734,094 | 2,700,695 | 29,189,306 |

| Bank As at 31st December 2015 | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 |
|--|---------------------|---------------------|---------------------|-------------------|
| Derivative financial instruments | | | | |
| Forward exchange purchases | 7,830 | - | - | 7,830 |
| Foreign currency swaps | - | - | 3,727,454 | 3,727,454 |
| Financial assets – held-for-trading | | | | |
| Government Treasury Bills and Bonds | 9,870,590 | - | - | 9,870,590 |
| Equity securities | 3,672,131 | - | - | 3,672,131 |
| Available-for-sale | | | | |
| Equity securities – Quoted | 3,526,070 | - | - | 3,526,070 |
| Equity securities – Unquoted | - | 802,206 | - | 802,206 |
| Total financial assets | 17,076,621 | 802,206 | 3,727,454 | 21,606,281 |

Notes to the Financial Statements

51. Fair Value of Financial Instruments (Contd.) →**51.2 Determination of Fair Value and Fair Value Hierarchy (Contd.)** →

| Group As at 31st December 2016 | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 |
|--|---------------------|---------------------|---------------------|-------------------|
| Derivative financial instruments | | | | |
| Forward exchange purchases | 27,750 | - | - | 27,750 |
| Foreign currency swaps | - | - | 2,700,695 | 2,700,695 |
| Financial assets – held-for-trading | | | | |
| Government Treasury Bills and Bonds | 24,207,296 | - | - | 24,207,296 |
| Equity Securities | 3,095,911 | - | - | 3,095,911 |
| Available-for-sale | | | | |
| Equity securities – Quoted | 3,332,148 | - | - | 3,332,148 |
| Debt securities – Debenture | - | 199,839 | - | 199,839 |
| Other investment – Government Securities | 3,797,944 | - | - | 3,797,944 |
| Equity securities – Unquoted | - | 734,094 | - | 734,094 |
| Total financial assets | 34,461,049 | 933,933 | 2,700,695 | 38,095,677 |

| Group As at 31st December 2015 | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 |
|--|---------------------|---------------------|---------------------|-------------------|
| Derivative Financial Instruments | | | | |
| Forward exchange purchases | 7,830 | - | - | 7,830 |
| Foreign currency swaps | - | - | 3,727,454 | 3,727,454 |
| Financial assets – held-for-trading | | | | |
| Government Treasury Bills and Bonds | 14,132,741 | - | - | 14,132,741 |
| Equity securities | 3,672,131 | - | - | 3,672,131 |
| Available-for-sale | | | | |
| Equity securities – Quoted | 3,526,070 | - | - | 3,526,070 |
| Debt securities – Debenture | - | 186,061 | - | 186,061 |
| Other Investment – Government Securities | 1,834,209 | - | - | 1,834,209 |
| Equity securities – Unquoted | - | 802,206 | - | 802,206 |
| Total financial assets | 23,172,981 | 988,267 | 3,727,454 | 27,888,702 |

51. Fair Value of Financial Instruments (Contd.) →**51.3 Fair Value of Financial Instruments – Bank** →

As at 31st December

| | 2016 | | 2015 | |
|--|-----------------------------|------------------------|-----------------------------|------------------------|
| | Carrying amount Rs. '000 | Fair value Rs. '000 | Carrying amount Rs. '000 | Fair value Rs. '000 |
| Financial Assets | | | | |
| Cash and cash equivalents | 4,619,699 | 4,619,699 | 3,240,253 | 3,240,253 |
| Balances with central banks | – | – | – | – |
| Placement with banks | 19,013,572 | 19,013,572 | 12,626,509 | 12,626,509 |
| Derivative financial instruments | 2,728,445 | 2,728,445 | 3,735,284 | 3,735,284 |
| Other financial assets – held-for-trading | 20,290,588 | 20,290,588 | 13,542,721 | 13,542,721 |
| Loans and receivable to banks | 31,834,072 | 30,571,117 | 23,717,823 | 23,270,188 |
| Loans and receivable to other customers | 291,976,942 | 289,348,586 | 248,032,842 | 246,721,529 |
| Financial investments – available-for-sale | 6,227,764 | 6,227,764 | 4,385,767 | 4,385,767 |
| Financial investments – held-to-maturity | 505,824,398 | 474,362,481 | 515,302,705 | 505,460,587 |
| Total financial assets | 882,515,480 | 847,162,253 | 824,583,904 | 812,982,838 |
| Financial Liabilities | | | | |
| Due to banks | 115,391 | 115,391 | 75,093 | 75,093 |
| Due to other customers | 657,280,315 | 655,297,898 | 595,775,709 | 594,857,393 |
| Other borrowings | 207,039,909 | 207,039,909 | 207,025,525 | 207,025,525 |
| Subordinated liabilities | 6,006,411 | 6,006,411 | – | – |
| Total financial liabilities | 870,442,026 | 868,459,609 | 802,876,327 | 801,958,011 |

Notes to the Financial Statements

51. Fair Value of Financial Instruments (Contd.) →**51.3 Fair Value of Financial Instruments – Group** →

| As at 31st December | 2016 | | 2015 | |
|--|-----------------------------|------------------------|-----------------------------|------------------------|
| | Carrying amount Rs. '000 | Fair value Rs. '000 | Carrying amount Rs. '000 | Fair value Rs. '000 |
| Financial Assets | | | | |
| Cash and cash equivalents | 4,627,629 | 4,627,629 | 3,247,469 | 3,247,469 |
| Balances with central banks | 477 | 477 | 729 | 729 |
| Placement with banks | 19,013,572 | 19,013,572 | 12,626,509 | 12,626,509 |
| Derivative financial instruments | 2,728,445 | 2,728,445 | 3,735,284 | 3,735,284 |
| Other financial assets – held-for-trading | 27,303,207 | 27,303,207 | 17,804,872 | 17,804,872 |
| Loans and receivable to banks | 31,834,072 | 30,571,117 | 23,735,825 | 23,288,190 |
| Loans and receivable to other customers | 291,178,121 | 288,549,764 | 248,037,737 | 246,726,424 |
| Financial investments – available-for-sale | 8,122,516 | 8,122,516 | 6,407,037 | 6,407,037 |
| Financial investments – held-to-maturity | 507,624,954 | 476,022,040 | 517,514,189 | 507,632,032 |
| Total financial assets | 892,432,992 | 856,938,767 | 833,109,651 | 821,468,546 |
| Financial Liabilities | | | | |
| Due to banks | 2,858,673 | 2,858,673 | 110,196 | 110,196 |
| Due to other customers | 657,280,315 | 655,297,898 | 595,775,709 | 594,857,393 |
| Other borrowings | 212,629,427 | 212,629,427 | 213,703,431 | 213,703,431 |
| Subordinated liabilities | 6,006,411 | 6,006,411 | – | – |
| Total financial liabilities | 878,774,826 | 876,792,409 | 809,589,336 | 808,671,020 |

51. Fair Value of Financial Instruments (Contd.) →***51.4 Determination of Fair Value and Fair Value Hierarchy*** →**Fair Value of Financial Assets and Liabilities not Carried at Fair Value**

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not recorded at fair value in the Financial Statements.

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short-term maturity (original maturities less than a year). It is assumed that the carrying amount approximate their fair values. This assumption is also applied to savings deposits without specific maturity.

Long-term deposits accepted from customers for which periodical interest is paid and loan and receivables granted to customers with a variable rate are also considered to be carried at fair value in the books.

Fixed Rate Financial Instruments

Carrying amounts are considered as fair values for short-term credit facilities. In fair valuing held-to-maturity securities, rates published by the CBSL for similar trading securities were used. Loans and receivable with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the Reporting year. Conversely, fixed deposits with original tenure above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the Reporting year.

Supplementary Information

About this Report - 312

Stakeholders - 314

Materiality and Value Creation - 318

Management Approach - 321

Products - 325

Statement of Comprehensive Income in US Dollars - 328

Statement of Financial Position in US Dollars - 330

Statistical Indicators 2007-2016 - 331

Analysis of Deposits - 333

Correspondent Banks - 334

Exchange Companies - 335

GRI Content Index: 'In Accordance' with Core Criteria - 337

Glossary of Financial and Banking Terms - 341

Corporate Information - 345

About this Report

Report Structure

Before you is the Bank's third Integrated Annual Report provides information and performance data on the operations of the National Savings Bank during the calendar year of 2016. It follows a similar reporting format to our past report, Annual Report 2015: A Unique Story. The triple bottom line evaluator process that examines economic, social and environmental impacts on our business and by our business remains integral to the reporting process.

Sustainability

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

Format

This Annual Report is produced in print and PDF versions. The latter is available on our website – www.nsb.lk. Our integrated report takes the form of a story. It explains how we are gearing up to meet the challenges that go with such an ambitious goal and our progress so far on this journey. It also includes the journey we have come so far. How we have adhered to the core objective in 2016 of fostering a savings culture in our premier stakeholders: the people of Sri Lanka.

Report Boundary and Materiality

The overall boundary of this Annual Report comprises the National Savings Bank and its wholly-owned Subsidiary, NSB Fund Management Company Ltd., duly identified as the 'Bank' individually and 'Group' collectively. Consistent with the framework adopted in the 2015 report, key financial aspects are discussed in the context of the Bank as well as the Group, while non-financial aspects are discussed in the context of the Bank unless stated otherwise. This report focuses on aspects that are material or important. It is an assessment based on the extent to which these factors may substantively affect the Bank's ability to create value

over the short-, medium- and long-term. The materiality determination process is discussed under Materiality and Value Creation that begins on page 318 and also reflects 'The 2016 Story,' as already described.

Significant Events During the Year

Five new branches were opened during the year namely: Udugama, Uhana, Galagedara, Siyambalanduwa and Kopay. NSB also ventured into trade finance business operations from the 23rd June 2016. Furthermore, our International Business Unit implemented the API system.

There were several changes in the management, the Bank appointed six new members to the Corporate Management as DGM (Retail Credit), DGM (Treasury), DGM (HRD), Acting DGM (IT), Acting DGM (Operations/Marketing), and Consultant (Strategy & Marketing) and the Bank appointed seven new members to the Executive Management as AGM (Audit), AGM (Operations I), AGM (Operations III), AGM (International), AGM (Engineering), AGM (Planning), and AGM (HRD).

Compliance

The Bank's Annual Report 2016 covers the 12-month period from 1st January to 31st December 2016, and is consistent with our usual annual reporting cycle for financial and sustainability reporting. The latter is in accordance with the core criteria of GRI G4 guidelines. Being an integral part of the Bank's overall business, it is subject to the Bank's existing internal and external control and assurance systems. There are no significant changes from previous reporting periods in the scope and aspect boundaries. The most recent previous Annual Report, dated 26th March 2016, covered the 12-months period ended 31st December 2015. Comparative financial information, if reclassified or restated, has been disclosed and explained in the relevant sections.

About this Report

The primary statutes that govern the activities of the Bank are the National Savings Bank Act No. 30 of 1971 and its amendments, Banking Act No. 30 of 1988 and its amendments, Directives and Guidelines of the Central Bank of Sri Lanka (CBSL) and Regulations and Directions of the Department of Inland Revenue. The financial information contained in this report, as in the past, is in compliance with all applicable laws, regulations and standards and is declared in the several reports and statements that appear under the section on Financial Reports commencing on page 179. In preparing this Integrated Report, we have also drawn on concepts, principles and guidance given in the following, where applicable:

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

Queries

We welcome your comments or inquiries on this report, which could be addressed to the Finance and Planning Division at National Savings Bank, No. 255, Galle Road, Colombo 3 (email: nsbgen@nsb.lk).

Stakeholders

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

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

Stakeholder Engagement →

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

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

Stakeholders

| Stakeholder | Mode of engagement | Frequency of engagement | Topics discussed | Method of response |
|---|---|--------------------------------------|---|--|
| Customers | Customer access points | As and when required | Interest rates and features of products and services | Introducing more features to products |
| | <i>Ithurum Ayojana Kawa</i> | As and when required | New products and services introduced | Connecting advanced technological features to products |
| | School banking units | As and when required | Accessibility to relevant and reliable banking information | Marketing campaigns |
| | Call centre | As and when required | Awareness on promotional activities | Direct promotional campaigns |
| | Surveys on customer satisfaction | As and when required by the customer | Satisfaction on rendered service | Enhancing customers access points |
| | Corporate events | Periodically | Future expectations of customers | Customer surveys |
| | Corporate website | Occasionally | Loan disbursement/loan recovery | Opening and re-location of branches. |
| | Customer awareness programmes | As and when required | The Bank and products/services offered | Enhancing customer satisfaction |
| | CSR activities | As and when required | Change in customer characteristics and market trends | |
| | Promotional campaigns | As and when required | | |
| Employees <i>(Including employee unions and executive associations)</i> | Managers' conference | Quarterly | Remuneration | Improvements to performance evaluation system |
| | Regional review meetings | Quarterly/monthly/weekly | Performance bonus | Granting promotions |
| | Performance appraisals | Annually | Welfare activities towards staff | Granting transfers |
| | Transfer Board | Quarterly | BASEL III implementation | Handling grievances |
| | Internal News Letter | Quarterly | Future plans and strategic plan implementation | Providing training and development opportunities |
| | Special announcements through public address system | As and when required | Defined benefit and contribution plans | Annual salary increments |
| | Circulars published in intranet | Continuous | Training and other facilities to improve skills and competencies of employees | Special appreciations |
| | Training programmes | As per training plan | Disciplinary actions | Disciplinary actions |
| | Ad hoc meetings | As and when required | Special appraisals | Changes to process to motivate employees/enhance performance |
| | Planning and setting targets | As and when required | Bank's processes, procedures and staff grievances | Appointment of employee mentors |
| | Operational Committee meetings | As and when required | Implementation of collective agreement on salary and non-salary benefits | Signing collective agreement |
| | Operation of welfare activities and sports club | As and when required | | |
| | Negotiations on collective agreements | Once in 3 years | | |

Stakeholders

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

Stakeholders

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

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

- The National Chamber of Commerce of Sri Lanka
- Society for Worldwide Interbank Financial Telecommunication (SWIFT)
- Eurogiro Global Payment Community
- LankaClear (Pvt) Ltd.
- The Sri Lanka SWIFT User Group
- The World Savings Banking Institute
- Employers' Federation of Sri Lanka

Materiality and Value Creation

Through an extensive mapping process involving Bank executives, employees and key stakeholders, we developed a list of what we consider to be the 35 most important aspects of materiality and value creation of our business.

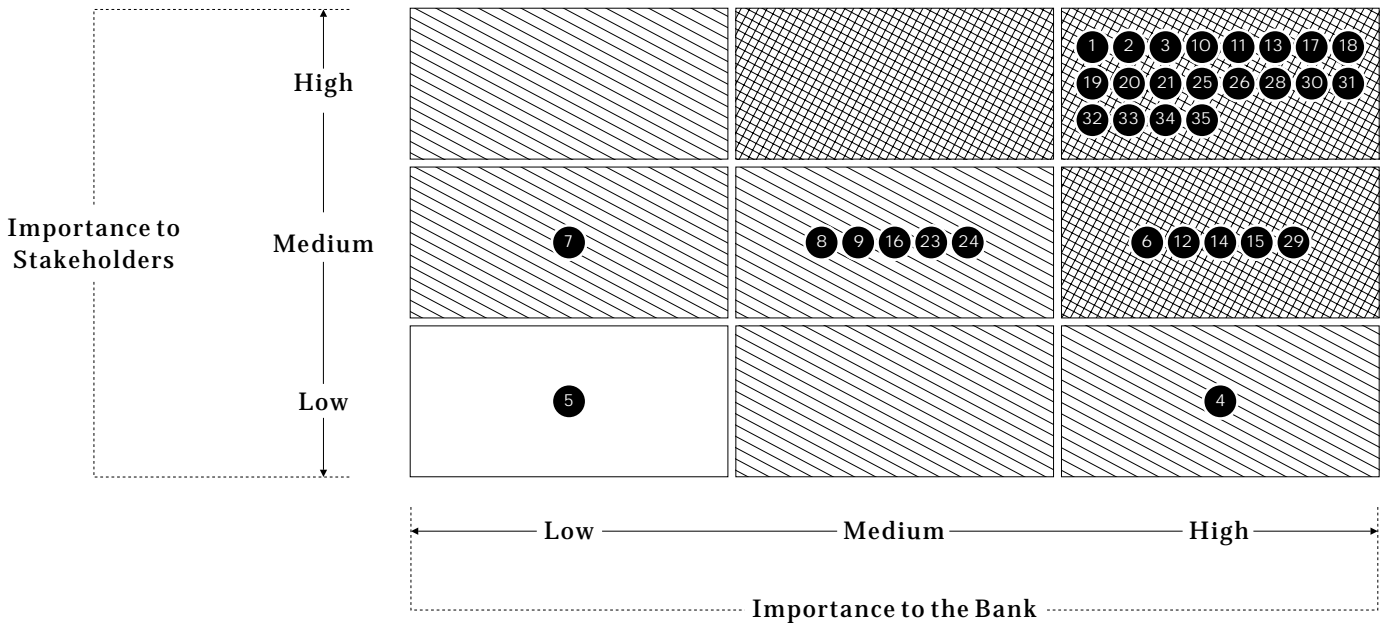
| Aspects | Significance in terms of Bank's sustainability context | Internal | Customers | Communities | Suppliers | Regulators | To the Bank | To the stakeholders | Report |
|--|--|----------|-----------|-------------|-----------|------------|-------------|---------------------|--------|
| Economic | | | | | | | | | |
| 1 | Economic performance | H | ⊗ | | | | H | H | Yes |
| 2 | Market presence | H | ⊗ | | | | H | H | Yes |
| 3 | Indirect economic impact | H | | ⊗ | | | H | H | Yes |
| 4 | Procurement Practices | L | ⊗ | | | | H | L | Yes |
| Environmental | | | | | | | | | |
| 5 | Materials | L | | | | | L | L | No |
| 6 | Energy | M | ⊗ | | | | H | M | Yes |
| 7 | Emissions | L | | | | | L | M | No |
| 8 | Effluents and waste | M | ⊗ | | | | M | M | No |
| 9 | Products and services | M | | ⊗ | | | M | M | No |
| Social: Labour Practice and Decent Work | | | | | | | | | |
| 10 | Employment | H | ⊗ | | | ⊗ | H | H | Yes |
| 11 | Labour/management relations | H | ⊗ | ⊗ | | | H | H | Yes |
| 12 | Occupational health and safety | M | ⊗ | | | | H | M | Yes |
| 13 | Training and education | H | ⊗ | | | ⊗ | H | H | Yes |
| 14 | Diversity and equal opportunity | H | ⊗ | | | | H | M | Yes |
| 15 | Equal remuneration for women and men | H | ⊗ | | | ⊗ | H | M | Yes |
| 16 | Supplier assessment for labour practices | M | | | | ⊗ | M | M | No |
| 17 | Labour practices grievance mechanisms | H | ⊗ | | | | H | H | Yes |

Materiality and Value Creation

| Aspects | Significance in terms of Bank's sustainability context | Internal | Customers | Communities | Suppliers | Regulators | To the Bank | To the stakeholders | Report |
|-----------------------------|--|----------|-----------|-------------|-----------|------------|-------------|---------------------|--------|
| Social: Human Rights | | | | | | | | | |
| 18 | Non-discrimination | H | ⊗ | | ⊗ | | H | H | Yes |
| 19 | Freedom of association and collective bargaining | H | ⊗ | | | ⊗ | H | H | Yes |
| 20 | Child labour | H | ⊗ | | ⊗ | | H | H | Yes |
| 21 | Forced or compulsory labour | H | ⊗ | | ⊗ | | H | H | Yes |
| 22 | Security practices | M | ⊗ | | | | M | M | No |
| 23 | Assessment | M | ⊗ | | | | M | M | No |
| 24 | Supplier human rights assessment | M | | | | ⊗ | M | M | No |
| 25 | Human right grievance mechanism | H | ⊗ | | | | H | H | Yes |
| Social: Society | | | | | | | | | |
| 26 | Local communities | H | | ⊗ | ⊗ | | H | H | Yes |
| 27 | Anti-corruption | H | ⊗ | | | | H | H | Yes |
| 28 | Compliance | H | ⊗ | | | ⊗ | H | H | Yes |
| 29 | Supplier assessment for impact on society | M | | | | ⊗ | H | M | Yes |

Materiality and Value Creation

| Aspects | Significance in terms of Bank's sustainability context | Internal | Customers | Communities | Suppliers | Regulators | To the Bank | To the stakeholders | Report |
|---------------------------------------|--|----------|-----------|-------------|-----------|------------|-------------|---------------------|--------|
| Social: Product Responsibility | | | | | | | | | |
| 30 | Product and service labelling | H | ⊗ | ⊗ | | | H | H | Yes |
| 31 | Marketing communication | H | ⊗ | ⊗ | | | H | H | Yes |
| 32 | Customer privacy | H | ⊗ | ⊗ | | | H | H | Yes |
| 33 | Compliance | H | ⊗ | | | ⊗ | H | H | Yes |
| 34 | Product Portfolio | H | | ⊗ | | | H | H | Yes |
| Other Topics | | | | | | | | | |
| 35 | Bank's CSR activities | H | | | | | H | H | Yes |



Management Approach

Existing within a framework of globalisation and constant technological advances, modern organisations have a responsibility to actively adopt best practices to meet various challenges and opportunities to remain competitive. It is paramount to evaluate the economic, social and environmental implications of business and integrate sustainable practices to the management approach.

NSB is deeply rooted in the local economy to serve the nation. The Bank is committed to foster a savings culture and to make banking a stress-free, convenient process for all segments of the Sri Lankan society.

The following discussion outlines our management approach and how NSB's economic, social and environmental impacts are managed. Furthermore it will also include, the reasons why we consider these aspects to be material, what we do to manage them and how we evaluate our approach and results.

The numerous accolades that are bestowed upon NSB in 2016 under volatile economic conditions, namely the 'AAA (Ika)' Fitch Ratings for the 14th consecutive year and Global Finance Rating NSB as 'The Safest Bank in Sri Lanka', are a testament of a sound management approach.

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

1. Top 35 most important internal and external stakeholder expectations and concerns (ascertained from various means of engagement, primarily correspondence)
2. Whether an aspect is a risk to the Bank or whether it creates value
3. Aspects contained in the GRI G4 Guidelines

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

Material Economic Aspects

The Bank attaches due prominence to its economic performance since economic prosperity is a *sine qua non* for the Bank to be able to contribute to social and environmental prosperity besides the well-being of the nation. Both Financial and non-financial goals have been accordingly set in the Corporate Business Plan and related budgets.

The expansion of our market position in Sri Lanka was facilitated by enhancing our products and services which cater to all segments of society. We have also adopted best managerial practices and streamlined internal processes to become a market leader in our industry.

The NSB values of diversity and inclusiveness prevails in the workforce, customer base and its product range. Wherever possible and practical, we prefer local hires since it improves the diversity within the NSB team and provides fresh insights on local needs that may also be replicable elsewhere.

With 250 branches and an extensive ATM network, NSB has an island-wide reach. The new branches and ATM machines were strategically placed in mostly rural areas where there are less opportunities and facilities for savings and investments available for people. Over the years, POS banking has proved to be an immense success in providing banking solutions to encourage the savings habit at schools, weekly and weekend fairs and factories.

NSB's market presence impacts the local communities in many ways which includes:

- Employment creation
- Support extended to those in the supply chain
- Development of skills and knowledge
- Assistance in attracting other investors

With over a 180-year legacy, it is no secret that Sri Lankans learnt the fundamentals of savings from NSB. We recognise the value of fostering a savings culture in Sri Lanka. We also recognise the contribution of migrant workers to the GDP of the nation and we are determined to enhance and improve the management of foreign remittances and NRFC and RFC deposit mobilisation. We introduced 'NSB U-Trust', a foreign remittance service, designed to assist Sri Lankan expatriates. This year, there was a significant increase of foreign remittance from migrant workers in the Middle-East and Italy and we have also reached out to Japan, Korea and Australia. As a trusted and responsible state-owned bank, NSB is proud to play the role of guardian of their remittances. In order to facilitate these remittances, the Bank has established relationships with well-established and prominent exchange houses. Money Gram International and the Eurogiro fraternity are amongst a total of 34 exchange companies the Bank deals with to facilitate this service.

NSB continued to contribute towards strengthening the national framework by ensuring the availability of funds for development projects undertaken by the state and private entities, with special focus on condominium/housing development projects and infrastructure projects. Investments in Government Securities amounted to over 95.7% of the Bank's Investment Portfolio.

These are beyond the value created by the Bank and its significant contribution to the Government by way of:

- Income tax
- Indirect taxes
- Special fees to Treasury
- Contributions to the Consolidated Fund in the form of dividends

We recognise the importance of keeping up with the technological advancements of our time and its impact of the financial services industry. Our Internet banking and SMS banking facilities added contemporary convenience for people able or wishing to manage their banking transactions on the move or at home. We have also introduced bill payment facilities, building one-stop-shop convenience

through our network. We are connected to major utility suppliers, Telecom providers and major insurance companies. The internet banking facilitates fund transfers to most of the banks in the country.

We continually conduct research to understand the customer ecosystem and to improve customer convenience and satisfaction. Accordingly, the products and services offered by the Bank are redesigned, relaunched.

Material Environmental Aspects

Environmental risks have a significant impact on organisations as it affects investment decisions, stakeholder interactions and Government regulations. These risks have become more apparent particularly in the last decade as droughts, heat stress and floods affect the world's industries, populations and ecosystems. NSB recognises that the Bank is a stakeholder of planet Earth where natural resources are depleting. NSB understands its responsibility towards the environment which is reflected in our active role in the '*Soorya Bala Sangramaya*' which is a community-based power generation project launched by the Ministry of Power and Renewable Energy.

As a service-oriented organisation and with minimal use of physical input materials, the Bank's operations do not have a material direct impact on the environment in terms of intensive resource utilisation, emissions or generation of hazardous waste. Our employees are educated to use materials and energy efficiently and responsibly. Our promotional materials such as leaflets and banners are in biodegradable form. Waste papers are collected and handed for recycling. We are also in the process of developing energy efficient office spaces.

Studies have found that having contact with nature in an office setting contributes to the happiness and productivity of employees. Our Bank branches usually maintain an attractive surrounding. When constructing new office buildings we attempt to preserve some of the natural landscape. NSB takes such eco-friendly values across the Board even when granting home loans by obtaining legal clearances from local authorities for construction of houses.

Material Social Aspects

Labour Practices and Decent Work

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

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

Diversity and inclusiveness are principal values that NSB upholds. We are committed to developing and maintaining a diverse and inclusive work environment, and promoting a healthy and positive work environment. This is reflected in our customer base, workforce and product range that cater to all segments of society. Furthermore, we promote equal opportunities in recruiting, remuneration, career advancement regardless of the employee's race, religion, gender, age, marital status or disabilities. Our remuneration policy is fair, transparent and competitive. Salary level is based on personal work, performance, market situation and competence. We make no gender distinction in our remuneration packages.

NSB's staff recruitment process is focused on attempting to identify prospective candidates with competent professional skills. NSB is committed to creating business leaders who will add value to our establishment as well as the nation. We mould individual talent as well as instil a sense of family spirit in our employees. Our HR department is responsible for upholding the NSB family culture, work ethics, norms and standard procedures of the Bank. We also promote continuous professional development in our employees. Over 29 Million Rupees were invested this year in foreign and local training initiatives, which funded 273 training programmes, logging a massive number of 48,644 training hours for 2016.

As a Government entity, NSB is responsible for complying with the ILO Conventions, which have been ratified by Sri Lanka. As such, the Bank complies with International Labour Standards such as:

- Avoidance of forced labour
- Providing for freedom of association and the right to organise
- Collective bargaining
- Equal remuneration
- Non-discrimination
- Adherence to minimum age limits and hours of work
- Maternity protection
- Employee compensation

Striking a balance between work and family is a challenge with schedules becoming stressful which causes either our work or our personal lives to suffer. We encourage our employees to embrace a healthy work-life balance.

Human Rights

NSB operates in a diversified, ever-changing, highly competitive global landscape. We go beyond just conforming with relevant local laws to incorporating the best of global standards to conduct our business in accordance with the highest ethical standards and to uphold the spirit of human rights.

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

Creating and sustaining a safe working environment is one of our principal goals. Workplace well-being and work safety are regularly addressed. There were only four injuries reported last year suggesting NSB's commitment to worker safety.

NSB ensures that modes of dialogue exist with its employees enabling them to report any concerns they have, thus ensuring freedom of association.

Society

Embracing the 'national' aspect of our name, we are committed to serve the nation and the society at large. Catering to all segments of society for 44 years we have established a interdependent relationship or trust and collaboration with different communities. As a Bank that touches the lives of almost all Sri Lankans in some way or the other, we recognise community engagement as a business imperative and the cornerstone of sustainability of our operations.

Our island-wide reach comprising of branches, ATMs, Post Offices, sub-post Offices and School Banking Units that reach both urban and rural parts of Sri Lanka. We serve the nation by incorporating social responsibility initiatives that engages the local community and enhances the relationship between the Bank and the community.

We have taken necessary systemic steps by establishing internal control mechanisms to curtail bribery and corruption in our operations. We have strengthened our Risk Management function in order to cover major categories of Risks in its drive to minimise the risk of bribery, corruption and fraud. Only in respect of Risk and Compliance, Liaison Officers appointed at all branches and divisions, report directly to the Head of Risk and Compliance Officer for their respective activities.

Product Responsibility

Our products touch all segments of society from children to senior citizens. NSB's marketing communications guidelines ensure that all applicable laws, directions, codes of conduct, ethical norms are strictly followed in all forms of public communications, advertising, promotion and sponsorship of products and services.

Our products are packaged in such a way that they are intelligible to everyone. Financial jargon and terms are simplified to provide our customers with clear, accurate and relevant information.

Since products in the banking sector do not have issues regarding safety standards or environmental concerns, our objective in adhering to product responsibility is the delivery of an product that is beneficial to our customers. We ensure that our products are marketed in such a way that they do not mislead our customers.

We are also aware of the consequences – financial as well as otherwise – of a breach in customer privacy which can lead to fines, penalties and even to the loss of reputation. Hence, we have given highest priority to customer privacy and maintain secure systems and procedures which include an oath of confidentiality taken by employees.

Products

Deposit Products

Ordinary Savings Account

The Bank offers ordinary savings accounts to anyone aged over seven years, with a minimum deposit of Rs. 100/-. An account holder can make deposits or withdrawals at NSB branch or through SMS/Internet-banking facility.

“Hapan” Children’s Savings Account

The “Hapan” and “Punchi Hapan” are children’s savings accounts designed for those between the ages of 8-16 and 1-7 years, respectively. Deposits in both the said accounts are paid an 1% more interest than what the Bank pays to their other savings accounts.

“Ithuru Mithuru” Savings Account

The “Ithuru Mithuru” savings account is a savings scheme designed for the purpose of fostering the habit of savings in youth aged between 16-30 years, and the Bank offers it 0.5% more interest than what it pays for an ordinary savings account. A customer who saves with an “Ithuru Mithuru” account can enjoy this higher interest rate up until he/she reaches the age of 35.

“Sthree” Savings Account

The “Sthree” savings account is designed specifically for women who play different roles in life aged over 16 years with more privileges to celebrate the achievements of life and lend a hand and to shoulder their responsibilities to transform them as heiress to a better tomorrow. *Sthree* account holder entitles to a 0.5% interest rate reduction on pawning advances.

NSB Pension + Account

The “NSB Pension +” is a contributory pension scheme that allows holders to invest any amount into the account over a period of time, or make a lump sum investment. With a minimum balance of Rs. 100,000/- in the account, account holder will start receiving a pension, upon reaching the age of 55 years.

Term deposits

The Bank also accepts tenure-based deposits of fixed amounts for different maturity periods. A term deposit customer may withdraw his/her money before the expiry of the relevant maturity period in accordance with the applicable premature rates. Tenures range from three months to five years, and they indeed are targeted at children, senior citizens, societies and corporate.

Foreign Currency Savings Accounts/ Term Deposits

The Bank also offers foreign currency savings deposits or term deposits to both resident and non-resident Sri Lankans. A Non-Resident Foreign Currency Account (“NRFC”) can be opened by any Sri Lankan national employed abroad, while a Resident Foreign Currency (“RFC”) account can be opened by any resident citizen who is either in possession of foreign currency or is receiving foreign currency remittances. Then, Special Foreign Investment Deposit Accounts (“SFIDAs”) are on offer for foreign nationals/Sri Lankan citizens resident abroad/corporate entities incorporated outside Sri Lanka/foreign institutional investors.

Money Changing Business

The customers who possess foreign currency notes could encash them and also customers who travel abroad could purchase foreign currency notes at the selected branches at competitive exchange rates.

Trade Financing

The Bank facilitates import trade transactions targeting the retail sector; especially importation of motor vehicles. Issuance of letters of credit (LC), handling import bills under LC, issuance of shipping and air freight guarantees, collection of bills & forward exchange bookings are the services offered at all the branches under trade financing.

Retail Lending Products

Housing and Property Loans

The Bank offers home loans to people who intend to construct, renovate, purchase or repair a home, to purchase a land to build a house on as well as to pay off a home loan obtained from another financial institution. The following are the home loan products which are available for different customer segments:

- *Ge Dora*
- *Alankara*
- Home Loans for Government Employees

Personal loans

The Bank offers personal loans to its customers for meeting the costs; associated with the purchase of consumer goods, healthcare, travel abroad, solar Panels and education. The Bank obtains the security interest over properties such as primary mortgage of the borrower's property, item purchased, surrender value of the borrowers' life insurance policy or Government Securities they own. This loan is also available with personal guarantors. The repayment period and the amount of a loan are dependent on the nature of

the collateral provided and the prospective borrower's circumstances. The following personal loans are available:

- Normal Personal Loan;
- *Buddhi* Loan;
- Special Pension Loan;
- *Charika* Loan;
- Eco Loan.

Auto Loan

Auto Loans are granted to cover up to 75% of the purchase price of an unregistered vehicle, and up to 60% of the price of a registered vehicle. This loan can also be raised to pay-off an auto-loan obtained from another legitimate source. An auto-loan will be released within two or three days of making an application.

Loans against Deposits – Speed Loans

Speed loans are loans granted against the deposits of an account holder. The Bank offers speed loans of up to 90% of a customer's deposits with the Bank, while the deposits will serve as security.

ECO Loan

NSB Eco loan is designed to provide financial assistance to those who are interested having a solar power generation system installed in their homes, enabling them to go green and save on their electricity bills, at the same time.

Ran Sahana Pawning Service

You can obtain instant loans for short-term credit needs at comparatively low rates of interest, against the security of jewellery and fully-automated machinery is used to check your valued gold articles. Part payment on pawned articles is also possible.

Card Services

Shopping + ATM Card

The Bank issues “Shopping + ATM Cards” connected to customers’ savings accounts which provides easy access to cash by enabling the customers to make ATMs withdrawals and pay for their purchases.

NSB Easy Card

The “NSB Easy Card” is a master card that is issued against the balance in customer’s fixed deposit account, with credit limit of up to 80% of the deposit balance. Additionally, cardholders can also withdraw cash with their NSB Easy card from any ATM with Master card logo, including all NSB ATMs.

Corporate Lending

The Bank is also engaged in corporate lending for long-term infrastructure or other development projects, in the areas of power-generation, telecommunication, healthcare, highway and irrigation etc. Such loans will be granted in the form direct loans to a bank/financial institution, either as part of a syndicated loan or to private corporate entities/State Owned Enterprises (SOE), as a direct loan.

Other Services

NSB U-Trust

“NSB U-Trust” is the Bank’s foreign currency remittance service. Through this service, Sri Lankans working abroad can remit their earnings to their families back home. In fact, money can be sent either to a NSB account or to an account elsewhere. A beneficiary can also collect his/her remittance, over the counter, at any NSB branch or main Post Office.

NSB Reach

“NSB Reach” is the Bank’s POS device-based savings mobilisation programme, which has enabled mostly under banked people to save from where they are, without going through the hassle of visiting a branch, as its tagline “Your Address is Our Address” says.

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. The following types of guarantees can be issued against deposits on the request of the customer: Performance Bonds, Bid Bonds, Retention Bonds, Retention Guarantees, Tender Bonds, Advance Payment Guarantees.

Utility Bill Payments

Utility Bill Payment services are available at NSB and you can pay utility bills at any of our branches island-wide. Bills will be updated online as soon as you pay your bill.

SMS Banking

SMS Banking service is available to any NSB savings account holder. With SMS Banking, customers can pay their utility bills and transfers funds between NSB accounts.

Internet Banking

The Bank also provides the Internet Banking facility to its customers. Indeed, Internet Banking allows NSB customers to check their account balances, transfer funds from their accounts to any account, no matter which bank the transferee’s account is, on top of reloading facility and paying utility bills, online.

School Banks

NSB was involved in establishing School Banks, where school children learn the habit of savings and get used to leadership role within the school.

NSB Call Centre

The NSB Call Centre provides assistance to customers to contact the Bank and inquire about the Bank’s activities. Indeed, any person can come to the Call Centre on 2379379 and get information related to any NSB product or service. As well, they can reach it via e-mail, Skype too. What’s more, web-chatting too is possible, if they so wish to.

Statement of Comprehensive Income in US Dollars

| For the year ended 31st December | Bank | | | Group | | |
|---|--------------------|--------------------|-------------|--------------------|--------------------|-------------|
| | 2016 US \$ '000 | 2015 US \$ '000 | Change % | 2016 US \$ '000 | 2015 US \$ '000 | Change % |
| Gross income | 583,634 | 550,342 | 6 | 587,904 | 554,562 | 6 |
| Interest income | 576,895 | 542,333 | 6 | 581,922 | 546,629 | 6 |
| Less: Interest expenses | 406,833 | 355,033 | 15 | 410,377 | 357,397 | 15 |
| Net interest income | 170,062 | 187,300 | (9) | 171,545 | 189,232 | (9) |
| Fee and commission income | 4,342 | 3,300 | 32 | 4,348 | 3,313 | 31 |
| Less: Fee and commission expenses | 918 | 771 | 19 | 936 | 778 | 20 |
| Net fee and commission income | 3,424 | 2,529 | 35 | 3,412 | 2,535 | 35 |
| Net gain/(loss) from trading | (262) | 2,068 | (113) | (914) | 2,092 | (144) |
| Net gain/(loss) from financial instruments designated at fair value through profit or loss | - | - | - | - | - | - |
| Net gain/(loss) from financial investments | 273 | 193 | 41 | 273 | 193 | 41 |
| Other operating income (net) | 2,386 | 2,448 | (3) | 2,275 | 2,335 | (3) |
| Total operating income | 175,883 | 194,538 | (10) | 176,591 | 196,387 | (10) |
| Less: Impairment charge for loans and other losses | (666) | 14,852 | (104) | (666) | 14,852 | (104) |
| Net operating income | 176,549 | 179,686 | (2) | 177,257 | 181,535 | (2) |
| Less: Expenses | | | | | | |
| Personnel expenses | 41,639 | 41,028 | 1 | 41,847 | 41,212 | 2 |
| Other expenses | 27,436 | 31,266 | (12) | 27,171 | 31,028 | (12) |
| Operating profit before value added tax (VAT) and nation building tax (NBT) | 107,474 | 107,392 | 0.1 | 108,239 | 109,295 | (1) |
| Less: Value added tax on financial services | 16,064 | 14,315 | 12 | 16,181 | 14,525 | 11 |
| Nation building tax on financial services | 2,575 | 2,603 | (1) | 2,594 | 2,641 | (2) |
| Operating profit after value added tax (VAT) and nation building tax (NBT) | 88,835 | 90,474 | (2) | 89,464 | 92,129 | (3) |
| Profit before Income tax | 88,835 | 90,474 | (2) | 89,464 | 92,129 | (3) |
| Less: Income tax expenses | 25,411 | 30,275 | (16) | 25,609 | 30,819 | (17) |
| Profit for the year | 63,424 | 60,199 | 5 | 63,855 | 61,310 | 4 |
| Profit attributable to: | | | | | | |
| Equity holders of the Bank | 63,424 | 60,199 | 5 | 63,855 | 61,310 | 4 |
| Profit for the year | 63,424 | 60,199 | 5 | 63,855 | 61,310 | 4 |
| Earnings per share on profit | | | | | | |
| Basic earnings per ordinary share (Rs.) | 0.20 | 0.19 | 5 | 0.20 | 0.19 | 4 |
| Diluted earnings per ordinary share (Rs.) | 0.20 | 0.19 | 5 | 0.20 | 0.19 | 4 |

Statement of Comprehensive Income in US Dollars

| For the year ended 31st December | Bank | | | Group | | |
|---|--------------------|--------------------|-------------|--------------------|--------------------|-------------|
| | 2016 US \$ '000 | 2015 US \$ '000 | Change % | 2016 US \$ '000 | 2015 US \$ '000 | Change % |
| Profit for the year | 63,424 | 60,199 | 5 | 63,855 | 61,310 | 4 |
| Other comprehensive income, net of tax | | | | | | |
| Other comprehensive income to be reclassified to Income Statement | | | | | | |
| Net gains/(losses) on cash flow hedges | (917) | 1,004 | (191) | (917) | 1,004 | (191) |
| Net gains/(losses) on re-measuring available-for-sale financial assets | (2,003) | 3,170 | (163) | (2,691) | 1,927 | (240) |
| Fair value gains transferred to the Income Statement on disposal of available-for-sale financial assets | 314 | (169) | (286) | 314 | (169) | (286) |
| Total other comprehensive income to be reclassified to Income Statement | (2,606) | 4,005 | (165) | (3,294) | 2,762 | (219) |
| Other comprehensive income not to be reclassified to Income Statement | | | | | | |
| Net gains/(losses) on revaluation of property, plant & equipment | - | 8,546 | (100) | - | 8,546 | (100) |
| Actuarial gains/(losses) on retirement benefit plans | 15,889 | (3,138) | (606) | 15,891 | (3,135) | (607) |
| Total other comprehensive income not to be reclassified to Income Statement | 15,889 | 5,408 | 194 | 15,891 | 5,411 | 194 |
| Other comprehensive income for the year, net of taxes | 13,282 | 9,413 | 41 | 12,597 | 8,173 | 54 |
| Total comprehensive income for the year | 76,707 | 69,612 | 10 | 76,452 | 69,483 | 10 |
| Attributable to: | | | | | | |
| Equity holders of the Bank | 76,707 | 69,612 | 10 | 76,452 | 69,483 | 10 |
| Total comprehensive income for the year | 76,707 | 69,612 | 10 | 76,452 | 69,483 | 10 |
| US Dollar conversion rate (Rs.) | 149.7500 | 144.0600 | | 149.7500 | 144.0600 | |

Statement of Financial Position in US Dollars

| As at 31st December | Bank | | | Group | | |
|--|--------------------|--------------------|-------------|--------------------|--------------------|-------------|
| | 2016 US \$ '000 | 2015 US \$ '000 | Change % | 2016 US \$ '000 | 2015 US \$ '000 | Change % |
| Assets | | | | | | |
| Cash and cash equivalents | 30,849 | 22,492 | 37 | 30,902 | 22,542 | 37 |
| Balances with central banks | - | - | - | 3 | 5 | (40) |
| Placements with banks | 126,969 | 87,648 | 45 | 126,969 | 87,648 | 45 |
| Derivative financial instruments | 18,220 | 25,929 | (30) | 18,220 | 25,929 | (30) |
| Other financial assets Held-for-trading | 135,496 | 94,007 | 44 | 182,326 | 123,593 | 48 |
| Financial assets designated at fair value through profit or loss | - | - | - | - | - | - |
| Loans and receivables to banks | 212,581 | 164,639 | 29 | 212,581 | 164,763 | 29 |
| Loans and receivables to other customers | 1,949,763 | 1,721,733 | 13 | 1,944,428 | 1,721,767 | 13 |
| Financial investments – Available-for-sale | 41,588 | 30,444 | 37 | 54,241 | 44,475 | 22 |
| Financial investments – Held-to-maturity | 3,377,792 | 3,577,001 | (6) | 3,389,816 | 3,592,352 | (6) |
| Investments in subsidiaries | 1,002 | 1,041 | (4) | - | - | - |
| Property, plant & equipment | 47,544 | 48,362 | (2) | 47,558 | 48,377 | (2) |
| Intangible assets | 1,050 | 402 | 161 | 1,050 | 402 | 161 |
| Deferred tax assets | - | - | - | 4 | 2 | 200 |
| Other assets | 145,318 | 113,287 | 28 | 146,182 | 113,475 | 29 |
| Total assets | 6,088,173 | 5,886,985 | 3 | 6,154,281 | 5,945,330 | 4 |
| Liabilities | | | | | | |
| Due to banks | 771 | 521 | 48 | 19,090 | 765 | 2,396 |
| Due to other customers | 4,389,184 | 4,135,608 | 6 | 4,389,184 | 4,135,608 | 6 |
| Other borrowings | 1,382,570 | 1,437,079 | (4) | 1,419,896 | 1,483,434 | (4) |
| Current tax liabilities | - | - | - | 115 | 690 | (82) |
| Deferred tax liabilities | 2,779 | 3,501 | (21) | 2,779 | 3,501 | (21) |
| Other liabilities | 57,429 | 85,204 | (33) | 57,486 | 85,286 | (33) |
| Subordinated liabilities | 40,110 | - | 100 | 40,110 | - | 100 |
| Total liabilities | 5,872,843 | 5,661,913 | 4 | 5,928,660 | 5,709,285 | 4 |
| Equity | | | | | | |
| Stated capital/Assigned Capital | 41,402 | 22,213 | 86 | 41,402 | 22,213 | 86 |
| Statutory reserve fund | 16,845 | 14,213 | 19 | 16,845 | 14,213 | 19 |
| Retained earnings | 15,889 | - | 100 | 24,765 | 8,926 | 177 |
| Other reserves | 141,194 | 188,646 | (25) | 142,609 | 190,693 | (25) |
| Total equity of the owners of the Parent | 215,330 | 225,072 | (4) | 225,621 | 236,045 | (4) |
| Total equity | 215,330 | 225,072 | (4) | 225,621 | 236,045 | (4) |
| Total equity and liabilities | 6,088,173 | 5,886,985 | 3 | 6,154,281 | 5,945,330 | 4 |
| Contingent liabilities and commitments | 166,745 | 243,217 | (31) | 166,745 | 243,217 | (31) |
| US Dollar conversion rate (Rs.) | 149.7500 | 144.0600 | | 149.7500 | 144.0600 | |

Statistical Indicators 2007-2016

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Rs. Million | Rs. Million | Rs. Million | Rs. Million | Rs. Million | Rs. Million | Rs. Million | Rs. Million | Rs. Million | Rs. Million |
| Operating Results | | | | | | | | | | |
| Gross income | 30,830 | 41,247 | 49,803 | 50,070 | 46,545 | 52,903 | 65,573 | 77,890 | 79,282 | 87,399 |
| Interest income | 30,370 | 40,834 | 49,046 | 48,142 | 47,096 | 52,531 | 64,248 | 74,023 | 78,128 | 86,390 |
| Interest expenses | 22,188 | 31,190 | 36,067 | 31,487 | 29,296 | 39,142 | 54,141 | 52,642 | 51,146 | 60,923 |
| Net interest income | 8,182 | 9,643 | 12,979 | 16,655 | 17,800 | 13,389 | 10,107 | 21,380 | 26,983 | 25,467 |
| Other income | 460 | 413 | 757 | 1,929 | (578) | 347 | 1,292 | 3,798 | 1,043 | 872 |
| Operating expenses, provisions & VAT | 5,340 | 6,956 | 6,792 | 8,807 | 7,967 | 7,396 | 9,120 | 14,706 | 14,991 | 13,036 |
| Profit before tax | 3,302 | 3,100 | 6,943 | 9,777 | 9,255 | 6,340 | 2,279 | 10,472 | 13,034 | 13,303 |
| Income tax | 1,729 | 2,041 | 3,229 | 4,386 | 3,193 | 2,578 | 1,095 | 3,606 | 4,361 | 3,805 |
| Profit after tax | 1,573 | 1,059 | 3,714 | 5,391 | 6,062 | 3,763 | 1,184 | 6,867 | 8,672 | 9,498 |
| Contribution to the Government | | | | | | | | | | |
| | 3,974 | 4,287 | 7,277 | 10,107 | 7,970 | 6,327 | 4,731 | 11,043 | 11,015 | 19,251 |
| Assets | | | | | | | | | | |
| Cash & short-term funds | 533 | 1,146 | 855 | 1,355 | 1,398 | 1,466 | 1,546 | 1,927 | 3,240 | 4,620 |
| Loans & investments | 256,705 | 277,157 | 335,520 | 395,334 | 455,914 | 492,009 | 632,187 | 757,182 | 821,494 | 878,046 |
| Property, plant & equipment/ leasehold property/ intangible assets | 2,513 | 3,006 | 3,584 | 4,971 | 5,247 | 5,264 | 5,692 | 5,594 | 7,025 | 7,277 |
| Other assets | 10,453 | 13,010 | 14,463 | 2,733 | 3,415 | 10,075 | 14,943 | 14,764 | 16,320 | 21,761 |
| Total | 270,204 | 294,319 | 354,422 | 404,393 | 465,974 | 508,813 | 654,368 | 779,466 | 848,079 | 911,704 |
| Liabilities and Shareholders' Funds | | | | | | | | | | |
| Total deposits | 235,304 | 259,562 | 313,007 | 364,430 | 421,849 | 457,650 | 501,890 | 554,060 | 595,776 | 657,280 |
| Repo/borrowings/ subordinated liabilities | 10,789 | 6,205 | 8,730 | 11,436 | 16,270 | 22,958 | 120,561 | 191,192 | 207,101 | 213,162 |
| Differed taxation | 29 | 56 | 84 | 27 | 96 | 123 | 143 | 270 | 504 | 416 |
| Other liabilities | 10,819 | 13,497 | 14,841 | 5,997 | 4,707 | 4,314 | 9,557 | 10,684 | 12,274 | 8,600 |
| Shareholders' funds | 13,263 | 15,000 | 17,760 | 22,503 | 23,052 | 23,767 | 22,217 | 23,260 | 32,424 | 32,246 |
| Total | 270,204 | 294,319 | 354,422 | 404,393 | 465,974 | 508,813 | 654,368 | 779,466 | 848,079 | 911,704 |

Statistical Indicators 2007-2016

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|--------|--------|---------|---------|---------|---------|---------|---------|---------|---------|
| Ratios | | | | | | | | | | |
| Income growth (%) | 26.2 | 33.8 | 20.7 | 0.5 | (7.0) | 13.7 | 24.0 | 18.8 | 1.8 | 10.2 |
| Interest margin (%) | 3.2 | 3.4 | 4.0 | 4.4 | 4.1 | 2.7 | 1.7 | 3.0 | 3.3 | 2.9 |
| NIM/gross income (%) | 26.5 | 23.4 | 26.1 | 33.3 | 38.2 | 25.3 | 15.4 | 27.4 | 34.0 | 29.1 |
| Personnel cost/gross income (%) | 8.8 | 7.5 | 6.9 | 7.4 | 8.9 | 7.7 | 6.4 | 6.2 | 7.5 | 7.1 |
| Overheads (excluding provisions)/ gross income (%) | 12.6 | 11.2 | 10.7 | 12.0 | 13.5 | 12.0 | 10.9 | 11.9 | 13.3 | 12.0 |
| Profit before tax/ gross income (%) | 10.7 | 7.5 | 13.9 | 19.5 | 19.9 | 12.0 | 3.5 | 13.4 | 16.4 | 15.2 |
| Contribution to the GOSL/ gross income (%) | 12.9 | 10.4 | 14.6 | 20.2 | 17.1 | 12.0 | 7.2 | 14.2 | 13.9 | 22.0 |
| Cost to deposits (%) | 2.2 | 2.4 | 2.7 | 2.7 | 2.0 | 1.7 | 1.6 | 2.1 | 2.3 | 2.1 |
| Cost to income with VAT (%) | 56.5 | 58.5 | 55.5 | 48.9 | 45.4 | 52.8 | 67.7 | 44.8 | 46.1 | 50.1 |
| Cost to income without VAT (%) | 44.9 | 46.1 | 38.8 | 32.4 | 36.4 | 46.1 | 62.2 | 36.7 | 37.4 | 39.6 |
| Return on average shareholders' funds (ROE) (%) | 12.0 | 7.5 | 22.7 | 27.3 | 26.6 | 16.1 | 5.2 | 30.2 | 31.2 | 29.4 |
| Return on average assets (ROA) (%) | 1.3 | 1.1 | 2.1 | 2.6 | 2.1 | 1.3 | 0.4 | 1.5 | 1.6 | 1.5 |
| NPL (Gross) (%) | 1.4 | 1.7 | 3.8 | 2.6 | 2.6 | 2.4 | 6.5 | 7.6 | 3.5 | 1.6 |
| Capital adequacy – Tier I (Minimum 5%) | 33.3 | 23.2 | 25.1 | 22.2 | 20.1 | 20.4 | 18.5 | 20.5 | 17.9 | 12.5 |
| Capital adequacy – Tier II (Minimum 10%) | 12.2 | 17.7 | 21.5 | 19.2 | 17.7 | 19.1 | 16.7 | 19.0 | 16.4 | 15.0 |
| Deposits as % of assets | 87.1 | 88.2 | 88.3 | 88.0 | 90.5 | 89.9 | 76.7 | 71.1 | 70.3 | 72.1 |
| Profit per employee (Rs. '000) | 1,152 | 1,077 | 2,382 | 3,205 | 2,826 | 2,026 | 774 | 3,119 | 3,585 | 3,034 |
| Deposit per employee (Rs. '000) | 82,073 | 90,157 | 107,378 | 116,513 | 128,809 | 146,261 | 170,537 | 164,997 | 163,855 | 149,927 |
| Other Information | | | | | | | | | | |
| No. of employees | 2,867 | 2,879 | 2,915 | 3,050 | 3,275 | 3,129 | 2,943 | 3,358 | 3,636 | 4,384 |
| No. of branches | 130 | 137 | 157 | 186 | 210 | 219 | 229 | 236 | 245 | 250 |
| Post Offices/Sub-Post Offices | 4,042 | 4,045 | 4,055 | 4,053 | 4,058 | 4,053 | 4,063 | 4,063 | 4,063 | 4,061 |
| Account holders (Million) | 15.5 | 15.6 | 16.3 | 16.7 | 17.0 | 17.4 | 17.9 | 18.3 | 18.8 | 19.3 |

Analysis of Deposits

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| | Rs. Million | Rs. Million | Rs. Million | Rs. Million | Rs. Million | Rs. Million | Rs. Million | Rs. Million | Rs. Million | Rs. Million |
| Local Currency Deposits | | | | | | | | | | |
| Savings | 74,227 | 71,667 | 79,280 | 94,118 | 105,108 | 106,177 | 113,165 | 139,384 | 160,814 | 173,583 |
| Time | 159,734 | 185,755 | 230,147 | 266,007 | 311,569 | 345,794 | 379,969 | 408,309 | 427,588 | 475,220 |
| | 233,961 | 257,422 | 309,427 | 360,125 | 416,677 | 451,971 | 493,134 | 547,692 | 588,402 | 648,803 |
| Growth % | 10.5 | 10.0 | 20.2 | 13.5 | 15.7 | 8.5 | 9.1 | 11.1 | 7.4 | 10.3 |
| Foreign Currency Deposits | | | | | | | | | | |
| Savings | 615 | 826 | 1,255 | 1,517 | 1,750 | 1,963 | 2,101 | 2,215 | 2,568 | 2,764 |
| Time | 728 | 1,314 | 2,325 | 2,788 | 3,422 | 3,717 | 6,654 | 4,153 | 4,806 | 5,714 |
| | 1,343 | 2,140 | 3,580 | 4,305 | 5,172 | 5,679 | 8,755 | 6,368 | 7,373 | 8,478 |
| Growth % | 191.8 | 59.3 | 67.3 | 20.3 | 20.1 | 9.8 | 54.2 | -27.3 | 15.8 | 15.0 |
| Total Deposits | 235,304 | 259,562 | 313,007 | 364,430 | 421,849 | 457,650 | 501,890 | 554,060 | 595,776 | 657,280 |
| Growth % | 10.9 | 10.3 | 20.6 | 13.5 | 15.8 | 8.5 | 9.7 | 10.4 | 7.5 | 10.3 |

*Note: Highlighted information is based on SLFRS/LKAS.

Correspondent Banks

Bank of Ceylon

No. 01,
Devonshire Square London
EC2M4WD
Tel: 020737718888
Tel: 442073775430
www.info@bankofceylon.co.uk
SWIFT: BCEYGB2L

Banca Popolare Di Sondrio

Piazza Garibaldi 16
23100,
Sondrio SO,
Italy
Tel: 390342528111
Tel: 390342528204
www.info@popso.it
SWIFT: POSOIT22

Citi Bank NA →

388, Greenwich Street
New York, NY 10013
USA
Tel: 800-285-3000
www.citibank.com
SWIFT: CITIUS33

Commonwealth Bank →

Sydney, NSW 2001.
Australia
GPO Box 5227,
Tel: 61 299993283
www.commbank.com.au
SWIFT: CTBAAU2S

Deutsche Postbank →

AG.,Friedrich-Ebert-Allee
53113 Bonn,
Germany.
Tel: 114-126, 4922855005500
www.postbank.de
SWIFT: PBNKDEFF

Deutsche Bank Trust Company Americas →

No. 60, Wall Street,
New York, NY 10005,
USA
Tel: 1 212 2502500
Tel: 1 212 7970291
www.deutsche-bank.com
SWIFT: BKTRUS33

Deutsche Bank AG →

P.O.B 60202
Frankfurt am Main, Germany.
Tel: 496991000
Tel: 49 6991034225
www.deutsche-bank.com
SWIFT: DEUTDEFF

KEB – Hana Bank

55, Eulji-ro,
Jung-gu, Seoul
Republic of Korea
Tel: 82-02-2002-1111
www.hanabank.com
SWIFT: HNBKRSSE

Kookmin Bank →

9-1, Namdaemunno 2-Ga,
Jung-Gu
Seoul 100-092
82-(2)-2073-2869
www.kbstar.com
SWIFT: CZNBKRSE

The Bank of Tokyo- Mitsubishi UFJ, Ltd.

2-7-1, Marunouchi,
Chiyoda-ku, Tokyo,
100-8388, Japan
Tel : +81-3-3240-1111
www.bk.mufg.jp

Unicredito SPA →

Piazza Gae Aulenti 3
Tower A
20154 Milano, Italy
Tel: 390288621
Tel: 39 02 88623340
www.unicreditgroup.eu
SWIFT: UNCRITMM

Woori Bank →

1-203, Hoehyeon-dong,
Jung-gu, Seoul
Tel: 82-2-20065000
www.wooribank.com
SWIFT: HVBK KR SE

Exchange Companies

Al Ahalia Exchange →

P.O. Box 35245
Electra Street
Abu Dhabi UAE
Tel: 971567428403

Al Ansari Exchange →

Al Ansari Exchange LLC
Al Ansari Business Center
Level 8
Tel: 971506155741

Al Fardan Exchange

Qatar →

Al fardan Centre Grand Hamad
Avenue
P.O. Box 339
Doha
Qatar
Tel: 97450403114

Al Fardan Exchange UAE →

P.O. Box 498
Liwa Street
Abu Dhabi
UAE
Tel: 971506133826

Al Mulla Exchange →

P.O. Box 177
Safat 13002
Kuwait
Tel: 96596005256

Al Rajhi Bank →

Retail Banking Group Head Office
P.O. Box 28
Riyadh 11411
Kingdom of Saudi Arabia
Tel: 96612116297

Al Rostamani →

The Maze Tower
Level 18
Sheikh Zayed Road
P.O. Box 10072
Dubai
UAE
Tel: 971504547230

Aldar Exchange →

Aldar for Exchange Works
IBA Building C Ring
Doha
Qatar
Tel: 97440407100

Arabian Exchange

Tel: 97444438200

Asian Express Exchange →

P.O. Box 881
Postal Code 112
Ruwi High Street
Muscat
Sultanate of Oman
Tel: 96897882114

Bahrain Exchange →

Bahrain Exchange Company
W.L.L. M Floor
Al Hajery Building
P.O. Box 29149
Safat 13152
Kuwait
Tel: 9651824000

Bahrain Finance Company →

P.O. Box 243
3rd Floor
Bab Al Bahrain Building
Manama
Bahrain
Tel: 97317506103

Banca Popolare →

Piazza
Nogara 2
Verona
Italy
Tel: 390458675551

Bank Al Bilad →

Crop Banking Division
P.O. Box 140
Riyadh 11411
Saudi Arabia
Tel: 966557343756

City International Exchange →

Addullah Dashti Building
Near KPTC Bus Depot
Al Mirqab Abdullah Mubarak Street
P.O. Box 21804
Safet 13079
Kuwait
Tel: 9659384592

Colombo International Money Transfer Services →

No. 03
Clow Street
Dandenog 3175
Tel: 61413111464

Commonwealth Bank →

Level 6
Tower 1
Darling Park 201
Sussex Street
Sydney
NSW 200
Australia
Tel: 61476818717

Delma Exchange →

304
Al Montazah Tower
Zayed the First Street
Khalidiya
Abu Dhabi
UAE
Tel: 33667999724

Deutsche Bank Ag →

Deutsche Bank AG
86, Galle Road
Colombo 03
Tel: 94112447062

Deutsche Post →

Deutsche Post Bank Ag
Friedrich-Ebert-Allee-114-126
53113 Bonn
Germany
Tel: 4922892041250

City Exchange Company →

PB No. 16081
Doha
Qatar
Tel: 97444769784

Exchange Companies

Dollarco Exchange Company Limited →

P.O. Box 26270
Safat 13123
Kuwait
Tel: 96597312886

Habib Qatar Exchange →

Al Asmakh Building
Grand Hamad Street
Doha
Qatar
Tel: 97444425151

Index Exchange →

Office 201
2nd Floor
Sons of Jassim Darwish Building
Zayed
1st street
Khalidiyah
P.O. Box 2370
Abu Dhabi
UAE
Tel: 97126272316

Instant Cash →

Instant Cash FZE
P.O. Box 3014
Dubai
UAE
Tel: 97142990011

Kpruka Pyt Ltd →

Tel: 61395445060

Kookmin Bank →

5/F Kookmin Bank
H/Q 84
Namdaemum- Ro Jung -ge
Seoul
Tel: 82220733266

La Banque Postale France →

115 Rue de Sevres
C.P P210
75275 Paris
Cedex 06
Tel: 33667999724

Majan Exchange →

P.O. Box 583
P.C. 117
Ruwi
Sultanate of Oman
Tel: 96892915433

Moneygram →

Moneygram Intl One BKC
A/501
Plot No. C-66 G Block
Bandra Kurla Complex
Bandra East
Mumbai 400051
Tel: 919987641844

National Exchange Company →

Via Ferruccio
30,00185
Rome
Italia
Tel: 393202847734

Oman & UAE Exchange →

P.O. Box 1116
Al Hamriyah
P.C. 131
Muscat
Sultanate of Oman
Tel: 96824796533

Poste Italiane S.P.A. →

Postle Italiane
S.P.A. Viale
Europa 175
00144 Roma
Tel: 390659583470

Samba →

Samba Financial Group
P.O. Box 833
Riyadh 11421
Kingdom of Saudi Arabia
Tel: 966542991424

Transfast →

44, Wall Street
4th Floor
New York
NY 10005
Tel: 971562551466

UAE Exchange – UAE Kuwait

Tel: 971553025693

Uni Credito Italiano →

Uni Credit Spa Piazza Gae Aulenti
4, Unicredit
Tower C
20154
Milan
Italy
Tel: 390288628003

Unistream →

20
Verhnyaya Maskovka Street
Building 2
127083
Moscow
Russia
Tel: 74957445555

Valutrans →

Valutrans SPA
Via M Gioia
168
20125 Milan
Italy
Tel: 390291431306

Wall Street →

Wall Street Exchange Center LLC
2201, Twin Towers
Baniyas Road
Dubai
UAE
Tel: 97142302214

Woori Bank South Korea →

51, Sogong-ro
Junggu
Seoul
100-792
Korea
Tel: 82220025755

Xpress Money →

Xpress Money Services Ltd.
6th Floor
Al Ameri Building TECOM
P.O. Box 643996
Sheikh Zayed Road
Dubai
UAE
Tel: 97148186210

GRI Content Index: 'In accordance' with Core Criteria

| GRI Indicator | Description | Reported in | Page No. |
|---|--|--------------------------------|----------|
| General Standard Disclosures | | | |
| Strategy and Analysis | | | |
| G4-1 | Statement from the Chairman | Chairman's Message | 32 |
| Organisation Profile | | | |
| G4-3 | Name of the Organisation | Corporate Information | 345 |
| G4-4 | Primary Brands, Products and/or Services | Products | 325 |
| G4-5 | Location of Organisation's Headquarters | Corporate Information | 345 |
| G4-6 | Number of countries where the Organisation operates and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report | Corporate Information | 345 |
| G4-7 | Nature of ownership and legal form | Corporate Information | 345 |
| G4-8 | Markets served | | 138 |
| G4-9 | Scale of the Reporting Organisation | Highlights | 24 |
| G4-10 | Total workforce by employment type, employment contract and region, broken down by gender | Human Capital | 72 |
| G4-11 | Report the percentage of total employees covered by collective bargaining agreements | Human Capital | 76 |
| G4-12 | Organisation's supply chain | Stakeholders | 314 |
| G4-13 | Significant changes during the Reporting period regarding size, structure or ownership | About this Report | 312 |
| G4-14 | Report whether and how the precautionary approach or principle is addressed by the Organisation | Risk Management | 150 |
| G4-15 | List externally developed economic, environmental and social charters, principles or other initiatives to which the Organisation subscribes or which it endorses | Management Approach | 321 |
| G4-16 | List of membership of associations and national or internal advocacy organisations | Stakeholders | 314 |
| Identified Material Aspects and Boundaries | | | |
| G4-17 | Operational Structure of the Organisation | Organisational Structure | 21 |
| G4-18 | Process for Defining Report Content | About this Report | 312 |
| G4-19 | Material Aspects identified for Report Content | Materiality and Value Creation | 318 |
| G4-20 | Aspect Boundary for identified Material Aspects within the Organisation | Materiality and Value Creation | 318 |
| G4-21 | Aspect Boundary for identified Material Aspects outside the Organisation | Materiality and Value Creation | 318 |
| G4-22 | Report the effect of any restatements of information provided in previous reports and the reasons for such restatements | About this Report | 312 |
| G4-23 | Report significant changes from previous reporting periods in the Scope and Aspect Boundaries | About this Report | 312 |
| Stakeholder Engagement | | | |
| G4-24 | List of stakeholder groups engaged by the Organisation | Stakeholders | 314 |
| G4-25 | Basis for identification and selection of stakeholders with whom to engage | Stakeholders | 314 |

GRI Content Index: 'In accordance' with Core Criteria

| GRI Indicator | Description | Reported in | Page No. |
|---|--|--------------------------------|----------|
| G4-26 | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group | Stakeholders | 314 |
| G4-27 | Key topics and concerns raised through stakeholders engagement and how the Organisation responded to them | Stakeholders | 314 |
| Report Profile | | | |
| G4-28 | Reporting period | About this Report | 312 |
| G4-29 | Date of most recent previous report | About this Report | 312 |
| G4-30 | Reporting cycle | About this Report | 312 |
| G4-31 | Contact point for questions regarding the Report or its Contents | About this Report | 312 |
| G4-32 | Compliance with GRI G4 guidelines, GRI Content index and the External Assurance Report | GRI Content Index | 337 |
| G4-33 | Policy and current practice with regard to seeking external assurance for the Report | N/A | |
| Governance | | | |
| G4-34 | Governance Structure of the Organisation, including committees under the highest governance body responsible for decision-making on economic, environment and social impacts | Corporate Governance | 112 |
| Ethics and Integrity | | | |
| G4-56 | The values, principles, standards and norms of behaviour | Intellectual Capital | 67 |
| Specific Standard Disclosures | | | |
| G4 - DMA Aspect and Materiality fulfilled | | Materiality and Value Creation | 318 |
| CATEGORY: ECONOMIC | | | |
| Aspect Economic Performance | | | |
| G4-EC1 | Direct economic value generated, distributed and retained | Financial Capital | 63 |
| G4-EC3 | Coverage of the Organisation's defined benefit plan obligations | Human Capital | 76 |
| Aspect Market Presence | | | |
| G4-EC6 | Proportion of senior management hired from the local community at locations of significant locations of operation | Management Approach | 322 |
| Aspect Indirect Economic Impact | | | |
| G4-EC7 | Development and impact of infrastructure investments and services supported | NSB's Unique Business Model | 13 |
| Aspect Procurement Practices | | | |
| G4-EC9 | Proportion of spending on local suppliers at significant locations of Operations. | Management Approach | 324 |
| CATEGORY: ENVIRONMENT | | | |
| Aspect Materials | | | |
| G4-EN2 | Percentage of materials used that are recycled input materials | Management Approach | 322 |

GRI Content Index: 'In accordance' with Core Criteria

| GRI Indicator | Description | Reported in | Page No. |
|--|---|---------------------|----------|
| Aspect Energy | | | |
| G4-EN3 | Energy consumption within the Organisation | Natural Capital | 96 |
| CATEGORY: SOCIAL | | | |
| Labour Practices And Decent Work | | | |
| Aspect Employment | | | |
| G4-LA1 | Total number and rate of new employee hires and employee turnover by age group, gender and region | Human Capital | 71 |
| G4-LA2 | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation | Human Capital | 75 |
| G4-LA3 | Return to work and retention rates after parental leave, by gender. | Human Capital | 76 |
| Aspect Labour/Management Relations | | | |
| G4-LA4 | Minimum notice periods regarding operational changes including whether these are specified in collective agreements | Human Capital | 76 |
| Aspect Occupational Health and Safety | | | |
| G4-LA6 | Type of injury and rates of injury, occupational disease, lost days and absenteeism, and total number of work-related fatalities, by region and by gender | Human Capital | 76 |
| Aspect Training and Education | | | |
| G4-LA9 | Average hours of training per year per employee by gender and by employee category | Human Capital | 73 |
| G4-LA10 | Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings | Human Capital | 73 |
| G4-LA11 | Percentage of employees receiving regular performance and career development reviews by gender and employee category | Human Capital | 73 |
| Aspect Diversity and Equal Opportunity | | | |
| G4-LA12 | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity | Human Capital | 71 |
| Aspect Equal Remuneration for Women and Men | | | |
| G4-LA13 | Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation | Management Approach | 323 |
| Aspect Labour Practices Grievance Mechanisms | | | |
| G4-LA16 | Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms | Human Capital | 77 |
| Human Rights | | | |
| Aspect Non-Discrimination | | | |
| G4-HR3 | Total number of incidents of discrimination and corrective action taken | Human Capital | 77 |
| Aspect Freedom of Association and Collective Bargaining | | | |
| G4-HR4 | Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk and measures taken to support these rights | Human Capital | 77 |

GRI Content Index: 'In accordance' with Core Criteria

| GRI Indicator | Description | Reported in | Page No. |
|---|---|---|----------|
| Aspect Human Rights Grievance Mechanisms | | | |
| G4-HR12 | Number of grievances about Human Rights impacts filed, addressed and resolved through formal grievance mechanisms | Human Capital | 77 |
| Society | | | |
| Aspect Local Communities | | | |
| G4-SO1 | Percentage of operations with implemented local community engagement, impact assessments, and development programmes | Social and Relationship Capital | 68 |
| Aspect Anti- Corruption | | | |
| G4-SO3 | Total number and percentage of operations assessed for risks related to corruption and the significant risks identified | Risk Management Report | 180 |
| Aspect Compliance | | | |
| G4-SO8 | Monitory value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations | The Annual Report of Board of Directors | 181 |
| Aspect Anti-competitive Behaviour | | | |
| G4-SO7 | Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes | N/A | |
| Aspect Supplier Assessment for Impact on Society | | | |
| G4-SO9 | Percentage of new suppliers that was screened using criteria for impacts on society | N/A | |
| Aspect Grievance Mechanisms for Impacts on Society | | | |
| G4-SO11 | Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms | The Annual Report of Board of Directors | 181 |
| Product Responsibility | | | |
| Aspect Product and Service labelling | | | |
| G4-PR3 | Type of product & service Information required by the Organisation's procedures for product and service information and labelling and percentage of significant product and service categories subject to such information requirements | Management Approach | 324 |
| G4-PR5 | Results of surveys measuring customer satisfaction | | 86 |
| Aspect Marketing Communication | | | |
| G4-PR7 | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes | Social and Relationship Capital | 68 |
| Aspect Customer Privacy | | | |
| G4-PR8 | Total number of substantial compliance regarding breaches of customer privacy and losses of customer data | Management Approach | 324 |
| Aspect Compliance | | | |
| G4-PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services | The Annual Report of Board of Directors | 181 |

Glossary of Financial and Banking Terms

A

Accounting Policies →

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis →

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Actuarial Gain →

Gain or loss arising from the difference between estimates and actual experience in an entity's pension plan.

Amortisation →

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised Cost →

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or uncollectability.

Available-for-Sale Financial Assets →

Available-for-sale financial Assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

C

Capital Adequacy Ratio →

The relationship between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Capital Expenditure →

Total of additions to property, plant & equipment.

Capital Gain (Capital Profit) →

The gain on the disposal of an asset calculated by deducting the cost of the asset from the proceeds received on its disposal.

Capital Reserves →

Capital reserves consist of revaluation reserves arising from revaluation of properties owned by the Bank and Reserve Fund set aside for specific purposes defined under the Banking Act No. 30 of 1988 and shall not be reduced or impaired without the approval of the Monetary Board.

Carrying Value →

Value of an asset or a liability as per books of the Organisation before adjusting for fair value.

Cash Equivalents →

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collective Agreement →

A tripartite agreement entered into among the NSB, Ministry of Finance and Trade Unions.

Collectively Assessed Loan Impairment Provisions →

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the Reporting date. Loans (housing, personal, auto loans etc.) are assessed on a portfolio basis.

Commitments →

Credit facilities approved but not yet utilised by the clients as at the Reporting date.

Concentration Risk →

Risk arisen from uneven distribution of counterparty and portfolio exposures to business sector or geographic region.

Contingencies →

A condition or situation existing at Reporting date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events

Corporate Governance →

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and the direction of entity, the supervision of executive actions and accountability to owners and others.

Cost/Income Ratio →

Operating expenses excluding impairment provision and provisioning for fall in value in dealing securities as a percentage of net income.

Cost Method →

A method of accounting whereby the investment is recorded at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee.

Credit Ratings →

An evaluation of a corporate's ability to repay its obligation or the likelihood of not defaulting, carried out by an independent rating agency.

Credit Risk →

Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Customer Deposits →

Money deposited by account holders. Such funds are recorded as liabilities.

D

Dealing Securities →

Marketable securities that are acquired and held with the intention of reselling them in the short term.

Debenture →

A medium-term debt instrument issued by a corporate entity.

Glossary of Financial and Banking Terms

Deferred Tax →

Sum set aside for tax in the Financial Statements that will become payable in a financial year other than the current financial year.

Depreciation →

The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition →

Removal of previously recognised financial assets or financial liability from an entity's Statement of Financial Position.

Derivative →

Financial contract of which the value is derived from the value of underlined assets.

E

Earnings per Ordinary Share (EPS) →

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

Economic Value Added (EVA) →

A measure of productivity which takes into consideration cost of total invested equity.

Effective Income Tax Rate →

Provision for taxation divided by the profit before taxation.

Effective Interest Rate →

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability

Equity Method →

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Equity Risk →

Risk of depreciating equity investments due to stock market dynamics.

Exchange Gain/Loss →

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last Reporting date and the settlement/ Reporting date. Also arises from trading in foreign currencies.

F

Fair Value →

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Asset →

Is any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial Asset or Financial Liability at Fair Value through Profit or Loss →

Financial asset or financial liability that is held-for-trading or upon initial recognition designated by the entity as 'at fair value through profit or loss'.

Financial Instrument →

Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Liability →

Is a contractual obligation to deliver cash or another financial asset to another entity.

Foreclosed Properties →

Properties acquired in full or partial satisfaction of debts.

Foreign Currency Risk →

Risk exists in transaction other than the local currency. Adverse movements in foreign exchange rates may decline the value of Assets/Liabilities held in terms of foreign currency.

Foreign Exchange Contract →

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

G

General Provisions →

These are provisions made on loans and advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

Group →

A group is a parent and all its subsidiaries.

Guarantees →

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

H

Hedging →

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rates and prices of commodities etc.).

Held-to-Maturity Investments (HTM) →

Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Held-for-Trading (HFT) →

Debt and equity investments that are purchased with the intent of selling them within a short period of time (usually less than one year).

I

ICCAP →

Process by which the Bank ensures additional capital is provided for banking risks other than those covered in Pillar.

Impairment →

This occurs when recoverable amount of an asset is less than its carrying amount.

Impaired Assets Portfolio →

Impaired assets portfolio is the total of the individually significant impaired loans and individually insignificant loans which are overdue above 180 days

Glossary of Financial and Banking Terms

Impairment Allowances →

Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified as individual (specific) or collective (portfolio) impairment allowance.

Impairment Charge/ (Reversal) →

The difference between the carrying value of an asset and the sum of discounted future cash flows generating from the same asset.

Impaired Loans →

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Individually Assessed Impairment →

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

Intangible Asset →

An asset that is not physical in nature. Corporate intellectual property (items such as patents, trademarks, copyrights, business methodologies), goodwill software and brand recognition are all common intangible assets in today's marketplace.

Interest in Suspense →

Interest suspended on non-performing loans and advances.

Interest Margin →

Net interest income expressed as a percentage of average interest earning assets.

Interest Rate Risk →

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest Rate Swap

An interest rate Swap is a derivative in which one party exchanges a stream of interest payments for another party's stream of cash flows.

Interest Spread →

Represents the difference between the average interest rate earned and the average interest rate paid on interest earning assets and interest bearing liabilities, respectively. Variables such as interest rates, exchange rates, credit spreads and other asset prices.

Investment Properties →

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

Investment Securities →

Securities acquired and held for yield or capital growth purposes and are usually held-to-maturity.

K

Key Managerial Personnel →

Key managerial personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

L

Liquid Assets →

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange and Treasury Bills.

Liquid Assets Ratio →

Assets that are held in cash or in a form that can be converted to cash readily (as prescribed by the Central Bank of Sri Lanka) divided by the total liabilities including contingent liabilities.

Liquidity Risk →

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loans and Receivables →

Conventional loan assets that are unquoted (originated or acquired).

Loss Given Default (LGD) →

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

M

Market Risk →

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality →

The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of Financial Statements.

N

Net Interest Income →

The difference between the interest income from investment portfolio and the interest paid on deposits.

Non-Performing Loans (NPL) →

The loans which are in default for more than three months.

NOSTRO Accounts →

A bank account held in foreign country by a domestic bank, denominated in the currency of that country.

NPL Ratio →

Total non-performing loans and advances (net of interest in suspense) divided by total loans and advances portfolio (net of interest in suspense).

O

Off-Balance Sheet Transactions →

Transactions that are not recognised as assets or liabilities in the Statement of Financial Position, but which give rise to contingencies and commitments.

Operational Risk →

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

P

Parent →

A parent is an entity that has one or more subsidiaries.

Glossary of Financial and Banking Terms

Portfolio →

A pool of investments including investment in Government Securities, loans and advances, equities, etc.

Probability of Default (PD) →

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Provision Cover →

Total provisions for loan losses expressed as a percentage of net non-performing loans and advances before discounting for provisions on non-performing loans and advances.

R

Return on Average Assets (ROAA) →

Net income expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

Return on Average Equity (ROAE) →

Net income, less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Related Parties →

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly as per the Sri Lanka Accounting Standard No. 30 on 'Related Party Disclosures'.

REPOs →

Repurchase agreements. Securities sold to lenders with the commitment to buy back on a later date at a fixed price plus interest.

Return on Average Equity (ROAE) →

Net income, less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Revenue Reserve →

Reserves set aside for future distribution and investment.

Risk-Weighted Assets →

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per Rupee among all types of assets. The risk inherent in off-balance sheet instruments is also recognised, first by adjusting notional values to balance sheet (or credit) equivalents and then by applying appropriate risk-weighting factors.

Rupee Loan →

Rupee securities issued by the Central Bank of Sri Lanka on behalf of the Government of Sri Lanka.

S

Shareholders' Funds →

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Single Borrower Limit →

33% of the regulatory capital base.

Statutory Reserve Fund →

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Stress Test →

Integrated test that shows to varying degrees whether the Bank can withstand unforeseen scenarios of varying severity.

Subsidiary →

An entity, including an unincorporated entity such as a partnership, which is controlled by another entity known as the parent.

Substance Over Form →

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

Swaps (Currency) →

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement. Alternatively a simultaneous spot sale and forward purchase of a currency.

T

Tier I Capital →

Consists of the sum total of ordinary share capital, statutory reserve fund and general reserves.

Tier II Capital →

Supplementary capital representing 50% of the revaluation reserve and general provisions.

Total Capital →

Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

Treasury Bill →

A short-term debt instrument issued on auction basis by the Central Bank of Sri Lanka on behalf of the Government of Sri Lanka.

U

Unit Trust →

An undertaking formed to invest in securities under the terms of a trust deed.

Useful life →

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V

Value Added →

Wealth created by providing banking and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to Government by way of taxes and retained for expansion and growth.

Corporate Information

Name of the Bank

National Savings Bank

Legal Form

A Government-owned bank incorporated in Sri Lanka by the National Savings Bank Act No. 30 of 1971 and was granted the status of the Licensed Specialised Bank in terms of the Banking Act No. 30 of 1988.

Registered Office and Head Office

'Savings House', No. 255, Galle Road, Colombo 03, Sri Lanka.
Tel: 94-11-2573008-15
Fax: 94-11-2573178
E-mail: nsbgen@nsb.lk
Website: <http://www.nsb.lk>
Swift Code: NSBALKLX

Service Outlets

250 Branches
2,858 School Bank Units
279 ATMs

Agency Network

651 Post Offices and 3,410 Sub-Post Offices throughout the Island.

Credit Rating

The Bank has been assigned AAA (Ika) long-term credit rating by the Fitch Rating Lanka (Pvt) Ltd.

B+ Negative International Credit Rating from Standard and Poors.

B+ Negative International Credit Rating by Fitch Ratings.

Board of Directors

Aswin De Silva – *Chairman*
D.L.P.R. Abeyaratne – *Director (Ex Officio)*
Suranga Naullage – *Director*
Ajith Pathirana – *Director*
A.K. Seneviratne – *Director (Ex Officio)*
Anil Rajakaruna – *Director*
Chandima Hemachandra – *Director*

General Manager/CEO

S.D.N. Perera

Board Secretary

Ms. M.A.P. Muhandiram
(From 7th December 2016)
Ms. Y.F. Deen
(Up to 6th December 2016)

Board Audit Committee

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

Board Human Resource and Remuneration Committee

Aswin De Silva – *Chairman*
D.L.P.R. Abeyaratne – *Member*
Ajith Pathirana – *Member*

Board Nomination Committee

Aswin De Silva – *Chairman*
Ajith Pathirana – *Member*
D.L.P.R. Abeyaratne – *Member*

Board Integrated Risk Management Committee

A.K. Seneviratne – *Chairman*
Suranga Naullage – *Member*
Chandima Hemachandra – *Member*

Compliance Officer

Ms. I.K.L. Sasi Mahendran

Auditors

Auditor General

Subsidiary

Name of the Company
NSB Fund Management Co. Ltd.

Registered Office and Head Office

1st Floor, 'Savings House', National Savings Bank, No. 255, Galle Road, Colombo 03, Sri Lanka.
Tel.: 94-11-2564601, 2467731
Fax: 94-11-2564706
E-mail: nsbfmc@nsb.lk
Swift Code: NSBFLKXXXX

Board of Directors

Aswin De Silva – *Chairman*
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S.D.N. Perera – *Director*
Ajith Pathirana – *Director*
Ravi Amarasekera – *Director*
Dammika Ambewela – *Director*
Nimal Jayasundara – *Director*
D.S.W. Samarasekera – *Director*
Yasas De Silva – *Director*
Srilal Fernando – *Director*

Chief Executive Officer

Ms. G.V.A.D.D. Silva
(From 1st August 2016)
Ms. B.P.J. Gunasekara
(Up to 11th July 2016)

Auditors

Ernst & Young Co.

Company Secretary

Ms. M.A.P. Muhandiram



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This is an Integrated Annual Report

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